Acknowledgement ……

I would like to express the words of gratitude for all those who have helped me in lightening my task during the course of formation of my book ,

" MASTER BLASTER ON FUNDAMENTAL OF ACCOUNTS "

Here, I Would like to express my deep sense of gratitude to Almighty who has guided me towards my path; my parents

(CA Prakash Nahta & Mrs. Indira Nahta)

AND

To my dearest brother **(Achin Nahta)** and my Dearest wife **(CA Megha Nahta)** who has always inspired and supported me towards journey of this book.

The **FIRST** edition is also dedicated towards all my dear students without whom this would not be possible

Vote Of Thanks !!!!!!!!!!!

\- **CA PRATIK NAHTA**

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12	True & False & Important Distinction	75	12.1 – 12.88
	Total Questions	310 +	


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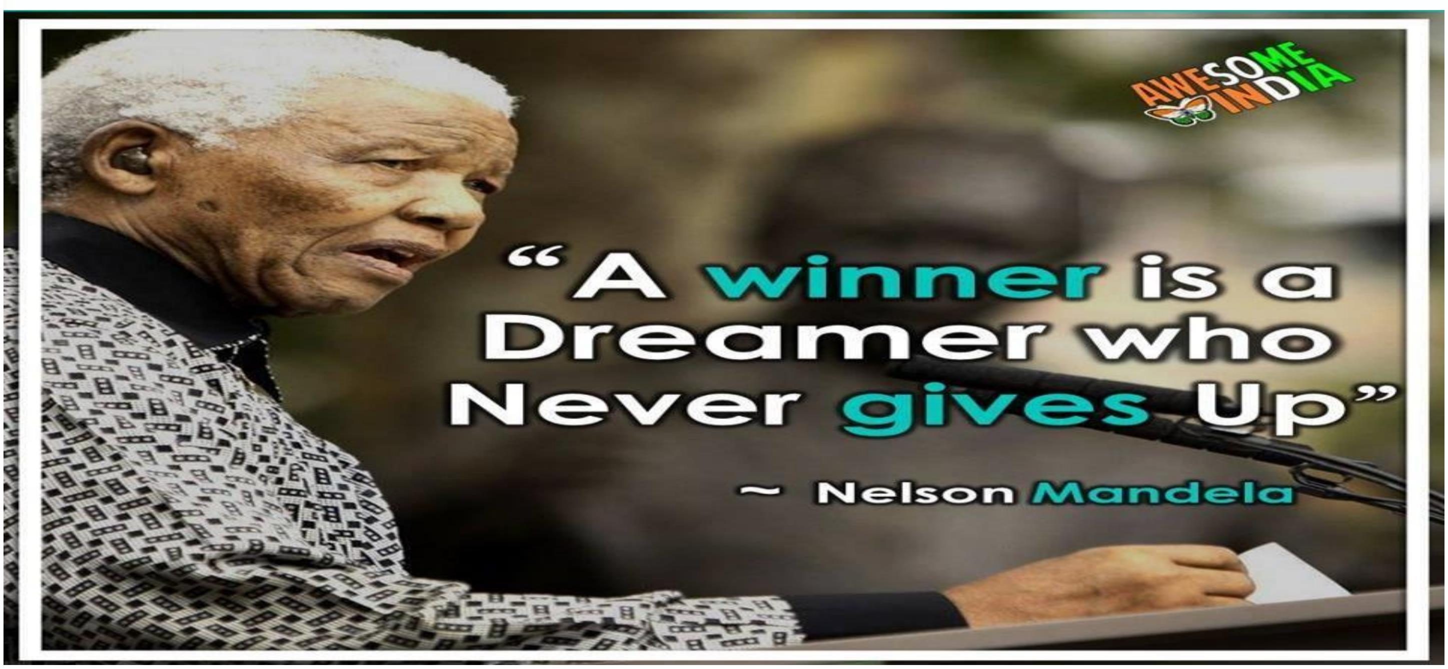
NAHTA


AWESOME INDIA
"A winner is a Dreamer who Never gives Up"
~ Nelson Mandela

CH - 1

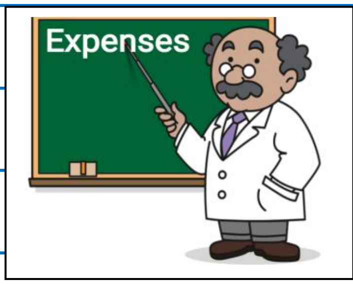
ACCOUNTING PROCESS

DANGAL QUESTIONS

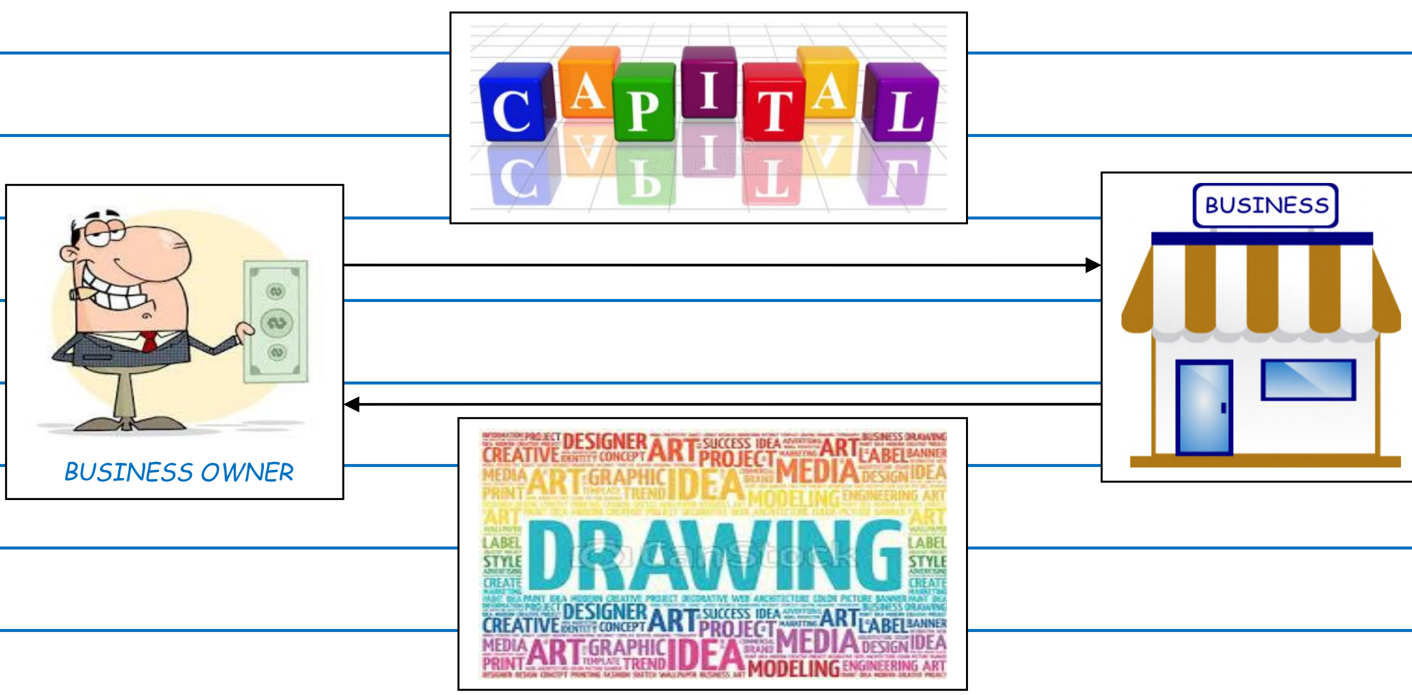
Basic Concept Questions	ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
2	15	10	27

BASIC CONCEPTS

BASIC TERMINLOGIES


Expenses


INCOME


CAPITAL
BUSINESS OWNER
BUSINESS
DRAWING

JOURNAL

TRADITIONAL APPROACH

Type of Accounts	Rules of Debit	Rules of Credit
For Personal Accounts		
For Real Accounts		
For Nominal Accounts		

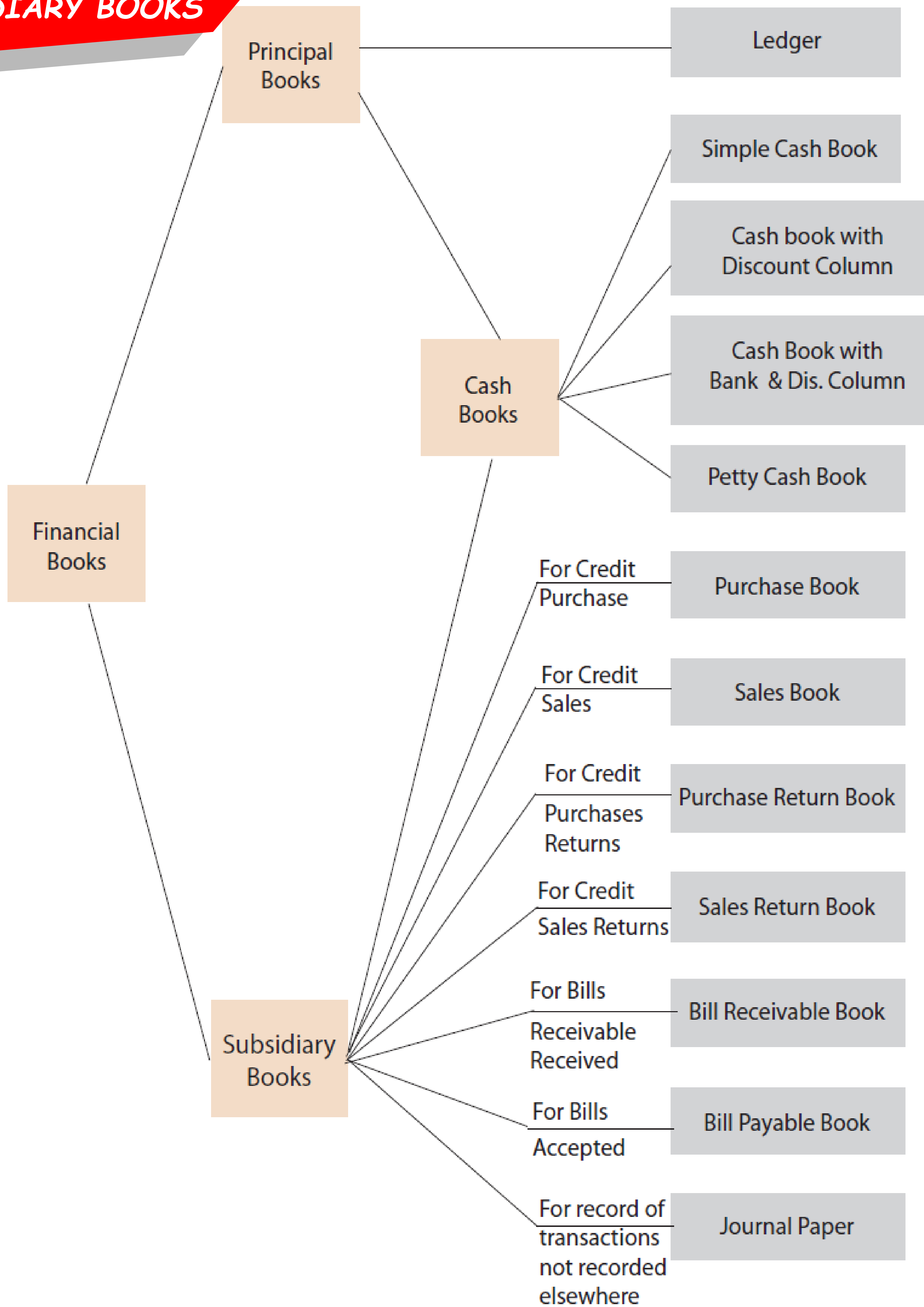
MODERN APPROACH

Type of Accounts	INCREASE (⇧)	DECREASE(⇩)
For Assets / Expenses / Drawing Accounts		
For Liabilities / Income / Capital Accounts		

LEDGERS

TRIAL BALANCE

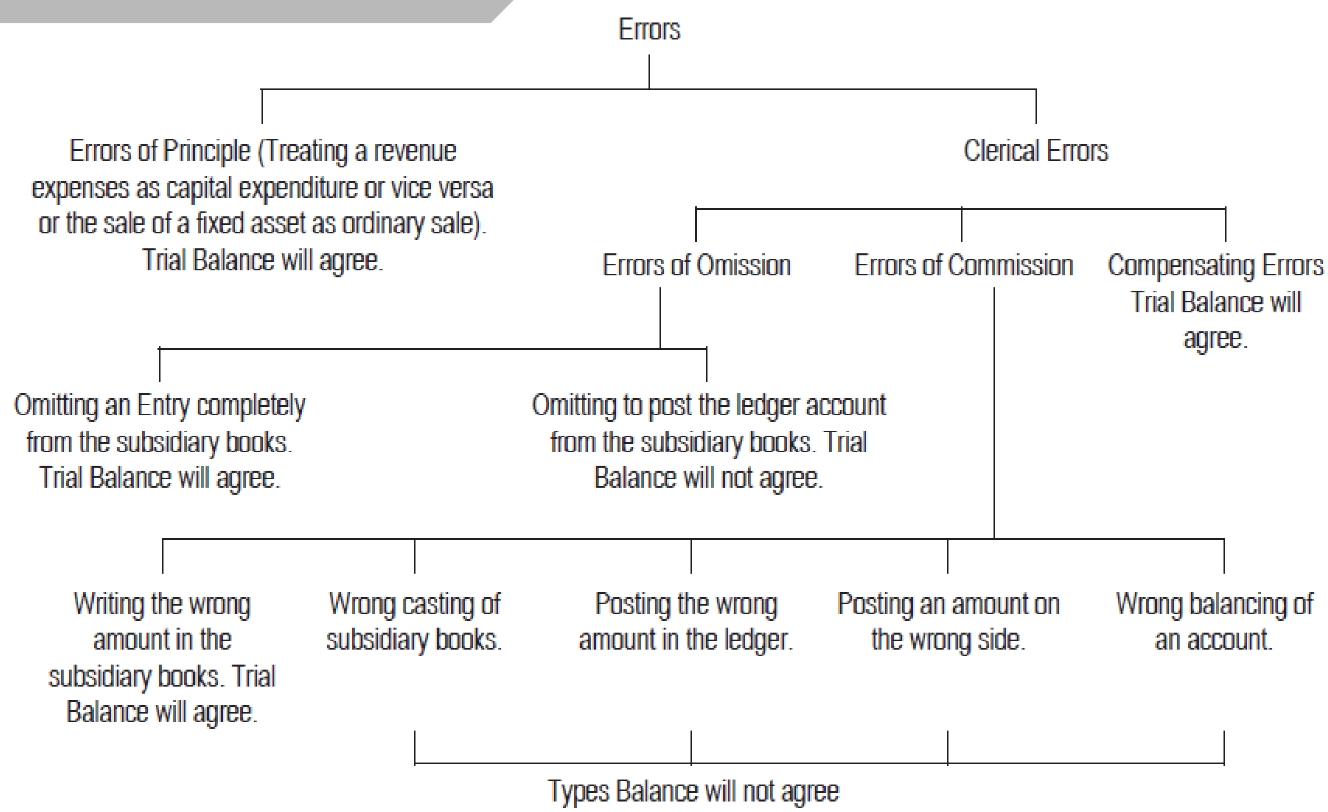
SUBSIDIARY BOOKS



REVENUE EXP. Vs CAPITAL EXP.

REVENUE RECEIPT Vs CAPITAL RECEIPT

RECTIFICATION OF ERRORS



Q 1> *The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.*

(1) Rs. 500 paid for furniture purchased has been charged to ordinary Purchases Account.

(2) Repairs made were debited to Building Account for Rs. 50.

(3) An amount of Rs.100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.

(4) Rs.100 paid for rent debited to Landlord's Account.

(5) Salary Rs.125 paid to a clerk due to him has been debited to his personal account.

(6) Rs.100 received from Shah & Co. has been wrongly entered as from Shaw & Co.

(7) Rs. 700 paid in cash for a typewriter was charged to Office Expenses Account.

CORRECTION IN THE NEXT ACCOUNTING PERIOD

Q 2> Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account Rs.3,000.

(2) Purchase account was over-cast by Rs.10,000.

(3) A credit purchase of goods from Mr. P for Rs.2,000 entered as a sale.

(4) Receipt of cash from Mr. A was posted to the account of Mr. B Rs.1,000.

(5) Receipt of cash from Mr. C was posted to the debit of his account, Rs.500.

(6) Rs. 500 due by Mr. Q was omitted to be taken to the trial balance.

(7) Sale of goods to Mr. R for Rs.2,000 was omitted to be recorded.

(8) Amount of Rs.2,395 ofpurchase was wrongly posted as Rs.2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries

PROVISION Vs CONTINGENT LIABILITIES

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

CONTINGENT ASSETS

- A possible asset arises from past events and their existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future events.

POINTS TO BE REMEMBERED

Lets DANGAL with ICAI RTP QUESTIONS

MAY 2018

Q1> Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery Rs. 8,000.

(iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment.

ANS.

Journal Entries in the books of Gamma Bros.

	Particulars	Dr.	Cr.
		Amount (₹)	Amount (₹)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

Q2> Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

ANS. (i) Revenue Expenditure.
(ii) Capital Expenditure.
(iii) Revenue Expenditure.
(iv) Revenue Expenditure.
(v) Capital Expenditure.

Q3> Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month

2017 Nov.		Rs.
1	Cash in hand	3,000
1	Cash at bank	12,000
2	Paid into bank	1,000
5	Bought furniture and issued cheque	1,500
8	Purchased goods for cash	500
12	Received cash from Mohan	980
	Discount allowed to him	20
14	Cash sales	5,000
16	Paid to Amar by cheque	1,450
	Discount received	50
19	Paid into Bank	500
23	Withdrawn from Bank for Private expenses	600
24	Received cheque from Parul	1,430
	Allowed him discount	20
26	Deposited Parul's cheque into Bank	
28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

ANS. **(a) Triple Column Cash Book**

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note: (1) Discount allowed and discount received Rs. 40 and Rs. 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Q4> The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of Rs. 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of Rs. 420 from Mantri & Co. passed through Sales Day Book as Rs. 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

ANS. (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (Rs. 800) will be taken.

Before Trial Balance	After Trial Balance	After Final Accounts
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of Rs. 420 is wrongly recorded through sales day book as Rs. 240.

Correct Entry	Entry Made Wrongly
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	After Trial Balance	After Final Accounts
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

NOV 2018

Q5> Pass a journal entry in each of the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:

Cash Rs. 2,000, Land Rs. 4,000, Furniture Rs. 1,000, Stock Rs. 2,000, Creditors Rs. 1,000, Bank Overdraft Rs. 2,000.

(ii) Goods distributed by way of free samples, Rs. 1,000.

(iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him Rs. 600.

ANS.

(i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by mohan by taking over a running business).

(ii) Advertisement Expenses A/c Dr. 1,000

To Purchases A/c 1,000

(iii) Cash A/c Dr. 300

Bad Debts A/c Dr. 300

To Rahim ₹ 600

Q6> *Classify each of the following transactions into capital or revenue transactions:*

-- *Complete repaint of existing building.*

-- *Installation of a new central heating system.*

-- *Repainting of a delivery van.*

-- *Providing drainage for a new piece of water-extraction equipment.*

-- *Legal fees on the acquisition of land.*

-- *Carriage costs on a replacement part for a piece of machinery.*

ANS.

-- *Complete repaint: revenue.*

-- *Installation of new heating system: capital.*

-- *Repainting van: revenue.*

-- *Drainage for new equipment: capital.*

-- *Legal fees on acquisition of land: capital*

-- *Carriage costs on replacement part: revenue.*

Q7> *Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:*

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

ANS.

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	
April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
						April 30	By	Balance c/d		13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note: (1) Discount allowed and discount received Rs. 60 and Rs. 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Q8> Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 4,500 from M not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

ANS.
(i) Error of Principle.
(ii) Error of Omission.
(iii) Error of Commission.
(iv) Error of Omission.
(v) Error of Commission

MAY 2019

Q9> M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

(i) A purchase of Rs. 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as Rs. 6,500. Day Book entry has also been passed incorrectly.

(ii) A sale of Rs. 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as Rs. 8,900. Day Book *entry has also been incorrectly passed.*

(iii) Discount allowed Rs. 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be Rs. 650, because discount allowed of of Rs. 90 to M/s Bantu Bros. has been omitted.

(iv)A cheque of Rs. 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co. Should the Trial Balance tally without rectification of errors?

ANS.

Journal Proper of Suman & Co.

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated....as ₹ 6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated ....as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

Q10> Classify the following expenditures and receipts as capital or revenue:

(i) Rs. 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

Ans. (i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

Q11> From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

ANS.

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

Q12> Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of Rs.10,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of Rs.15,000 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of Rs.20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs.2,000;

(4) Bad Debts aggregating Rs.45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2018 amounting to Rs.25,000 was not posted.

ANS.

JOURNAL

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				

(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				

NOV 2019

Q13> *Prepare a Petty Cash Book on the Imprest System from the following:*

2019			₹
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

Ans:

PETTY CASH BOOK

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

MAY 2020

Q14> *Classify the following expenditures as capital or revenue expenditure:*

(i) Money spent to reduce working expenses.

(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Rings and Pistons of an engine were changed at a cost of Rs. 5,000 to get fuel efficiency.

(iv) Compensation of Rs. 2.5 crores paid to workers, who opted for voluntary retirement.

Ans (i) Capital expenditure. (ii) Revenue expenditure.

(iii) Capital expenditure. (iv) Revenue expenditure.

Q15> The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed: (ICAI NOV 2018 Exams Question Also)

(i) Sales Day Book was overcast by Rs. 1,000.

(ii) A sale of Rs. 5,000 to X was wrongly debited to the Account of Y.

(iii) General expenses Rs. 180 was posted in the General Ledger as Rs. 810.

(iv) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by P.

(v) Legal Expenses Rs. 1,190 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Ram was debited to Shyam Rs. 1,500.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,235 was written as Rs. 1,325.

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

Ans

Rectification entries

(i)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	 1,000
(ii)	X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.	5,000	 5,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)	Dr.	630	 630

(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			

Suspense A/c

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

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1. A book-keeper, while preparing his trial balance finds that the debit exceeds by Rs. 7,250. Being required to prepare the final accounts, he places the difference to a Suspense Account. In the next year, the following mistakes were discovered:

(a) A sale of Rs. 4,000 has been passed through the Purchase Day-book. The entry in customer's account has been correctly recorded.

(b) Goods worth Rs. 2,500 taken away by the proprietor for his use has been debited to Repairs Acc.

(c) A Bill receivable for Rs. 1,300 received from Krishna has been dishonoured on maturity, but no entry passed.

(d) Salary Rs. 650 paid to a clerk has been debited to his Personal Account.

(e) A Purchase of Rs. 750 from Raghubir has been debited to his account. Purchases Account has been correctly debited.

(f) A sum of Rs. 2,250 written off as depreciation on furniture has not been debited to Depreciation Account.

Draft the Journal entries for rectifying the above mistakes and prepare Suspense Account.

Sol

JOURNAL

Date	Particulars		Dr.(Rs.)	Cr.(Rs.)
(a)	Suspense A/c	Dr.	8,000	
	To P & L Adjustment a/c (Entry for rectifying a credit sale entered in purchase book)			8,000
(b)	Drawing A/c	Dr.	2,500	
	To P & L Adjustment A/c (Goods drawn for personal use wrongly debited to repairs, now rectified)			2,500
(c)	Krishna's A/c	Dr.	1,300	

	To Bills Receivable A/c (Being entry for bill dishonoured on maturity)			1,300
(d)	P & L Adjustment A/c	Dr.	650	
	To Clerk's A/c (Being salary wrongly debited to Clerk's A/c, now rectified)			650
(e)	Suspense A/c	Dr.	1,500	
	To Raghubir's A/c (Being wrong debit to Raghubir's A/c, now rectified)			1,500
(f)	P & L Adjustment A/c	Dr.	2,250	
	To Suspense A/c (Being depreciation on furniture not posted to Depreciation A/c, now rectified)			2,250

DR. SUSPENSE ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To P & L Adjustment A/c	8,000	By Balance b/d	7,250
To Raghubir's A/c	1,500	By P & L Adjustment A/c	2,250
	9,500		9,500

Q2> On 31st March, 2018, a book-keeper finds the difference in the Trial Balance and he puts it in the Suspense Account. Later on he detects the following errors:

(i) Rs. 50,000 received from A was posted to the debit of his Account.

(ii) Rs. 20,000 being purchases returns were posted to the debit of Purchases Account.

(iii) Discount of Rs. 8,000 received were posted to the debit of Discount Account.

(iv) Rs. 9,060 paid for repairs of Motor Car was debited to Motor Car Account as Rs. 7,060.

(v) Rs. 40,000 paid to B was debited to A's Account.

Required: Give Journal Entries to rectify the above errors and ascertain the amount transferred to Suspense Account on 31st March, 2018 by showing the Suspense Account, assuming that the

Suspense Account is balanced after the above corrections

Sol.

JOURNAL

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
(i)	Suspense A/c	Dr.	1,00,000	
	To A's A/c			1,00,000
	(Being the rectification of error by which Amount received from A was wrongly debited to his account)			
(ii)	Suspense A/c	Dr.	40,000	
	To Purchase A/c			20,000
	To Purchases Returns A/c			20,000
	(Being the rectification of error by which purchases returns had been wrongly posted to the purchases account)			
(iii)	Suspense A/c	Dr.	16,000	
	To Discount A/c			16,000
	(Being the rectification of error by which discount received wrongly debited to discount account)	was		
(iv)	Motor Car Repairs A/c	Dr.	9,060	
	To Motor Car A/c			7,060
	To Suspense A/c			2,000
	(Being the rectification of error by which motor car repair expenses Rs. 9,060 wrongly debited to motor car account as Rs. 7,060)			
(v)	B's A/c	Dr.	40,000	
	To A's A/c			40,000
	(Being the rectification of error by which amount paid to B had been wrongly debited to A)			

DR. **SUSPENSE ACCOUNT** CR.

Particulars	Rs.	Particulars	Rs.
To A's A/c	1,00,000	By Difference in trial balance (balancing figure)	1,54,000
To Purchases A/c	20,000		
To Purchases Returns A/c	20,000	By Motor Car Repairs A/c	2,000
To Discount A/c	16,000		

	1,56,000		1,56,000

Q3> There was an error in the Trial Balance of Mr. Steel on 31st March, 2018, and the difference in Books was carried to a Suspense Account. On going through the Books you find that:

(i) Rs. 5,400 received from Mr. A was posted to the debit of his account.

(ii) Rs. 1,000 being purchases return were posted to the debit of purchases Account.

(iii) Discount received Rs. 2,000 was posted to the debit of Discount Account.

(iv) Rs. 2,740 paid for Repairs to Motor Car was debited to Motor Car Account as Rs. 1,740.

(v) Rs. 4,000 paid to B was debited to A's Account.

Required: Give Journal Entries to rectify the above error and ascertain the amount transferred to Suspense Account on 31st March, 2018 by showing the Suspense Account, assuming that the Suspense Account is balanced after the above corrections.

State which types of errors are not disclosed by the agreement of the Trial Balance.

Sol.

JOURNAL

Date	Particulars		Dr.(Rs.)	Cr.(Rs.)
(i)	Suspense A/c	Dr.	10,800	
	To A's A/c (Being the cash received from A debited to his account, now rectified)			10,800
2)	Suspense A/c	Dr.	2,000	
	To Purchases A/c To Purchases Returns A/c (Being the purchase returns posted to Purchases, rectified)			1,000 1,000
3)	Suspense A/c	Dr.	4,000	
	To Discount A/c (Being discount received treated as discount allowed, now rectified)			4,000

4)	Repairs to Motor car A/c	Dr.	2,740	
	To Motor car A/c To Suspense A/c (Being repairs to car, treated as capital expense now rectified)			1,740 1,000
5)	B's A/c	Dr.	4,000	
	To A's A/c (Being Money received from B debited to A's A/c, rectified)			4,000

DR. SUSPENSE ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To As A/c	10,800	By Balance b/d (b.f)	15,800
To Purchases A/c	1,000	By Repairs to Motor Car A/c	1,000
To Purchases Returns A/c	1,000		
To Discount A/c	4,000		
	16,800		16,800

The various errors not affecting Trial Balance are—

1. Errors of principle
2. Compensating errors
3. Errors of complete omission
4. Error of recording in books of original entry.
5. Positing a correct amount on correct side of a wrong account.

Q4> The Trial Balance of ABC Ltd. as on March 31, 2018 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Sales-book of one page Rs. 6,531 was carried forward to next page as Rs. 6,351

(ii) Goods returned by a customer for Rs. 1,200, but entered in Purchases Return Book.

(iii) Personal Car Expenses amounting to Rs. 250 were debited to Trade Expenses.

(iv) Sales Return Book was undercast by Rs. 2,750.

(v) Rs. 50 discount allowed by a supplier, was wrongly posted to debit side of Discount Account.

(vi) An item of purchases of Rs. 151 was entered in Purchases Book as Rs. 15 and posted to Supplier's account as Rs. 51.

Required: Pass Journal Entries to rectify the errors through Profit & Loss Adjustment A/c in a way so as to show the Current year's profit or loss correctly.

Sol.

JOURNAL OF ABC LTD

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
(i)	Suspense A/c Dr.		180	
	To Profit & Loss Adjustment A/c (Being total of sales book of one page Rs. 6,531 carried forward wrongly as Rs. 6,351, now rectified)			180
(ii)	Profit and Loss Adjustment A/c Dr.		2,400	
	To Customer's A/c (Being goods returned by a customer, wrongly entered in Purchase Return Book last year, now rectified)			2,400
(iii)	Drawings A/c Dr.		250	
	To Profit and Loss Adjustment A/c (Being personal car expenses wrongly debited to trade expenses last year, now rectified)			250
(iv)	Profit and Loss Adjustment A/c	Dr.	2,750	
	To Suspense A/c			2,750
	(Being sales return book under cast last year, now rectified)			
(iv)	Suspense A/c	Dr.	100	
	To Profit and Loss Adjustment A/c			100
	(Being discount received Rs. 50 wrongly debited to discount account, now rectified)			
(vi)	Profit and Loss Adjustment A/c	Dr.	136	
	To Supplier's A/c			100
	To Suspense A/c			36
	(Being purchases A/c short debited by Rs. 136 and supplier A/c short credited by Rs. 100, now rectified)			

Q5> The difference in Trial Balance is kept by Rajesh in Suspense account. Before preparing the Final Accounts, the following errors were detected by him:

(i) Purchase for Rs. 1,080 was written in Sales day book, but was posted to the correct side of the Party's account.

(ii) Salary account total Rs. 25,200 was carried over to the next page as Rs. 2,520 on the wrong side.

(iii) Interest on Overdraft Rs. 1,300 was not posted to the Ledger from the Cash-book.

Pass the Rectification entries and prepare the suspense account.

Sol.

JOURNAL

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Sales A/c	Dr.	1,080	
	Purchases A/c	Dr.	1,030	
	To Suspense A/c			2,160
	(Being Purchase wrongly recorded, now rectified)			
	Salary A/c	Dr.	27,720	
	To Suspense A/c			27,720
	(Being Salary A/c total wrongly carried over, now rectified)			
	Interest & Overdrafts A/c To Suspense A/c (Being interest on O/D omitted to be posted, now rectified)	Dr.	1,300	 1,300

DR. SUSPENSE ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To Difference in Trial Balance	31,180	By Sales A/c	1.080
		By Purchase A/c	1,080
		By Salary A/c	27,720
		By Interest on Overdraft	1,300
	31,180		31,180

Q6> Give journal entries (narrations not required) to rectify the following: (May 2018)

(i) Purchase of Furniture on credit from Nigam for Rs.3,000 posted to Subham account as Rs.300.

(ii) A Sales Return of Rs.5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.

(iii) Investments were sold for Rs.75,000 at a profit of Rs.15,000 and passed through Sales account.

(iv) An amount of Rs.10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Sol.

	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

Note : It has been assumed that in the first point, Furniture A/c also have not been posted.

Q7> Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found. (May 2018)

(i) Purchase account was undercast by Rs.8,000.

(ii) Sale of goods to Mr. Rahim for Rs.2,500 was omitted to be recorded.

(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. AnbuRs.1,200.

(iv) Amount of Rs.4,167 of sales was wrongly posted as Rs.4,617.

(v) Repairs to Machinery was debited to Machinery Account Rs.1,800.

(vi) A credit purchase of goods from Mr. Paul for Rs.3,000 entered as sale.

Suggest the necessary rectification entries.

Sol.

Journal Entries in the books of Miss Daisy

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense*A/c			8,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted to the account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited to machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000
	Credit purchase of goods from Mr. Paul sale last year, now rectified)			
(vii)	Daisy's Capital A/c	Dr.	13,750	
	To Profit and Loss Adjustment Account			13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	8,450	
	To Daisy's Capital A/c			8,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

*Considering that the difference was posted to Suspense account.

2. Suspense Account

	₹		₹
To Daisy's Capital A/c (Balance Transfer)	8,450	By P & L Adj. A/c By P & L Adj. A/c	8,000 450
	8,450		8,450

Q8> Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance: (May 2019)

(i) An amount of Rs 4,500 received on account of Interest was credited to Commission account.

(ii) A sale of Rs 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at Rs 2,670

(iii) Rs 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.

(iv) Goods returned by customer for Rs 5,000. The same have been taken into stock but no entry passed in the books of accounts.

SOL. **Journal Entries**

S. No.		Debit (₹)	Credit (₹)
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	4,500	4,500
2	M/s Sobhag Traders A/c Dr. To Suspense A/c	90	90

	(Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)		
3	Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	35,000	35,000
4	Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)	5,000	5,000

Q9> Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

(1) The sales book has been totalled Rs 2,100 short.

(2) Goods worth Rs 1,800 returned by Gaurav & Co. have not been recorded anywhere.

(3) Goods purchased Rs 2,250 have been posted to the debit of the supplier Sen Brothers.

(4) Furniture purchased from Mary Associates, Rs 15,000 has been entered in the purchase Daybook.

(5) Discount received from Black and White Rs 1,200 has not been entered in the books.

(6) Discount allowed to Radhe Mohan & Co. Rs 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

SOL: **(i) If a Suspense Account is not opened.**

(a) Since sales book has been cast Rs 2,100 short, the Sales Account has been similarly credited Rs2,100 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	₹	Date	Particulars	₹ Cr.
				By Wrong Totaling of Sales Book	2,100

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav &Co. credited. The entry is:

Returns Inward Account Dr. Rs1,800
To Gaurav & Co. Rs1,800
(Goods returned by the firm, previously omitted from the Returns Inward Book)

(c) Sen Brothers have been debited Rs2,250 instead of being credited. This account should now be credited by Rs4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	₹	Date	Particulars	₹
				By errors in posting	4,500

(d) By this error Purchases Account has to be debited by Rs15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account Dr. Rs15,000
To Purchases Account Rs15,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)

(e) The discount of Rs1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White Dr. Rs1,200
To Discount Account Rs1,200
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited Rs180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	₹	Date	Particulars	₹
	To Omission of entry in the Cash Book	180			

(ii) If a Suspense Account is opened:

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		2,100	
	To Sales Account				2,100
	(Being the correction arising from under-casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		1,800	
	To Gaurav & Co				1,800
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		4,500	
	To Sen Brothers				4,500
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250).				
(d)	Furniture Account	Dr.		15,000	
	To Purchases Account				15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Black & White	Dr.		1,200	
	To Discount Account				1,200
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		180	
	To Suspense Account				180
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

Q10> An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	250	-
Cash Credit Account	1,654	-
Capital	-	4,591
Trade payables	-	1,637
Due from customers	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-
Office Furniture	2,155	-
Carriage Inward	-	829
Purchases	10,923	-
Returns Inward	-	330
Rent & Rates	314	-
Salaries	2,520	-
Sales	-	16,882
Inventory	2,418	-
Provision for Depreciation on Furniture	364	-
Total	25,033	25,002

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account.

(Nov 2019)

SOL.:

Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	
Total	25,630	25,630

considered as opening inventory.

CH - 2

BANK RECONCILIATION STATEMENT

DANGAL QUESTIONS

ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
5	13	18

BASIC CONCEPTS

BALANCE	FAVOURABLE BALANCE	UNFAVOURABLE / OVERDRAFT BALANCE
AS PER CASH BOOK		
AS PER PASS BOOK		

FORMAT FOR PREPARATION OF BRS

PARTICULARS	DEBIT	CREDIT
Balance as per Cash book		
Cheque issued but not presented for payment		
Cheque deposited but not collected/ credited by bank		
Interest allowed in Pass Book only		
Bills Receivable directly collected by bank		
Direct payment by a customer into bank but not recorded in Cash Book		
A wrong credit given by bank in Pass Book		
'Cheques issued' returned on technical grounds		
Cheques received and recorded in Bank Column but not yet sent to bank for collection		
Cheques deposited but not yet collected by bank		
Bank charges, Interest on overdraft debited in Pass Book only		
Insurance Premium paid directly by bank understanding advice		
Cheques deposited for collection, returned dishonoured and recorded in Pass Book only		
Discounted Bills Dishonoured but not recorded in Cash Book		
A wrong debit given by bank in Pass Book		
Balance as per Pass Book		

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 MAY 2018

The Cash-book of M/s ABC shows Rs.27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy Rs.10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by Rs. 350.

(iii) On 20th March, 2017 the debit balance of Rs. 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of Rs. 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for Rs.5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to Rs. 5,500only.

(vi) A cheque issued amounting to Rs.1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium Rs.756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for Rs.1,530 discounted for Rs.1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April,2017.

(ix) Bank recorded a Cash deposit of Rs.1,550 as Rs. 1,505.

Prepare Bank Reconciliation Statement on 31st March,2017.

Sol :

Bank Reconciliation Statement on 31st March,2017

Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of Rs.2,156 brought forward as credit balance on 20th March, 2017 in the CashBook	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2017	350	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
	(vii)	Insurance Premium paid directly by bankunder standinginstructions	756	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
	(ix)	Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement				40,876

QUESTION 2 NOV 2018

Prepare a Bank Reconciliation Statement of Shri Hari as on 31stMarch,2018:

(i) Balance as per Pass Book is Rs.10,000.

(ii) Bank collected a cheque of Rs.500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of Rs. 1,589 as Rs.1,598.

(iv) Withdrawal column of the Pass Book undercast by Rs.100.

(v) The credit balance of Rs.1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of Rs.350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of Rs.1,000 deposited by Shri Hari (another customer of the bank).

Sol : ***Bank Reconciliation Statement on 31st March,2018***

		Rs.
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

QUESTION 3 MAY 2019

On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of Rs. 4,480 although his Bank Statement showed only Rs. 3,200 overdrawn. An examination of the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by Rs.400.

(ii) A cheque for Rs. 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

(iii) A cheque for Rs 172 drawn for payment of telephone bill was recorded in the Cash Book as Rs. 127 but was shown correctly in the Bank Statement.

(iv) A cheque for Rs. 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for Rs. 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr.Kar's Account.

(vi) A dividend of Rs. 100 was collected by the bankbut not entered in the Cash Book.

(vii) Cheques totalling Rs. 1,300 drawn on November was not presented forpayment.

(viii) Chequefor Rs.1,200depositedon30thNovemberwasnotcreditedbytheBank.

(ix) Interest amounting to Rs. 300 was debited by the Bank but yet tobe entered in the CashBook.

You are required to prepare a Bank Reconciliation Statement on 30th November, 2018.

SOL :

Bank Reconciliation Statement as on 30th November,2018

Particulars			Rs.	Rs.
Bank Overdraft as per Bank Statement				3,200
Add:	(i)	Debit side of the Cash Book was undercast	400	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	100	
	(vii)	Cheque issued but yet to be presented for payment	1,300	3,400
				6,600
Less:	(iii)	Cheque issued for 172 posted in the Cash Book as Rs.127	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	425	
	(v)	Wrong debit by the Bank to Hari's A/c	150	
	(viii)	Cheque deposited but yet to be credited	1,200	
	(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
Bank overdraft as per the Cash Book (Cr.)				4,480

QUESTION 4 NOV 2019

On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October,2019
2. A payment by cheque for Rs. 32,000 has been entered twice in the CashBook.
3. On 29th September, 2019, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October,2019.
4. Bank charges amounting to Rs.1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled Rs.26,52,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and

(b) to prepare a bank reconciliation statement as on that date.

SOL :

(i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2019		Rs.	**2019**		
Sept. 30	To Party A/c	32,000	Sept. 30	By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September,2019

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto30th Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

QUESTION 5 **MAY 2020**

Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018.

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

Sol :

Bank Reconciliation Statement as on 31st March, 2018

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

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> Following are the entries recorded in the Bank Column of the Cash Book of Mr. X for the month ending on 31.03.2018

CASH BOOK (BANK COLUMN)

Date	Particulars	Rs.	Date	Particulars	Rs.
2018			2018		
Mar 15	To Cash	36,000	Mar. 01	By Balance b/d	40,000
Mar 20	To Roy	24,000	Mar. 04	By John	2,000
Mar 22	To Kapoor	10,000	Mar. 06	By Krishnan	400
Mar 31	To Balance c/d	7,640	Mar. 15	By Kailash	240
			Mar. 20	by Joshi	35,000
				By Balance b/d	7,640
		77,640			77,640

On 31.3.2018 Mr. X received the Bank Statement. On perusal of the statement Mr. X ascertained the following information:

(a) Cheques deposited but not credited by the bank Rs. 10,000

(b) Interest on securities collected by the bank but not recorded in cash book Rs. 1,080

(c) Credit transfer not recorded in the cash book Rs. 200

(d) Dividend collected by the bank directly but not recorded in the cash book Rs. 1,000

(e) Cheques issued but not presented for payment Rs. 37,400

(f) Interest debited by the bank but not recorded in the cash book Rs. 1,000

(g) Bank charges not recorded in the cash book Rs. 340.

From the above information you are asked to prepare a Bank reconciliation statement to ascertain the balance as per Bank Statement.

Sol.

BANK RECONCILIATION STATEMENT AS AT 31.03.2018

Particulars	Plus items Rs.	Minus items Rs.
A. Bank overdraft as per Cash Book		7,640
B. Cheque deposited but not credited		10,000
C. Interest on securities collected by Bank but not recorded in Cash Book	1,080	—
D. Credit transfer not recorded in Cash Book	200	
E. Dividend collected by Bank directly but not recorded in Cash Book	1,000	
F. Cheques issued but not presented for payment	37,400	
G. Interest debited by the bank but not recorded in the Cash Book		1,000
H. Bank Charges not recorded in Cash Book		340
	39,680	18,980
I. Bank Balance as per Pass Book	20,700	

Q2> Prepare a Bank Reconciliation Statement as on 31st March, 2018 from the following particulars:

Bank balance as per the Pass-book	10,000
Cheque deposited into the bank, but no entry was passed in the Cash-book	500
Cheque received, but not sent to bank	1,200
Credit side of the bank column cast short	200
Insurance Premium paid directly by the bank under the standing advice	600
Bank charges entered twice in the Cash-book	20
Cheque issued, but not presented to the bank for payment	500
Cheque received entered twice in the Cash-book	1,000
Bills discounted dishonoured not recorded in the Cash-book	5,000

Sol.

BANK RECONCILIATION STATEMENT AS ON 31st MARCH, 2018

Particulars	Rs.	Rs.
A. Bank Balance as per Pass Book	10,000	
B. **Add:**(i) Cheque received but not sent to the bank	1,200	
(ii) Credit side of the bank column cast short	200	
(iii) Insurance Premium paid directly not recorded in the cash book	600	
(iv) Cheque received entered twice in the cash book	1,000	

(v) Bills dishonoured not recorded in the cash book	5,000	
C. **Less:**(i) Cheque deposited into the bank but no entry was passed in		500
the cash book		
(ii) Bank charges recorded twice in the cash book		20
(iii) Cheque issued but not presented to the bank		500
	18,000	1,020
D. Bank balance as per Cash Book	16,980	

Q3> From the following particulars, prepare the Bank Reconciliation Statement as on 31st March, 2018.

(i) Bank overdraft as per Pass-book	Rs. 21,494
(ii) A cheque deposited as per Pass-book, but not recorded in Cash-book	Rs. 700
(iii) Debit side of Bank column undercast	Rs. 100
(iv) A cheque of Rs. 5,000 deposited, but credited to Pass-book as	Rs. 4,996
(v) A party's cheque returned dishonoured as per Pass-book only	Rs. 530
(vi) Bills collected directly by Bank	Rs. 3,500
(vii) Bank charges recorded twice in the Cash-book	Rs. 25
(viii) A Bill for Rs. 8,000 discounted for Rs. 7,900 returned dishonoured by the Bank. Noting charges being	Rs. 15
(ix) Cheque deposited, but not yet collected by the Bank	Rs. 2,320
(x) Cheque issued, but not yet presented to the bank for payment	Rs. 1,250

Sol.

BANK RECONCILIATION STATEMENT AS ON 31 ST MARCH, 2018

Particulars	**Rs.**	**Rs.**
Bank Overdraft as per Pass-book		21,494
Less: Cheque deposited but not recorded in Cash-book		700
Undercasting of debit side of Bank column		100
Bills collected directly by Bank		3,500
Bank charges recorded twice in Cash-book		25
Cheque issued but not presented for encashment		1,250
Add: Cheque for Rs. 5,000 deposited but collection shown as per Bank		
statement Rs. 4,996	4	
Cheque returned dishonoured as per Bank statement only	530	

Bill for Rs. 8,000 discounted for Rs. 7,960 returned dishonoured by Bank		
(including noting charges Rs. 15)	8,015	
Cheque deposited but not collected	2,320	
	10,869	27,069
Bank Overdraft as per Cash-book		16,200

Note: It has been assumed that a party's i.e. debtor's cheque had been returned dishonoured.

Q4> The Cash Book of Mr. X shows Rs. 16,928 as the balance at the Bank as on 31st March, 2018, but you find this does not agree the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(a) On 15th March the Payments side of the Cash Book was undercast by Rs. 400.

(b) A cheque for Rs. 462 issued on 25th March was recorded in the Cash Column.

(c) One deposit of Rs. 500 was recorded in the Cash Book as if there is no sank Column therein.

(d) On 18th March a debit balance of Rs. 3,152 as on the previous day, was brought forward as a credit balance.

(e) Of the total cheques amounting to Rs. 23,228 drawn in the last week of March, cheques aggregating Rs. 15,630 were encashed in March

(f) Dividends of Rs. 700 collected by the Bank and subscription of Rs. 120 paid by it were not recorded in the Cash Book.

(g) One outgoing cheque of Rs. 900 was recorded twice in the cash Book.

Required: Prepare a Reconciliation Statement (i) without amended Bank Balance (ii) amended Bank Balance.

Sol. **(i) Without Amended Cash Book**

BANK RECONCILIATION STATEMENT OF MR X

AS AT 31.03.2018

Particulars	Plus items Rs.	Minus items Rs.
A. Debit Balance as per Cash Book	16,928	
B. **Add:** Mistake in bringing forward as credit balance on 18th Dec..,	6,034	
Cheques issued but not presented	7,598	
Dividends directly collected by bank but not yet entered in the Cash book	700	
Cheques issued recorded twice	900	
Deposit not recorded in the Bank Column	500	
C. Less: Wrong casting in the Cash Book on 15th Dec. Cheques		400
issued but not entered in the Bank Pass Book Subscription paid		462
by the bank not yet recorded in the Cash Book		400
	32,930	1,262
D. Credit Balance as per Pass Book	31,668	

DR. (II) X'S CASH BOOK (WITH AMENDED BANK COLUMN) CR.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2018	To Balance b/d	16,928	31.03.2018	By Wrong casting	400
	To Mistake in bringing forward	6,304		By Cheques issued	462
	To Dividend collected	700		By Subscription	400
	To Cheques recorded twice	900		By Balance c/d	24,070
	To Deposit not recorded	500			
		25,332			25,332

BANK RECONCILIATION STATEMENT AS AT 31.03.2018

A. Corrected Debit Balance as per Cash Book	Rs. 24,070
B. Add: Cheques issued but not presented	Rs. 7,598
C. Credit Balance as per Pass Book	Rs. 31,668

Q5> The Cash Book of a trader showed on Overdraft balance of Rs. 33,000 on 31st March, 2018. On scrutiny of the Cash Book and Pass Book, it was discovered that:

(a) On 22nd March, sundry cheques totalling Rs. 6,500 were sent to Bank for collection out of which a cheque for Rs. 1,500 was wrongly recorded on the credit side of the Cash Book and cheques amounting to Rs. 3,300 could not be collected by the Bank till 6th April next.

(b) A cheque for Rs. 4,000 was issued to a supplier on 28th March. The cheque was not presented to Bank till 10th April

(c) Bank had debited Rs. 2,000 towards interest on overdraft and Rs. 600 for Bank charges. But the bank advice was sent on 15th April.

(d) Credit side of the Bank Column of the Cash Book was undercast by Rs. 100.

(e) Cheques for Rs. 2,000 drawn for office expenses were not encashed till 2nd April.

(f) A cheque for Rs. 1,000 was issued to a creditor on 27th March and was omitted to be entered in the Cash Book. It was, however, presented to Bank on 31st March.

(g) Dividends amounting to Rs. 500 had been collected directly by the Bank and not entered in Cash Book.

Required: Prepare Bank Reconciliation Statement with amended Cash Balance.

Sol. DR. CASH BOOK (WITH AMENDED BANK COLUMN) CR.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2018	To Sundry Debtors	3,000	31.03.2018	By Balance b/d	33,000
	To Dividends	500		By Interest on O/D	2,000
	To Balance c/d	33,200		By Bank Charges	600
				By Error in casting	100
				By Sundry Creditors	1,000
		36,700			36,700

BANK RECONCILIATION STATEMENT AS AT 31.3. 2018

Particulars	Plus items Rs.	Minus items Rs.
A. Overdraft as per Cash Book (amended)		33,200
B. Less: Cheques sent to the Bank for collection but not yet collected		3,300

C. Add: Cheques issued but not yet presented for payment	4,000	
D. Add: Cheques issued for office expenses but not yet encashed	2,000	
	6,000	36,500
E. Overdrafts as per Pass Book		30,500

Q6> On 31st March, 2018, the bank account of X, according to the Bank Column of the Cash Book, was over drawn to the extent of Rs. 4,162. An examination of the Cash Book and Bank Statement reveals the following:

(a) A Cheque for Rs. 1,240 deposited on 29th March was credited by the bank only on 3rd April.

(b) A payment by cheque for Rs. 260 has been entered twice in the Cash Book. [Note: The Bank has made the payment of this cheque.]

(c) On 29th March the bank credited an amount of Rs. 1,840 received from a customer of X, but the advice was not received by X until 1st April.

(d) Bank charges amounting to Rs. 158 had not been entered in the Cash Book.

(e) On 6th March the bank credited Rs. 2,100 to X in error.

(f) A bill of exchange for Rs. 1,100 was discounted by X with his bank. The bill was dishonoured on 28th March, but no entry had been made in the books of X.

(g) Cheques issued upto 31st March but not presented for payment upto that date totalled Rs. 3,860.

Required: Show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 31st March, 2018; and prepare a Bank Reconciliation Statement as on that date.

Sol. DR. CASH BOOK (WITH AMENDED BANK COLUMN) CR.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2018	To Party A/c	260	31.03.2018	By Balance b/d	4,162
	To Customer A/c (Direct Deposit)	1,840		By Bank Charges	158

	To Balance c/d	3,320		By Customer A/c	
				(B/R dishonoured)	1,100
		5,420			5,420

(B) BANK RECONCILIATION STATEMENT AS AT 31.3.2018

Particulars	Plus items Rs.	Minus itemsRs.
A. Overdraft as per Cash Book (amended)		3,320
B. Less: Cheque deposited but not collected upto 31 st Mar.		1,240
C. Add: Cheques issued but not presented for payment up to 31st Mar.	3,860	
D. Add: Credit by Bank erroneously on 6th Mar.	2,100	
	5,960	4,560
E. Balance as per Bank Statement	1,400	

Q7> The following is a summary of Cash Book presented to you for the month of March, 2018

Particulars	Rs.	Particulars	Rs.
Receipt	1,469	Balance brought forward	761
Balance carried forward	554	Payment	1,262
	2,023		2,023

All receipts are banked and all payments are made by cheque. On investigation you discover:

(a) Bank charges of Rs. 136 entered in the Bank Statement had not been entered in the Cash Book.

(b) Cheques drawn amounting to Rs. 267 had not ben presented to the bank for payment.

(c) Cheques received totalling Rs. 762 had been entered in the Cash book and paid into the bank, but had not been credited by the bank until April.

(d) A cheque for Rs. 22 had been entered as a receipt in the cash book instead of as a payment.

(e) A cheque for Rs. 25 had been debited by the bank in error.

(f) A cheque received for Rs. 80 had been returned by the bank marked 'No funds available.' No adjustment had been made in the cash book.

(g) All dividends receivables are credited directly to the bank account. During March amounts totalling Rs. 62 were credited by the bank and no entries made in the Cash Book.

(h) A cheque drawn for Rs. 6 had been incorrectly entered in the cash book as Rs. 66.

(i) The balance brought forward should have been Rs. 711.

(j) The bank statement as on 31st March 2018 showed on overdraft of Rs. 1,162.

You are required to: (i) Show the adjustments required in the cash book, (ii) Prepare a Bank Reconciliation Statement as on 31st March, 2018.

Sol. DR. (I) CASH BOOK (WITH AMENDED BANK COLUMN) CR.

Particulars	Rs.	Particulars	Rs.
To Dividends collected by bank	62	By Balance b/d	554
To Adjustment of cheque drawn		By Bank Charges	136
(for 16 entered as 66)	60	By Adjustment repayment entered as a receipt	44
To Adjustment of balance B/F at 1st March, 2018	50	By Adjustment cheque returned uncollected	80
To Balance c/d	642		
	814		814

(II) BANK RECONCILIATION STATEMENT AS AT 31.3.2018

Particulars	Plus items Rs.	Minus items Rs.
A. Overdraft as per Bank Statement		1,162
B. Less: Cheques issued but not yet presented		267
C. Add: Deposits not yet credited	762	
Cheque debited in error	25	787
	787	1,429
D. Overdraft as per Cash Book		642

Q8> According to the Cash-book of Gopi, there was a balance of Rs. 44,500 standing to his credit in bank on 31st March, 2018. On investigation you find that:

(i) Cheques amounting to Rs.60,000 issued to creditors have not been presented for payment till that date.

(ii) Cheques paid into Bank amounting to Rs.1,05,000 out of which cheques amounting to Rs.55,000 only collected by the Bank upto 31st March, 2018.

(iii) A dividend of Rs.4,000 and Rent amounting to Rs.6,000 received by the Bank and entered in the Pass-book but not recorded in the Cash-book.

(iv) Insurance Premium (upto 30th Sept., 2018 paid by the Bank Rs.2,700 not entered in the Cashbook.

(v) The payment side of the Cash-book had been undercast by Rs.50.

(vi) Bank charges Rs.50, shown in the Pass-book had not been entered in the Cash-book.

(vii) A bill payable for Rs.2,000 has been paid by the Bank but is not entered in the Cash-book and bill receivable for Rs.6,000 has been discounted with the Bank at a cost of Rs.100 which has also not been recorded in Cash-book.

You are required:

(i) to make the appropriate adjustments in the Cash-book, and

(ii) to prepare a statement reconciling it with the Bank Pass-book

Sol.

DR. (I) CASH BOOK (WITH AMENDED BANK COLUMN) CR.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2018	To Balance b/d	44,500	31.03.2018	By Insurance Premium A/c	2,700
	To Dividend A/c	4,000		By Error in Casting	50
	To Rent A/c	6,000		By Bank charges	50
	To Bills Receivable A/c	5,900		By Bills Payable	2,000
				By Balance c/d	55,600
		60,400			60,400

(II) BANK RECONCILIATION STATEMENT AS AT 31.03.2018

Particulars	Plus items Rs.	Minus items Rs.
A. Bank Balance as per amended Cash Book	55,600	
B. Add: Cheques issued but not yet presented	60,000	
C. Less: Cheques deposited but not yet collected	1,15,600	50,000
D. Bank Balance as per Pass Book	65,600	50,000

Q9> From the following information (as on 31.3.2018), prepare a Bank Reconciliation Statement after making necessary amendments in the Cash-book: Amount (Rs.)

Bank balance as per Cash Book (Dr.)	3,25,000
Cheques deposited, but not yet credited	4,47,500
Cheques issued but, not yet presented for payment	3,56,200
Bank charges debited by Bank but not recorded in Cash-book	1,250
Dividend directly collected by bank	12,500
Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the Cash-book	25,500
Customer's cheque dishonoured by bank not recorded in Cash-book	13,000
Wrong Credit given by bank	15,000

Also show the bank balance that will appear in the Trial Balance as on 31.3.2002.

Sol.

CASH BOOK AS ON 31.3.2018

DR. (AFTER MAKING NECESSARY AMENDMENTS) CR.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,25,000	By Bank charges	1,250
To Divided	12,500	By Insurance premium	15,900
		By Cash Sales (wrongly recorded)	25,500
		By Debtors (cheque dishonoured)	13,000
		By Balance c/d	2,81,850
	3,37,500		3,37,500

BANK RECONCILIATION STATEMENT AS ON 31.3.2018

Particulars	**Plus items** Rs.	**Minus items** Rs.
A. Bank Balance as per Cash Book	2,81,850	
B. **Add:** Cheques issued, not yet presented for payment	3,56,200	
Wrong credit given by bank	15,000	
C. **Less:** Cheques deposited, not yet credited by bank		4,47,500
	6,53,050	4,47,500
D Balance as per Pass Book	2,05,550	

The bank balance of Rs. 2,81,850 will appear in the trial balance as on 31st March, 2018.

Q10> The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of Rs.33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following: (May 2018)

(i) A Cheque of Rs. 1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with Rs.2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of Rs.20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to Rs.7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to Rs.7,800 drawn by her on 27th March, 2018 a cheque for Rs.2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for Rs.500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for Rs.300 against her account No.8765.

(vi) A cheque for Rs.1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for Rs.5,200 previously dishonoured (Discount Rs.200) with the Bank had *been dishonoured but advice was received on 1st April, 2018.*

(viii) A Bill for Rs.10,000 was retired /paid by the bank under a rebate of Rs.175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for Rs.2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

Sol.

Bank Reconciliation Statement as on 31st March, 2018

Particulars	₹
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i) No adjustment required as there would be no difference on 31.3.18	
(ii) *Add:* No entry in Cash book for interest collection by Bank	2,800
(iii) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) *Add:* Cheque credited in cash book but not debited in pass book	2,500
(v) *Add:* Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) *Less:* Cheque of ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) *Less:* Discounted dishonored but no entry in Cash book	(5,200)
(viii) *Add:* Rebate on bill retired not entered in cash book	175
(viii) *Add:* Cheques deposited in bank not yet recorded in cash book	2,400
Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: *A cheque of Rs.1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.*

Q11> *Prepare a bank reconciliation statement from following particulars as on 31st March, 2018* (Nov 2018)

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

Sol.

Bank Reconciliation Statement as on 31st March, 2018

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

Q12> *Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:* *(May 2019)*

(i) The Bank Pass Book had a debit balance of Rs 25,000 on 30th June, 2018.

(ii) A cheque worth Rs 400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth Rs 34,000, cheques amounting to Rs 20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for Rs 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth Rs 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018, Rs 14,000

(2) Cheques collected on 10th July, 2018, Rs 4,000

(3) Cheques collected on 12th July, 2018, Rs 2,000.

(vi) The Bank made a direct payment of Rs 600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank Rs 1,600 was not recorded in the Cash Book.

(viii) Bank charges worth Rs 80 have been entered twice in the cash book whereas Insurance charges for Rs 70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by Rs 2,000.

SOL :

Bank Reconciliation Statement as on 30th June 2018

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ₹ (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		25,210

Q13> On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of Rs 8,062. An examination of the Cash book and Bank Statement reveals the following: (Nov 2019)

(i) A cheque for Rs 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.

(ii) A payment by cheque for Rs 18,000 has been entered twice in the Cash book.

(iii) On 29th September, 2018, the bank credited an amount of Rs 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.

(iv) Bank charges amounting to Rs 280 had not been entered in the cash book.

(v) On 6th September 2018, the bank credited Rs 30,000 to XYZ in error.

(vi) A bill of exchange for Rs 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.

(vii) Cheques issued upto 30th September,2018 but not presented for payment upto that date totalled Rs. 13,46,000.

(viii) A bill payable of Rs 2, 00,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs 60,000 had been discounted with the bank at a cost of Rs 1,000 which had also not been recorded in cash book.

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date.

SOL.:

Cash Book (Bank Column)

Date	Particulars		Amount	Date	Particulars		Amount
2018			₹	2018			
Sept. 30	To	Party A/c	18,000	Sept. 30	By	Balance b/d	8,062
	To	Customer A/c			By	Bank charges	280
		(Direct deposit)	1,15,400		By	Customer A/c	
	To	B/R collected	59,000			(B/R dishonoured)	1,60,000
	To	Balance c/d	1,75,942		By	Bills payable	2,00,000
			3,68,342				3,68,342

Bank Reconciliation Statement as on 30th September, 2018

Particulars	Amount
	₹
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30thSept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

CH - 3

FINAL ACCOUNTS OF SOLE PROPRIETORSHIP

DANGAL QUESTIONS

Basic Concept Questions	ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
5	4	18	27

BASIC CONCEPTS

FORMAT

TRADING A/C

TRADING ACCOUNT OF....

Dr. for the period ending on. . . Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		XXX	By Sales	XXX	
To Purchases	XXX		Less: Return Inwards	XXX	XXX
Less: Returns outwards	XXX	XXX	By Closing Stock		XXX
Less: Abnormal Loss	XXX		By 'Gross Loss transferred to P&LA/c		XXX
Less: Goods for personal use	XXX				
Less: Goods distributed as	XXX				
Free Samples					
Less: Goods distributed for					
Charity	XXX				
To Direct Expenses		XXX			
To Wages and Salaries		XXX			
To Freight Inward		XXX			
To Carriage Inward		XXX			
To Cartage Inward		XXX			
To 'Gross Profit transferred to					
P&LA/c		XXX			
		XXX			XXX

PROFIT & LOSS A/C

PROFIT AND LOSS ACCOUNT OF...

Dr. for the period ending on... Cr.

Particulars	Rs.	Particulars	Rs.
To Gross Loss b/d	XXX	By Gross Profit b/d	XXX
To Salaries & Wages	XXX	By Discount received	XXX
To Rent, Rates & Taxes	XXX	By Commission earned	XXX
To Fire Insurance Premium	XXX	By Interest on Short-term	
To Repairs & Maintenance	XXX	Marketable securities	XXX
To Depreciation	XXX	By Profit on Sale of Short-term	
To Audit Fees	XXX	Marketable Securities	XXX
To Bank Charges	XXX	By Operating Loss c/d	XXX
To Legal Charges	XXX		
To Miscellaneous Expenses	XXX		
To Carriage Outward	XXX		
To Freight Outward	XXX		
To Commission to Salesmen	XXX		
To Travelling Expenses	XXX		
To Entertainment Expenses	XXX		
To Sales Promotion Expenses	XXX		
To Advertising and Publicity	XXX		
To Bad Debts	XXX		
To Packing Expenses	XXX		
To Operating Profit c/d	XXX		
	XXX		XXX
To Operating Loss b/d	XXX	By Operating Profit b/d	XXX
To Interest on Loan	XXX	By Rent earned	XXX
To Loss on Sale of Fixed Assets	XXX	By Interest earned	XXX
To *Net Profit transferred to		By Profit on sale of fixed assets	XXX
Capital Account	XXX	By Income from investments	XXX
		By Dividend Received	XXX
		By *Net Loss transferred to	
		Capital Account	XXX
	XXX		XXX

FORMAT OF A BALANCE SHEET IN ORDER OF LIQUIDITY

BALANCE SHEET OF AS AT

Liabilities		Rs.	Assets	Rs.
Current Liabilities:			**Current Assets:**	
Bank Overdraft		XXX	Cash-in-hand	XXX
Bills Payable		XXX	Cash at bank	XXX
Outstanding Expenses		XXX	Bills Receivable	XXX
Sundry Creditors		XXX	Sundry Debtors	XXX
Income received-in-advance		XXX	Prepaid Expenses	XXX
			Accrued income	XXX
Long-term Liabilities:			Closing Stock	XXX
Loan		XXX	**Investments:**	XXX
Capital:			**Fixed Assets:**	
Opening balance	XXX		Furniture and Fixture	XXX
Add: Net Profit			Plant and Machinery	XXX
(Less: Net Loss)	XXX		Building	XXX
	XXX		Land	XXX
Less: Drawing	XXX	XXX	Goodwill	XXX
		XXX		XXX

FORMAT OF A BALANCE SHEET IN THE ORDER OF PERMANENCE

BALANCE SHEET OF............. AS AT.............

Liabilities		Rs.	Assets	Rs.
Capital:			**Fixed Assets:**	
Opening Balance	XXX		Goodwill	XXX
Add: Net Profit	XXX		Land	XXX
(Less: Net Loss)	XXX		Building	XXX
Less: Drawings	XXX	XXX	Plant & Machinery	XXX
			Furniture & Fixtures	XXX
Long-term Liabilities:			**Investments:**	XXX
Loan		XXX	**Current Assets:**	
Current Liabilities:			Closing Stock	XXX
Income received-in-advance		XXX	Accrued income	XXX
Sundry Creditors		XXX	Prepaid expenses	XXX
Outstanding Expenses		XXX	Sundry Debtors	XXX
Bills Payable		XXX	Bills Receivable	XXX
Bank Overdraft		XXX	Cash at bank	XXX
			Cash in hand	XXX
		XXX		XXX

ADJUSTMENT NO 1 : CALCULATION OF EXPENSES

Prepaid Expenses

Outstanding Expenses

LEDGER FORMAT

EXPENSE A/c

Particulars	Amount	Particulars	Amount
To balance b/d (Op. .... Exp.) To Cash / Bank A/c (............. during year) To balance c/d (Closing .... Exp.)	xxx	By balance b/d (Op. .... balance) By P & L A/c (......... . for the year) By balance c/d (Closing ....Exp.)	xxx

Eg 1 Calculate Expenses to be transferred to P& L A/c.

	Opening Balance	Closing Balance
Prepaid Expenses	Rs.1,00,000	Rs. 1,30,000
O/s Expense	Rs.2,40,000	Rs. 1,15,000

Expenses paid during the year = Rs.35,00,000?

SOL.

ADJUSTMENT NO 2: DISCLOSURE OF CLOSING STOCK

ADJUSTMENT NO 3: CALCULATION OF CLOSING CAPITAL

ADJUSTMENT NO 4: CALCULATION OF CLOSING DEBTOR BAL.

Debtors A/c

Particulars	Amount	Particulars	Amount
To balance b/d	xxx	By .... A/c	xxx
To	xxx	By Discount allowed A/c	xxx
		By Bills Receivable A/c	xxx
To .... dishonoured	xxx	By Sales Return A/c	xxx
		By Bad Debts A/c	xxx
		By balance c/d	xxx
	xxxx		xxx

Note 1: Provision for bad and doubtful debts / provision for discount on debtors will not be considered while preparing Debtors Account.

Note 2: Bad Debts recovered do not affect our debtors. Hence, it should be ignored.

JOURNAL ENTRY FOR BAD DEBT RECOVERED :-

Eg 2: Calculate Closing Balance of Debtors from the following:

Opening balance of debtors	3,00,000	Total Sales (Cash Sales-20%)	20,00,000
Cheque received	12,50,000	Discount allowed	1,00,000
Purchases Return	80,000	Bad debts recovered	90,000
Cheque dishonoured	60,000	Bad debts	20,000
Provision for Bad Debts	40,000		

ADJUSTMENT NO 5: TREATMENT OF BAD DEBT

ADJUSTMENT NO 6: TREATMENT OF PROVISION FOR DOUBTFUL DEBT

JOURNAL ENTRY

1. For **Creation** Of Provision : -
   for Doubtful Debt

2. For **Utilisation** of Provision : -
   for Doubtful Debt

LEDGER FORMAT

Provision for Bad Debts A/c

Particulars	Amount	Particulars	Amount
To ………….. A/c	xxx	By balance b/d	xxx
To balance c/d	xxx	By ……………. A/c	xxx
	xxx		xxx

Eg 3: From the following information calculate the amount to be transferred to P & L A/c.

Opening Provision for Bad Debts	Rs. 2,00,000
Closing Provision for Bad Debts	Rs. 2,70,000
Bad Debts during the year	Rs. 2,25,000

SOL.

ADJUSTMENT NO 7: TREATMENT OF PROVISION FOR DISCOUNT ON DEBTORS

JOURNAL ENTRY

1. For **Creation** Of Provision : -
   for Discount on Debtors

2. For **Utilisation** of Provision : -
   for Discount on Debtors

ADJUSTMENT NO 8: DISCLOSURE OF NET DEBTORS BALANCE TO BE SHOWN IN BALANCE SHEET

Debtors Balance (before bad debts)	xxx
Less: Bad Debts	(xxx)
Total (A)	xxx
Less: Provision for Bad Debts (Total (A) * %age of Provision)	(xxx)
Total (B)	xxx
Less: Provision for Discount on Debtors (Total (B) * % of discount on Debtors)	(xxx)
NET BALANCE SHOWN IN B/S	xxx

Eg 4: *Calculate Provision Amount to be transferred to P& L A/c & Net Debtor Balance to be shown on the Asset Side of Balance Sheet.*

EXTRACT OF TRIAL BALANCE

PARTICULARS	DR. BAL.	CR. BAL.
1. Debtors	Rs.25,00,000	
2. Bad Debts	Rs. 1,80,000	
3. Provision for Bad debts		Rs. 1,45,000

Adjustments:

1. Additional Bad Debts – Rs. 1,20,000
2. Closing Provision for Bad debt required @ 10%.
3. Closing Provision for Discount on Debtors @ 5%.

Sol :

ADJUSTMENT NO 9: CALCULATION OF MANAGER'S COMMISSION

JOURNAL ENTRY :

On Net Profit Before Charging Such Commission

On Net Profit After Charging Such Commission

Eg 5: Calculate Managers Commission

Net Profit before Such Commission : Rs.5,50,000

Case 1: Mgr Comm. Is 10% before charging such Commission.

Case 2: Mgr Comm. Is 10% after charging such Commission.

OTHER ADJUSTMENT ITEMS
(ITEMS GIVEN OUTSIDE THE TRIAL BALANCE)

S. No	Item Of Adjustment	Adjusting Entry	Treatment in Trading a/c	Treatment in Profit & Loss a/c	Treatment in Balance Sheet
1.	Accrued Income / Income earned but not received / Outstanding Income	Accrued Income A/c Dr. To Income A/c			
2.	Unearned Income / Income received in advance	Income A/c Dr. To Unearned Inc. A/c			
3.	Depreciation	Depreciation A/c Dr. To Assets A/c			
4.	Provision for Disc. on Creditors	Prov. for discount on Creditors A/c Dr. To P & L A/c			
5.	Interest on Capital	Interest on cap. A/c Dr. To Capital A/c			
6.	Interest on Drawings	Capital A/c Dr. To Interest on Drawings A/c			
7.	Abnormal loss of Stock	Loss of stock A/c Dr. To Trading A/c			
8.	Good sent on approval	Sales A/c Dr. To Debtors A/c + Stock with customerA/cDr To Trading a/c			

POINTS TO BE REMEMBERED

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 **MAY 2018 / NOV 2019**

The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:
1. Purchases include sales return of Rs. 2,575 and sales include purchases return of Rs. 1,725.
2. *Goods withdrawn by Mr. XYZ for own consumption Rs. 3,500 included in purchases.*
3. Wages paid in the month of April for installation of plant and machinery amounting to Rs. 450 were included in wages account.
4. Free samples distributed for publicity costing Rs. 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

SOL:

Rectification Entries

	Particulars		***Dr.***	***Cr.***
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			

(ii)	Drawings account Dr. To Purchases account (Being goods withdrawn for own consumption included in purchases, now rectified)	3,500	3,500
(iii)	Plant and machinery account Dr. To Wages account (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)	450	450
(iv)	Advertisement expenses account Dr. To Purchases account (Being free samples distributed for publicity out of purchases, now rectified)	825	825

Trading and Profit and Loss Account of Mr. XYZ
For the year ended 31st March, 2017

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less*: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		
To	Carriage inward		1,125		$\left(₹\,80,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision	3,200	2,800				
To	Provision for discount on						

	debtors					
	2.5% of ₹ 1,14,000 2,850					
	Less: Existing provision 1,375	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit					
	(Transferred to capital account)					
		83,800				
		1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2017

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less: Drawings	11,500	1,37,300	*Less*: Depreciation	1,025	9,225
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less:* Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

QUESTION 2 *NOV 2018*

The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	*Cr.*
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-

Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is Rs. 3,000 due from Ram and included among the creditors Rs. 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% &for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to Rs. 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to Rs. 400 had been omitted from the books.

(8) Stock on 31.12.2017 was Rs. 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and

(ii) Balance sheet as on 31st December, 2017.

SOL:

Trading and Profit and Loss Account of Mr. Hari

For the year ended 31st December,2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omittedinvoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			

To Gross profit c/d		77,500			
		4,59,600			4,59,600
To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			81,940

Balance Sheet of Hari as at 31st December, 2017

Liabilities	***Rs.***	***Rs.***	***Assets***	***Rs.***	***Rs.***
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593		21,850	
Bank loan		20,000	*Less:* Provision for		
Bank interestdue		1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)		14,200	Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600
			Bank balance		8,000
			Cash balance		380
		1,16,493			1,16,493

Working Notes:

(1)	**Sundry debtors**	
	Balance as per trial balance	24,000
	Less: Due to Ram	1,000
		23,000
(2)	**Provision for bad & doubtful debts:**	
	@ 5% on ₹ 23,000	1,150
	Provision for discount:	
	2% on ₹ 21,850 (23,000 -1,150)	437
(3)	**Sundry creditors**	
	Balance as per trial balance	14,800
	Less: Set off in respect of Ram	1,000
		13,800
	Add: Purchase invoice omitted	400
		14,200

QUESTION 3 ***MAY 2019***

The following is the Trial Balance of T on 31st March, 2018 :

	Dr. ₹	*Cr.* ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-

Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2018 was valued at Rs. 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) Rs. 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn Rs. 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth Rs. 16,000 was not recorded in the books of account upto 31.03.2018, but the goods were included in stock.

(iii) Purchase returns of Rs. 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include Rs. 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018.

Sol:

JournalEntries

	Particulars		*Dr. (Rs.)*	*Cr. (Rs.)*
(i)	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	12,000	 12,000
(ii)	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	16,000	 16,000
(iii)	Suspense A/c To Purchase Returns To Sales Returns (Rectification entry for amount wrongly entered in SalesJournal)	Dr.	2,000	 1,000 1,000
(iv)	Prepaid Expenses A/c To Expenses (Prepaid expenses adjusted)	Dr.	6,000	 6,000

Trading, Profit and Loss Account of T
For the year ending 31st March, 2018

Dr.		*Rs.*	*Cr.*		*Rs.*
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases *Add:* Amount not recorded	16,00,000 16,000		Less: Sales Return(99,000–1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			**22,02,000**
ToExpenses(50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation *Add*: Further Depreciation $\frac{(2,00,000) \times 10 \times 6}{100 \times 12}$	14,000 10,000	24,000	By Interest on Investments $\frac{(2,50,000) \times 12 \times 8}{100 \times 12}$		20,000
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2018

Liabilities		*Rs.*	***Assets***		*Rs.*
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases notrecorded	16,000	2,36,000	Debtors Investments		2,50,000 2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

QUESTION 4 **MAY 2020**

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Building	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was Rs. 4,10,000.
(c) One month rent for godown is outstanding.
(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
(e) Provision for bad debts is to be maintained at 5% of Sundry debtors.
(f) Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

(ICAI May 2018 Exams)

Sol: **M/s Raghuram & Associates**

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Raghuram & Associates
as at 31st March 2018

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		*Less:* Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	*Less:* Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	*Less:* Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	*Less:* Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15}\times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) ***Provision for bad debts A/c***

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> From the following particulars extracted from the books of Mr. G, prepare Trading, Profit and Loss Account and Balance Sheet as on 31st March, 2018 after making the necessary adjustments:

	Rs.		Rs.
Opening Capital Account	54,050	Sundry Debtors	12,000
Stock	23,400	Sundry Creditors	7,400
Sales	1,44,800	Loan from Dena Bank Ltd. @ 12%	10,000
Sales Returns	4,300	Interest paid	450
Purchases	1,21,550	Printing and Stationery	1,700
Purchases Returns	2,900	Advertisement	5,600
Carriage Inwards	9,300	Interest received	725
Rent	2,850	Audit fees	350
Salaries	4,650	Fire Insurance Premium	300
Cash with Traders Bank Ltd.	4,000	Travelling Expenses	1,165
Discounts received	1,495	Postage and Telegrams	435
Investments @ 5% as on 1.4.2017	2,500	Cash on hand	190
Furniture (as on 1.4.2017)	900	Deposits @ 10% as on 1.4.2017 (Dr.)	15,000
Discount allowed	3,770	Drawings	5,000
General expenses	1,960		

Adjustments:

(a) Value of Stock as on 31st March, 2018 is Rs. 39,300. This includes goods returned by customers on 31st March, 2018 to the value of Rs. 1,500 of which no entry has been passed in the books.

(b) Purchases include furniture purchased on 1 st January, 2018 for Rs. 1,000.

(c) Depreciation should be provided on furniture @ 13% per annum.

(d) The loan account from Dena Bank in the books of Ganguli appears as follows:

31.03.2018	To Balance c/d	10,000	01.04.2017	By Balance b/d	5,000
			31.03.2018	By Bank A/c	5,000
		10,000			10,000

(e) Sundry Debtors included Rs. 2,000 due from Mr. Robert and Sundry Creditors included Rs. 1,000 due to him.

(f) Interest paid included Rs. 300 paid to Dena Bank.

(g) Interest received represents Rs. 100 from the Sundry Debtors and the balance on investments and deposits.

(h) Provide for interest payable to Dena Bank for interest receivable on investments and deposits.

(i) Provide provision for doubtful debts at 5% on the balance under "Sundry Debtors". No provision need be created for the deposits.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 31ST MARCH, 2018 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		23,400	By Sales	1.44,800	
To Purchases	1,21,550		Less: Returns		
Less; Furniture	1,000		(Rs. 4,300 + Rs. 1,500)	5,800	1,39,000
Less: Returns	2,900	1,17,650	By Closing Stock		39,300
To Carriage Inwards		9,300			
To Gross Profit c/d		27,950			
		1,78,300			1,78,300
To Rent		2,850	By Gross Profit b/d		27,950
To Salaries paid		4,650	By Interest Received	725	
To Interest paid	450		Add: Interest accrued	1,000	1,725
Add: outstanding	300	750	By Discount Received		1,495
To Printing & Stationery		1,700			
To Advertisements		5,600			
To Discount allowed		3,770			

To General Expenses		1,960			
To Audit Fees		350			
To Fire Insurance Premium		300			
To Travelling Expenses		1,165			
To Postage & Telegrams To Dep. on Furniture [Rs. 900 × 13% × 12/12] + [Rs. 1,000 x 13% x 3/12]		435			
(On Rs. 900 for 12 months, On Rs. 1,000 for 3 months)		150			
To Provision for Doubtful Debts		475			
To Net Profit transferred to Capital A/c		7,015			
		31,170			31,170

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Liabilities		Rs.
Capital Account:			Furniture:		
Opening Balance	54,050		Opening Balance	900	
Add: Net Profit	7,015		Add: Purchases	1,000	
Less: Drawings	5,000	56,065	Less: Depreciation	150	1,750
Loan from Dena Bank:			Investments:		2,500
Opening Balance	5,000		Closing stock		39,300
Add: Addition	5,000	10,000	Sundry Debtors	12,000	
O/S Interest on Bank Loan			Less: Returns not entered	1,500	
Sundry Creditors	7,400	300	Less: Adjusted in creditors	1,000	
Less: Adjusted in Debtors	1,000	6,400		9,500	
			Less: Provision	475	9,025
			Interest Receivable		1,000
			Deposit		15,000
			Cash at Bank		4,000
			Cash in hand		190
		72,765			72,765

Q2> From the following Trial balance of Hari and additional information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and a Balance Sheet as on that date:

Particulars	Dr. (Rs.)	Cr. (Rs.)		Dr. (Rs.)	Cr. (Rs.)
Capital & Drawing	24,000	1,00,000	Bad Debt Written off	7,000	—
Furniture	20,000	—	Provision for Doubtful Debts	—	6,000
Purchases & Purchase Returns	1,50,000	5,000	Printing & Stationery	8,000	—
Debtors & Creditors	2,00,000	1,20,000	Insurance	12,000	—
Interest Earned	—	4,000	Opening Stock	50,000	—
Salaries	30,000	—	Office Expenses	12,000	—
Sales & Sales Return	10,000	3,21,000	Provision for Depreciation	—	2,000
Wages	20,000	—			
Rent	15,000	—			

Additional Information:

(a) Depreciate Furniture by 10% on original cost; (b) A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors; (c) Salaries for the month of March, 2018 amounting to Rs. 3,000 were unpaid which must be provided for. However, salaries included Rs. 2,000 paid in advance; (d) Insurance amounting to Rs. 2,000 is prepaid; (e) Provide for outstanding office expenses Rs. 8,000; (f) Stock used for private purpose Rs. 6,000; (g) Closing Stock 160,000.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT OF HARI

Dr. FOR THE YEAR ENDED 31ST MARCH, 2018 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		50,000	By Sales	3,21,000	
To Purchases	1,50,000		Less: Returns	10,000	
Less: Returns	5,000				3,11,000
Less: Drawings	6,000	1,39,000	By Closing stock		60,000
To Wages		20,000			
To Gross Profit c/d		1,62,000			

		3,71,000		3,71,000
To Salaries	30,000		By Gross Profit b/d	1,62,000
Add: Outstanding	3,000		By Interest	4,0 00
Less: Prepaid	2,000	31,000		
To Office expenses	12,000			
Add: Outstanding	8,000	20,000		
To Rent		15,000		
To Insurance	12,000			
Less: Prepaid	2,000	10,000		
To Printing & Stationery		8,000		
To Bad debts		7,000		
To Provision for Doubtful	10,000			
debts				
Less: Existing Provision	6,000	4,000		
To Depreciation on Furniture		2,000		
To Net Profit t/f to Capital A/c		69,000		
		1,66,000		1,66,000

BALANCE SHEET AT 31ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Account:			Furniture	20,000	
Opening Balance	1,00,000		Less: Depreciation	4,000	16,000
Add: Net Profit	69,000		Stock		60,000
Less: Drawings	24,000		Debtors	2,00,000	
Less: Goods for personal	6,000	1,39,000	Less: Provision	10,000	1,90,000
use					
Creditors		1,20,000	Prepaid Salaries		2,000
O/s Salaries		3,000	Prepaid Insurance		2,000
O/s Office Expenses		8,000			
		2,70,000			2,70,000

Q3> From the following particulars prepare Trading and Profit and Loss Account of Mr R for the year ended 31.3.2018 and a Balance Sheet as on 31.3.2018.

Particulars	Debit Balance	Credit Balance
	Rs.	Rs.
Building	5,00,000	
Machineries	2,00,000	
Furniture	1,00,000	
Cash & Bank	1,00,000	
15% p.a. Loan obtained by Mr. R on 1.4.2017 on mortgage of his building		3,00,000
Capital		5,20,000
Sundry Debtors/Sundry Creditors	5,00,000	4,00,000
Opening Stock	1,20,000	
Purchases/Sales	25,00,000	32,20,000
Sales returns/Purchases returns	1,20,000	1,00,000
Rent	60,000	
Establishment expenses	1,80,000	
Electricity charges	15,000	
Telephone charges	10,000	
Commission on sales	30,000	
Insurance Premium	10,000	
Bad debts	20,000	
Bills Receivable	75,000	
	45,40,000	45,40,000

You are required to provide for depreciation on building at 5% p.a.; on machinery at 25% p.a.; on furniture at 10% p.a. Provision for doubtful debts is to be made at 5% on sundry debtors. Mr R's manager is entitled to a commission of 10% on the net profit after charging his commission. Closing stock was not taken on 31st March but only on 7th April. Following transactions had taken place during the period from 1st April to 7th April. Sales Rs. 2,50,000, Purchases 1,50,000, Stock on 7th April, was Rs. 1,80,000 and the rate of gross profit on sales after was 20%. Insurance premium mentioned in the trial balance was in respect of building and machineries. Interest on mortgage loan to be provided up to 31.3.2018.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

DR. FOR THE YEAR ENDED 31ST MARCH, 2018 CR.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		1,20,000	By Sales	32,20,000	
To Purchases	25,00,000		Less: Returns	1,20,000	31,00,000
Less: Returns	1,00,000	24,00,000	By Closing Stock		2,30,000
To Gross Profit c/d		8,10,000			
		33,30,000			33,30,000
To Rent		60,000	By Gross Profit b/d		8,10,000
To Establishment Expenses		1,80,000			
To Electricity Charges		15,000			
To Telephone Charges		10,000			
To Commission on Sales		30,000			
To Insurance Premium		10,000			
To Bad Debts		20,000			
To Interest on Loan		45,000			
To Depreciation on Building		25,000			
To Depreciation on Machinery		50,000			
To Depreciation on Furniture		10,000			
To Provision for Doubtful Debts		25,000			
To Manager's Commission		30,000			
To Net Profit t/f to Capital A/c		3,00,000			
		8,10,000			8,10,000

BALANCE SHEET OF MR R AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
O/S Manager's Commission		30,000	Cash & Bank		1,00,000
Sundry Creditors		4,00,000	Sundry Debtors	5,00,000	
18% p.a. Loan (on mortgage			Less: Provision	25,000	4,75,000
of Building)	3,00,000		Bills Receivable		75,000
Add: Interest	45,000	3,45,000	Closing Stock		2,30,000
Capital Account:			Furniture	1,00,000	

Opening Balance	5,20,000		Less: Deprecation	10,000	90,000
Add: Net Profit	3,00,000	8,20,000	Machineries	2,00,000	
			Less: Depreciation	50,000	1,50,000
			Buildings	5,00,000	
			Less: Depreciation	25,000	4,75,000
		15,95,000			15,95,000

Working Note: Calculation of Closing Stock	Rs.
A. Stock as on 7th April	Rs. 1,80,000
B. Add: Cost of Goods sold (80% of Rs. 2,50,000)	Rs. 2,00,000
C. Less: Cost of Purchases	Rs. 1,50,000
	Rs. 2,30,000

Q4> From the following trial balance and information, prepare Trading and Profit and Loss Account of Mr Rishabh for the year ended 31st March, 2018 and a Balance Sheet as on that date:

Particulars	Debit Balance Rs.	Credit Balance Rs.
Capital & Drawings	12,000	1,00,000
Land and Buildings	90,000	—
Plant and Machinery	20,000	—
Furniture	5,000	—
Sales & Return Inward	5,000	1,40,000
Debtors & Creditors	18,400	12,000
Loan from Gajanand on 1.7.2017 @ 6% p.a.	—	30,000
Purchases & Return Outward	80,000	4,000
Carriage	10,000	—
Sundry Expenses	600	—
Printing and Stationery	500	—
Insurance Expenses	1,000	—
Provision for Doubtful Debts	—	1,000

Provision for Discount on Debtors	—	380
Bad Debts	400	—
Profit of Textile Deptt.	—	10,000
Stock of General Goods on 1.4.2017	21,300	—
Salaries and Wages	18,500	—
Trade Expenses	800	—
Stock of Textile Goods on 31.3.2018	8,000	—
Cash & Bank	5,880	—
	2,97,380	2,97,380

Information:

(a) Stock of General goods on 31.3.2018 valued at Rs. 27,300.

(b) Fire occurred on 23rd March, 2018 and Rs. 10,000 worth of general goods were destroyed. The Insurance Company accepted claim for Rs. 6,000 only and paid the claim money on 10th April, 2018.

(c) Bad Debts amounting to Rs. 400 are to be written off. Provision for Bad and Doubtful debts is to be made at 5% and for discount at 2% on debtors.

(d) Received Rs. 6,000 worth of goods on 27th March, 2018 but the invoice of purchase was not recorded in Purchases Book.

(e) Rishabh took away goods worth Rs. 2,000 for personal use but no record was made thereof.

(f) Charge depreciation at 2% on Land and Buildings, 20% on Plant and Machinery, and 5% on Furniture.

(g) Insurance prepaid amounts to Rs. 200.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

DR. FOR THE YEAR ENDED 31ST MARCH, 2018 CR.

Particulars		Rs.	Particulars	Rs.
To Opening Stock		21,300	By Sales 1,40,000	
To Purchases	80,000		Less: Returns 5,000	1,35,000
Less: Returns	4,000		By Loss by Fire A/c	10,000

Add: Omitted Purchases	6,000		By Closing Stock	27,300
Less: Drawings	2,000	80,000		
To Carriage		10,000		
To Gross Profit c/d		61,000		
		1,72,300		1,72,300
To Sundry Expenses		600	By Gross Profit b/d	61,000
To Printing & Stationery		500	By Profit of Textile Deptt.	10,000
To Insurance Expenses			By Provision for Discount on	38
Paid	1,000		Debtors	
Less: Prepaid	200	800		
To Salaries & Wages		18,500		
To Trade Expenses		800		
To Depreciation on:				
Land & Building		1,800		
Plant & Machinery		4,000		
Furniture		250		
To Interest on Loan		1,350		
[30,000 x 6% x 9/12]				
To Bad Debts	400			
Add: Additional	400			
Add: New Provision	900			
Less: Old Provision	1,000	700		
To Loss by Fire A/c		4,000		
To Net Profit t/f to Capital A/c		37,738		
		71,038		71,038

BALANCE SHEET AT 31st MARCH 2018

Liabilities		Rs.	Assets		Rs.
Creditors	12,000		Cash & Bank Debtors	18,400	5,880
Add: Omitted Purchases	6,000	18,000	Less: Additional Bad Debts	400	
Loan from Gajanand				18,000	
Balance	30,000		Less: Provision for	900	
			Doubtful Debts		

Add: Interest	1,350	31,350		17,100	
Capital:			Less: Provision for Discount	342	16,758
Opening Balance	1,00,000		Stock of General Goods		27,300
Add: Net Profit	37,738		Stock of Textile Goods		8,000
Less: Drawings	12,000		Insurance Company		6,000
Less: Goods taken	2,000	1,23,738	Prepaid Insurance		200
			Furniture	5,000	
			Less: Depreciation	250	4,750
			Plant & Machinery	20,000	
			Less: Depreciation	4,000	16,000
			Land & Building	90,000	
			Less: Depreciation	1,800	88,200
		1,73,088			1,73,088

Q5> The following in the Trial Balance of Shri Arihant as on 31st March 2018.

Particulars	Debit BalanceRs.	Credit BalanceRs.
Capital & Drawings	75,000	14,00,000
Opening Stock	80,000	—
Purchases & Sales	16,20,000	25,00,000
Freight on Purchases	15,000	—
Wages	1,10,000	—
Salaries	1,00,000	—
Travelling Expenses	23,000	—
Miscellaneous Expenses	35,000	—
Printing and Stationery	27,000	—
Advertisement Expenses	25,000	—
Postage and Telegrams	13,000	—
Discounts	7,600	14,500
Bad Debts written off (after adjusting recovery of bad debts of Rs. 6,000 written off in 2016-2017)	14,000	—
Building	10,00,000	—

Machinery	75,000	—
Furniture	40,000	—
Debtors	1,50,000	—
Provision for Doubtful Debts	—	19,000
Creditors	—	1,60,0000
Investments (12% Purchased on Ist Jan. 2018)	6,00,000	—
Bank Balance	83,900	—
	40,93,500	40,93,500

Adjustments:

(a) Closing Stock Rs.2,25,000

(b) Goods worth Rs.5,000 were taken for personal use, but no entry was made in the books.

(c) Machinery worth Rs.35,000 purchased on Ist April 2015 was wrongly written off against Profit and Loss Account. This asset is to be brought into account on Ist April 2017 taking depreciation at 10% per annum on straight line basis upto 31st March 2017.

(d) Depreciate Building at 2-1/2% p.a., Machinery at 10% p.a. and Furniture at 10% p.a.

(e) Provision for Doubtful Debts should be 6% on Debtors.

(f) The Manager is entitled to a commission of 5% of Net Profits after charging his commission.

Required: Prepare Trading and Profit and Loss Account for the year ending 31st March 2018 and a Balance Sheet as at that date.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

DR. FOR THE YEAR ENDED 31ST MARCH, 2018 CR.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		80,000	By Sales	25,00,000	
To Purchases	16,20,000		By Closing Stock	2,25,000	
Less: Drawings	5,000	16,15,000			
To Freight		15,000			
To Wages		1,10,000			

To Gross Profit c/d		9,05,000			
		27,25,000			27,25,000
To Depreciation:			By Gross Profit b/d		9,05,000
Building	25,000		By Discount Received		14,500
Machinery	11,000		By Bad debts recovered		6,000
Furniture	4,000	40,000	By Interest Accrued on Investments		18,000
To Salaries		1,00,000			
To Travelling Expenses		23,000			
To Misc Expenses		35,000			
To Printing & Stationary		27,000			
To Advertisement Expenses		25,000			
To Postage & Telegram		13,000			
To Discount Allowed		7,600			
To Provision for Doubtful debts		10,000			
To Manager's Commission O/s		31,567			
To Net Profit t/f to Capital A/c		6,31,333			
		9,43,500			9,43,500

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital	14,00,000		Building	10,00,000	
Less: Drawings (Cash)	75,000		Less: Depreciation	25,000	9,75,000
Less: Drawings (Goods)	5,000		Machinery	75,000	
Add: NP	6,31,333		Add: P&L A/c	28,000	
Add: Prior Period Item	28,000	19,79,333	Less: Depreciation	11,000	92,000
Creditors		1,60,000	Furnitures	40,000	
O/s Manager's Commission		31,567	Less: Depreciation	4,000	36,000
			Debtors	1,50,000	
			Less: Provision	9,000	1,41,000
			Investments		6,00,000
			Accrued Interest on Investment		18,000
			Bank balance		83,900

			Closing stock		2,25,000
		21,70,900			21,70,900

Working Notes:

DR. (I)PROVISION FOR DOUBTFUL DEBTS ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To Bad Debts (14,000 + 6000)	20,000	By Balance b/d	19,000
To Balance c/d [6% on Rs. 1,50,000]	9,000	By Profit & Loss A/c (b.f)	10,000
	29,000		29,000

(ii) Book Value of Machinery wrongly charged to P & L A/c

= Original Cost - Depreciation for 2 years = Rs. 35,000 - (Rs. 35, 000 x 10% x 2) = Rs. 28,000

(iii) Calculation of Depreciation on Machinery

(a)	On Machinery wrongly charged to P & L A/c (an SLM Basis)	Rs. 3,500
(b)	On other Machinery [10% of Rs. 75,000]	Rs. 7,500
		Rs. 11,000

Q6> The following is the Trial Balance of K on 31st March, 2018:

Particulars	Debit Balance Rs.	Credit Balance Rs.
Capital & Drawing	60,000	8,00,000
Opening Stock	75,000	—
Purchases & Sales	15,95,000	23,10,000
Freight on Purchases	25,000	—
Wages (11 months upto 29.2.2018)	66,000	—
Salaries	1,40,000	—
Postages, Telegrams, Telephones	12,000	—
Printing and Stationery	18,000	—
Miscellaneous Expenses	30,000	—
Investments	1,00,000	—
Discounts Received	—	15,000

Debtors & Creditors	2,50,000	3,00,000
Bad Debts	15,000	—
Provision for Doubtful Debts	—	8,000
Building	3,00,000	—
Machinery	5,00,000	—
Furniture	40,000	—
Commission on Sales	45,000	—
Interest on Investments	—	12,000
Insurance (Year upto 31.7.2018)	24,000	—
Bank Balance	1,50,000	—
	34,45,000	34,45,000

Adjustments:

(a) Closing Stock Rs. 2,25,000.

(b) Machinery worth Rs. 45,000 purchased on 1.10.2017 was shown as Purchases. Freight paid on the Machinery was Rs. 5,000, which is included in Freight on Purchases.

(c) Commission is payable at 2.5% on Sales.

(d) Investments were sold at 10% profit, but the entire sales proceeds have been taken as Sales.

(e) Write off Bad Debts Rs. 10,000 and create a provision for Doubtful Debts at 5% of Debtors.

(f) Depreciate Building by 2^1/2% p.a. and Machinery and Furniture at 10% p.a.

Required: Prepare Trading and Profit and Loss Account for the year ending 31st March, 2018 and a Balance Sheet as on that date.

Sol:

TRADING AND PROFIT AND LOSS ACCOUNT

DR. FOR THE YEAR ENDED 31ST MARCH, 2018 CR.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		75,000	By Sales	23,10,000	
To Purchases	15,95,000		Less: Sale of		
Less: Machinery	45,000	15,50,000	investments	1,10,000	22,00,000

To Freight on Purchases	25,000		By Closing Stock	2,25,000
Less: Freight on Machinery	5,000	20,000		
To Wages	66,000			
Add: O/s Wages	6,000	72,000		
To Gross Profit t/f to P&L A/c		7,08,000		
		24,25,000		24,25,000
To Salaries		1,40,000	By Gross Profit b/d	7,08,000
To Postage, Telegrams & Telephones		12,000	By Discount	15,000
To Printing & Stationery		18,000	By Interest on investment	12,000
To Miscellaneous Expenses		30,000	By Profit on Sale of Investment	10,000
To Commission on Sale	45,000			
Add: O/s	10,000	55,000		
To Insurance Paid		24,000		
Less Pre paid	8,000	16,000		
To Bad debts	15,000			
Add: Additional Bad debt	10,000			
Less: Old Provision	8,000			
Add: New Provision	12,000	29,000		
To Depreciation on Building		7,500		
To Depreciation on Machinery		52,500		
To Depreciation on Furniture		4,000		
To Net Profit t/f to Capital A/c		3,81,000		
		7,45,000		7,45,000

BALANCE SHEET AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital	8,00,000		Building	3,00,000	
Less: Drawings	60,000		Less: Depreciation	7,500	2,92,500
Add: Net profit	3,81,000	11,21,000	Machinery	5,00,000	
Outstanding Wages		6,000	Add: Purchases	45,000	
Creditors		3,00,000	Add: Freight	5,000	
Outstanding Commission		10,000	Less: Depreciation	52,500	4,97,500

			Furniture	40,000	
			Less: Depreciation	4,000	36,000
			Prepaid insurance		8,000
			Bank Balance		1,50,000
			Closing Stock		2,25,000
			Debtors	2,50,000	
			Less: Add Bad debts	10,000	
			Less: Provision	12,000	2,28,000
		14,37,000			14,37,000

Q7> Mr James submits you the following information for the year ended 31.3.2018:

Stock as on 1.4.2017	1,50,500
Purchases	4,37,000
Manufacturing Expenses	85,000
Expenses on Sales	33,000
Expenses on Administration	18,000
Financial Charges	6,000
Sales	6,25,000

During the year damaged goods costing Rs. 12,000 were sold for Rs. 5,000. Barring the above transaction the Gross Profit has been @ 20% on Sales.

Required: Compute the Net Profit of Mr James for the year ended 31.3.2018.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

DR. FOR THE YEAR ENDED 31ST MARCH, 2018 CR.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	1,50,500	By Sales	6,25,000
To Purchases	4,37,000	By Closing stock (balancing figure)	1,64,500
To Manufacturing expenses	85,000		
To Gross Profit c/d	1,17,000		

(Rs. 1,24,000- Rs. 7,000)	7,89,500		7,89,500
To Administration expenses	18,000	By Gross Profit b/d	1,17,000
To Selling expenses	33,000		
To Financial Charges	6,000		
To Net profit	60,000		
	1,17,000		1,17,000

Q8> The following is the Trial Balance of Mr. 'A' as on 31st March 2018. You are required to prepared the after Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date making the necessary adjustments.

Particulars	Debit Balance Rs.	Credit Balance Rs.
Opening Stock	5,50,000	—
Purchases and Sales	19,25,000	29,35,000
Wages and Salaries	1,25,000	—
Discount	—	2,000
Carriage inward	40,000	—
Bill Receivable and Bill Payable	2,25,000	1,85,000
Insurance	35,000	—
Debtors and Creditors	15,00,000	9,32,500
Consignor's Balance (1-4-2017)	—	4,00,000
Capital	—	8,95,000
Commission	40,000	—
Cash sent to Consignor	8,00,000	—
Interest	35,000	—
Trade Expenses	34,500	—
Furniture (1-4-2017)	60,000	—
Consignment Sales	—	6,40,000
Cash in hand and at Bank	4,22,500	—
Rent and Taxes	1,27,500	—

Sale of furniture (31-3-2018)	—	10,000
Charges paid against Consignment	80,000	—
	59,99,500	59,99,500

Adjustments:

(a) Closing Stock was valued at Rs. 8,00,000 (including stock of stationery Rs. 800)

(b) Bill receivable include a dishonoured bill of Rs. 8,000.

(c) Trade expenses include payment for stationery of Rs. 22,500.

(d) Stock in the beginning include stock of stationery Rs. 1,800.

(e) Furniture sold was appearing in the Balance Sheet on 31st March, 2018 at Rs. 13,000.

(f) Creditors at the end include creditors for stationery Rs. 3,000 for credit purchases.

(g) Commission receivable on sale of consignment is Rs. 40,000.

(h) Stationery of Rs. 2,000 was consumed by Mr 'A'.

(i) Make provision for bad and doubtful debts at 5% on debtors.

(j) Depreciate furniture at 10% p.a.

Sol :

TRADING AND PROFIT AND LOSS ACCOUNT OF MR A

Dr. FOR THE YEAR ENDED 31ST MARCH, 2018 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock	5,50,000		By Sales		29,35,000
Less: Stock of stationery	1,800	5,48,200	By Closing Stock	8,00,000	
To Purchases	19,25,000		Less: Stock of	800	7,99,200
			Stationery		
Less: Stationery	3,000	19,22,000			
To Wages and Salaries		1,25,000			
To Carriage inward		40,000			
To Gross Profit c/d		10,99,000			
		37,34,200			37,34,200
To Insurance		35,000	By Gross Profit b/d		10,99,000

To Commission		40,000	By Discount		2,000
To Interest		35,000	By Commission from		40,000
To Rent & taxes		1,27,500	consignment business		
To Trade expenses	34,500				
Less: Stationery	22,500	12,000			
To Stationery consumed		24,500			
To Provision for doubtful debts		75,400			
To Loss on sale of furniture		1,700			
To Depreciation on furniture		6,000			
To Net profit t/f to Capital A/c		7,83,900			
		11,41,000			11,41,000

BALANCE SHEET OF MR A AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital	8,95,000		Furniture	60,000	
Add: Net Profit	7,83,900		Less: Furniture sold	11,700	
Less: Drawings	2,000	16,76,900	Less: Depreciation	6,000	42,300
Consignor's balance		1,20,000	Debtors	15,00,000	
Creditors for goods		9,29,500	Add: B/R Dish	8,000	
Creditors for stationery		3,000	Less: Provision	75,400	14,32,600
Bills payable		1,85,000	Bill Receivable	2,25,000	
			Less: B/R Dish	8,000	2,17,000
			Closing Stock		7,99,200
			Stock of stationery		800
			Cash in hand & at Bank		4,22,500
		29,14,400			29,14,400

Working Notes:

(I) Dr. CONSIGNOR'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Cash	8,00,000	By Balance b/d	4,00,000
To Charges	80,000	By Consignment sales	6,40,000
To Commission	40,000		
To Balance c/d	1,20,000		
	10,40,000		10,40,000

(ii) Loss on sale of furniture = (Rs..13,000 x 10%) - Rs.10,000 = Rs.1,700

(iii) Dr. STATIONERY ACCOUNT Cr

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,800	By Drawing	2,000
To Cash purchases	22,500	By Profit & loss A/c	24,500
To Credit purchases	3,000	(stationery consumed)	
		By Balance c/d	800
	27,300		27,300

Q9> Mr. Neel had prepared the following Trial Balance from his ledger as on 31st March, 2018

Particulars	Debit Balance Rs.	Credit Balance Rs.
Opening Stock	5,00,000	
Purchases and Returns	31,00,000	45,000
Sales and Returns	55,000	41,50,000
Cash & Bank	7,50,000	
Capital & Drawings	45,000	22,59,200
Rates and Taxes	50,000	
Salaries	95,000	
Postage and Telegram	1,05,000	
Insurance	90,000	
Salesman Commission	78,000	

Printing and Stationery	95,500	
Advertisement	1,70,000	
Furniture and Fittings	5,50,000	
Motor Car	48,000	
Discounts	50,000	75,000
General Expenses	65,700	
Carriage Inwards	10,000	
Carriage Outwards	22,000	
Wages	50,000	
Sundry Debtors/Creditors	10,00,000	4,00,000
Total	69,29,200	69,29,200

Additional Information:

(a) Closing Stock Rs. 1,45,000.

(b) Neel had withdrawn goods worth Rs. 50,000 during the year.

(c) Purchases include Purchase of furniture worth Rs. 1,00,000.

(d) Debtors include Rs. 50,000 bad debts.

(e) Sales include goods worth Rs. 1,50,000 sent out to NN & Co. on approval and remained unsold as on 31 st March, 2018. The cost of the goods was Rs. 1,00,000/.

(f) Provision for Doubtful Debts is to be created at 5% of Sundry Debtors.

(g) Depreciate Furniture and Fittings by 10% and Motor Car by 20%.

(h) The salesman is entitled to a commission of 10% on total sales.

You are required to prepare Trading and Profit & Loss Account for the year ended on 31st March, 2018 and Balance Sheet

Sol:

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. **FOR THE YEAR ENDED 31 ST MARCH, 2018** Cr.

Particulars	Rs.	Particulars	Rs.

To Opening Stock		5,00,000	By Sales	41,50,000	
To Purchases	31,00,000		Less: Returns	55,000	
Less: Returns	45,000		Less: Sent on	1,50,000	39,45,000
			approval		
Less: For personal Use	50,000		By Closing Stock	1,45,000	
Less: Furniture	1,00,000	29,05,000	Add: Cost of goods		
To Carriage Inwards		10,000	sent on approval	1,00,000	2,45,000
To Wages		50,000			
To Gross Profit c/d		7,25,000			
		41,90,000			41,90,000
To Rates and Taxes		50,000	By Gross Profit b/d		7,25,000
To Salaries		95,000	By Discounts Received		75,000
To Postage and Telegram		1,05,000	By Net Loss		5,02,300
To Salesman's Commission	78,000				
Add: O/s	3,16,500	3,94,500			
To Insurance		90,000			
To Advertisement		1,70,000			
To Printing and Stationery		95,500			
To Bad Debts		50,000			
To Provision for Doubtful Debts					
(5% of Rs. 8,00,000)		40,000			
To Discounts Allowed		50,000			
To General Expenses		65,700			
To Carriage Outwards		22,000			
To Depreciation:					
Furniture and Fittings	65,000				
Motor Car	9,600	74,600			
		13,02,300			13,02,300

BALANCE SHEET OF MR. NEEL AS ON 31 ST MARCH 2018

Liabilities		Rs.	Assets		Rs.
Capital	22,59,200		Furniture & Fittings	5,50,000	
Less: Net Loss	5,02,300		Add: Addition	1,00,000	
Less: Drawings			Less: Dep	65,000	5,85,000
(45,000 + 50,000)	95,000	16,61,900	Motor Car	48,000	
Sundry Creditors		4,00,000	Less: Dep	9,600	38,400
O/s Salesman's Commission		3,16,500	Sundry Debtors	10,00,000	
			Less: on approval	1,50,000	
				8,50,000	
			Less: Bad Debts	50,000	
			Less: Provision	40,000	7,60,000
			Cash & Bank		7,50,000
			Closing Stock	1,45,000	
			Add: Sent on approval	1,00,000	2,45,000
		23,78,400			23,78,400

Q10> The following are the balances as at 31st March, 2018 extracted from the books of Mr. XYZ.

	Rs.		Rs.
Plant and Machinery	19,550	Bad debts	1,100
Furniture and Fittings	10,250	Bad debt recovered	450
Bank Overdraft	80,000	Salaries	22,550
Capital Account	65,000	Salaries payable	2,450
Drawings	8,000	Prepaid rent	300
Purchases	1,60,000	Rent	4,300
Opening Stock	32,250	Carriage inward	1,125
Wages	12,165	Carriage outward	1,350
Provision for doubtful debts	3,200	Sales	2,15,300
Provision for Discount on debtors	1,375	Advertisement Expenses	3,350
Sundry Debtors	1,20,000	Printing and Stationery	1,250

Sundry Creditors	47,500	Cash & Bank	4,575
Interest paid on loan	3,000	Office Expenses	10,160

Additional Information:

(a) Purchases include sales return of Rs. 2,575 and sales include purchases return of Rs. 1,725.

(b) Goods withdrawn by Mr XYZ for own consumption Rs. 3,500 included in purchases.

(c) Wages paid in the month of April for installation of Plant and Machinery amounting to Rs. 450 were included in wages account.

(d) Free samples distributed for Publicity costing Rs. 825.

(e) Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.

(f) Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

(g) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2018 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

Required: Prepare a trading and Profit Loss Account for the year ended 31st March, 2018, and a Balance Sheet as on that date. Also show the rectification entries.

Sol:

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Particulars			L.F.	Dr. (Rs.)	Cr.(Rs.)
(i)	Returns Inward A/c	Dr.		2,575	
	Sales A/c	Dr.		1,725	
	To Purchases A/c				2,575
	To Returns outward A/c				1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)				
(ii)	Drawings A/c	Dr.		3,500	
	To Purchases A/c				3,500

	(Being goods withdrawn for own consumption included in purchases, now rectified)				
(iii)	Plant and Machinery A/c	Dr.		450	
	To Wages A/c (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)				450
(iv)	Advertisement expenses A/c	Dr.		825	
	To Purchases A/c				825
	(Being free samples distributed for publicity out of purchases, now				
	rectified)				

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. **FOR THE YEAR ENDED 31ST MARCH, 2018** Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		32,250	By Sales	2,13,575	
To Purchases	1,53,000		Less: Sales returns	2,575	2,11,000
Less: Returns	1,725	1,51,325	By Closing Stock		
To Carriage inward		1,125	[80,0 00 x (100/80) x (100/80)]		1,25,000
To Wages		11,715			
To Gross profit c/d		1,39,535			
		3,36,000			3,36,000
To Salaries		22,550	By Gross profit b/d		1,39,535
To Rent		4,300	By Bad debts recovered		450
To Advertisement expenses		4,175			
To Printing and stationery		1,250			
To Bad debts		1,100			
To Carriage outward		1,350			
To Provision for doubtful debts					
5% of Rs. 1,20,000	6,000				
Less: Existing provision	3,200	2,800			
To Provision for discount on debtors					
2.5% of Rs. 1,14,000	2,850				
Less: Existing provision	1,375	1,475			

To Depreciation:					
Plant and Machinery	3,000				
Furniture and Fittings	1,025	4,025			
To Office expenses		10,160			
To Interest on loan		3,000			
To Net t/f to Capital A/c		83,800			
		1,39,985			1,39,985

BALANCE SHEET OF MR XYZ AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital account:			Plant and machinery	20,000	
Opening Balance	65,000		Less: Depreciation	3,000	17,000
Add: Net profit	83,800		Furniture and fittings	10,250	
Less: Drawings	11,500	1,37,300	Less: Depreciation	1,025	9,225
Bank overdraft		80,000	Closing Stock		1,25,000
Sundry creditors		47,500	Sundry Debtors	1,20,000	
Payable salaries		2,450	Less: Provision for		
			doubtful debts	6,000	
			Less: Provision for	2,850	1,11,150
			Discount		
			Prepaid rent		300
			Cash & bank		4,575
		2,67,250			2,67,250

Q11> From the following Trial Balance of Shri Shivam as on 31st March, 2018, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder:

Particulars	Debit Balance Rs.	Credit Balance Rs.
Capital & Drawings	24,000	1,60,000
Furniture and fixtures	8,000	—

Plant and machinery	60,000	—
Patents (ten years from 1,4.2017)	40,000	—
Opening Stock	40,000	
Purchases & Sales	1,70,000	2,64,000
Salaries	14,800	—
Wages	30,000	—
Sundry Debtors & Creditors	20,400	24,000
Land	28,350	—
Loan from Shyam (at 6% from 1.10.2017)	—	20,000
Postage and fax	3,000	—
Rent, rates and taxes	7,200	—
Bad debts	800	—
Discount	—	1,200
Carriage inward	400	
Interest on loan	300	
Insurance	1,600	
Travelling expenses	1,000	
Sundry expenses	600	
Cash & Bank	33,750	
Bank overdraft	—	15,000
Total	4,84,200	4,84,200

Adjustments:

(a) Closing Stock is valued at Rs. 30,000

(b) A new machine was installed on 1 st April, 2017 for Rs. 3,000. No entry in this respect was passed in the books. Wages of Rs. 1,000 paid for installing the machine were debited to Wages Account.

(c) Of the sundry debtors, Rs. 200 are bad and are to be written off. You are required to maintain a provision for doubtful debts @ 5% on debtors and provision for discount on debtors @2%.

(d) Goods costing Rs. 2,000 were given away as free samples for publicity.

(e) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixtures at 10% per annum.

(f) On 1.4.2004 machinery of the value of Rs. 10,000 was destroyed by fire and the insurance claim settled at 2 8,000 was credited to Machinery Account.

(g) Goods for Rs. 1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

Sol.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		40,000	By Sales	2,64,000	
To Purchases	1,70,000		Less: Sent for approval	1,200	2,62,800
Less: Free samples	2,000	1,68,000	By Closing stock	30,000	
To Carriage Inward		400	Add: Sent for approval	1,000	31,000
To Wages	30,000				
Less: Installation	1,000	29,000			
To Gross Profit c/d		56,400			
		2,93,800			2,93,800
To Rent, rates and taxes		7,200	By Gross profit b/d		56,400
To Salaries		14,800	By Discount received		1,200
To Postage and fax		3,000			
To Sundry expenses		600			
To Travelling expenses		1,000			
To Interest on loan	300				
Add:Accured interest	300	600			
To Advertising		2,000			
To Insurance		1,600			
To Loss of machinery by fire		2,000			
To Bad debts	800				
Add: Written off	200				
Add: Provision	950	1,950			
To Provision for Discount on debtors		361			
To Depreciation:					
Plant and machinery	12,400				

Furniture and fixtures	800				
Patents	4,000	17,200			
To Net Profit t/f to Capital a/c		5.289			
		57,600			57,600

BALANCE SHEET OF MR XYZ AS ON 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Account			Land		28,350
Opening Balance	1,60,000		Plant and machinery	60,000	
Add: Net Profit	5,289		Add: Purchased	3,000	
Less: Drawings	24,000	1,41,289	Add: installation charges	1,000	
Loans from Shyam @6%	20,000		Less: Loss by fire	2,000	
Add: Accrued interest	300	20,300		62,000	
Sundry Creditors		24,000	Less: Depreciation	12,400	49,600
Creditor for machinery		3,000	Patents	40,000	
Bank Overdraft		15,000	Less: Depreciation	4,000	36,000
			Furniture & Fixtures	8,000	
			Less: Depreciation	800	7,200
			Closing Stock	30,000	
			Add: with Customers	1,000	31,000
			Debtors	20,400	
			Less: Sent on approval	1,200	
			Less: Bad debts w/o	200	
				19,000	
			Less: Provision doubtful	950	
			debts @ 5%	18,050	
			Lesss: Provision for		
			discount @2%	361	17,689
			Cash & bank		33,750
		2,03,589			2,03,589

Q12> The following is the Trial Balance of Mr X on 31.3.2018. Prepare a Trading and Profit and Loss Account for the year 2017-2018 and Balance Sheet as at 31.3.2018 from it.

Debit Balances	Rs.	Credit Balances	Rs.
Purchases	1,80,000	Sales	2,05,000
Opening Stock	10,000	Loans (10%)	10,000
Salary Less P.F.	5,400	Creditors	15,000
P.F. remittance including		Capital	55,000
Proprietor's contribution 50%	1,200		
Rent @ 250 p.m.	2,750		
Machinery	29,000		
Wages	3,000		
Furniture & Fittings	5,000		
Electricity	550		
Trade Expenses	1,500		
Debtors	10,500		
Interest on Loan	900		
Commission	200		
Buildings	30,000		
Drawings	5,000		
	2,85,000		2,85,000

Additional Information:

On 1.4.2017, machinery worth Rs. 5,000 was sold for Rs. 4,000 and credited to Sales account. Wages include I 1,000 paid for machinery erection charges. Purchases include cost of Moped Scooter for Rs. 5,000. Proprietor has taken goods costing Rs. 1,000 for which no entry has been made. Sundry debtors include Rs. 500 which have become bad. Provide 10% provision for doubtful debts. Electricity outstanding Rs. 50. Goods costing Rs. 5,000 were destroyed by fire, and insurance claim was received for Rs. 4,000. Provide depreciation @ 10% on machinery, furniture and moped. Provide depreciation @ 5% on building. Closing stock is Rs. 12,000.

Sol :

TRADING AND PROFIT & LOSS ACCOUNT

DR. for the year ending on 31st March, 2018 CR.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		10,000	By Sales	2,05,000	
To Purchases	1,80,000		Less: Sales of Machs.	4,000	2,01,000
Less: Cost of Moped	5,000		By Closing Stock		12,000
Less: Loss of stock	5,000				
Less: Drawings of goods	1,000	1,69,000			
To Wages	3,000				
Less: Machinery					
erection charged	1,000	2,000			
To Gross Profit c/d		32,000			
		2,13,000			2,13,000
To Salaries	5,400		By Gross Profit b/d		32,000
Add: PF (employees share)	600				
Add: PF (employer share)	600	6,600			
To Rent	2,750				
Add: Outstanding	250	3,000			
To Electricity	550				
Add: Outstanding	50	600			
To Trade Expenses		1,500			
To Interest on loan	900				
Add: Outstanding	100	1,000			
(10/100x10,000-900)					
To Commission		200			
To Bad debts		500			
To Provision for doubtful debts		1,000			
To Stock destroyed by fire		1,000			
To Loss on sale of Machinery					
(Rs. 5,000 — Rs. 4,000)		1,000			
To Depreciation:					
Building	1,500				
Machinery	2,900				

Moped Scooter	500			
Furniture	500	5,400		
To Net Profit t/f to Capital		10,200		
		32,000		32,000

BALANCE SHEET

As at 31st March, 2018

Liabilities		Rs.	Assets		Rs.
Capital:			Building	30,000	
Opening Balance	55,000		Less: Depreciation	1,500	28,500
Less: Drawings	5,000		(5,100 x Rs. 30,000)		
Less: Drawing of goods	1,000		Machinery	29,000	
Add: Net Profit	10,200	59,200	Add: Erection	1,000	
Creditors		15,000	Less: Loss on Sale	1,000	
10% of Loan		10,000	(Rs. 5,000- Rs. 4,000)	29,000	
O/s Electricity Expenses		50	Less: Depreciation	2,900	26,100
O/s Rent		250	(10/100x29,000)		
O/s Interest or Loan		100	Moped Scooter	5,000	
			Less: Depreciation	500	
			(10/100x5,000)		4,500
			Furniture	5,000	
			Less: Depreciation	500	
			(10/100 x 5,000)		4,500
			Closing Stock		
			Debtors	10,500	12,000
			Less: Add. Bad debts	500	
			Less: Provision		
			(10/100 x 10,000)	1,000	9,000
		84,600			84,600

Q13> From the following particulars prepare the Trading and Profit and Loss Account for the year 2017- 2018 and Balance Sheet as on 31.3.2018 of Mr X.

Particulars	Debit Balance Rs.	Credit Balance Rs.
Building	50,000	
Machinery	22,000	
Furniture	10,000	
Bank	9,000	
Cash	1,000	
10% Loan (since 1.4.2017)		30,000
Capital		52,000
Debtors/Creditors	50,000	40,000
Opening Stock	12,000	
Purchases/Returns	2,50,000	10,000
Sales/Returns	12,000	3,22,000
Rent	6,000	
Establishment	16,000	
P.F. deducted from Salaries		1,000
Interest on loan	2,000	
Electricity	1,000	
Phone	1,000	
Commission	6,000	
Insurance Premium	1,000	
Bad Debts	2,000	
Bills Receivable	4,000	
	4,55,000	4,55,000

Provide depreciation on Building @ 5%, Machinery @ 15% and Furniture @ 10%. Stock was not taken on 31.03.2018 but only on 7th April. The transactions from 1st April to 7th April are—Sales Rs. 25,000. Purchases Rs. 15,000, Stock on 7th April Rs. 18,000 and the Gross Profit 20%. During the year machinery to the value of Rs. 10,000 was destroyed by fire and the insurance claim was settled at Rs. 8,000 and credit to Machinery Account. Also provide—Employers' share of P.F. Rs.1,000. Provision for Doubtful Debts at 5%, Commission to the Manager @ 10% on net profit after providing the commission.

Sol.

TRADING AND PROFIT & LOSS ACCOUNT

Dr. for the year ending on 31st March, 2018 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		12,000	By Sales	3,22,000	
To Purchases	2,50,000		Less: Returns	12,000	3,10,000
Less: Returns	10,000	2,40,000	By Closing Stock:		
To Gross Profit c/d		81,000	(Stock 7th Jan)	18,000	
			Add: Cost of sale	20,000	
			during 1st Apr. to 7th Apr. (80/100x25,000)		
			Less: Purchases during 1 st Apr. to 7th Apr.	15,000	23,000
		3,33,000			3,33,000
To Rent		6,000	By Gross Profit b/d		81,000
To Establishment		6,000			
To Provident Fund Contribution		1,000			
To Interest on Loan 2,000					
Add: Outstanding 1,000		3,000			
To Electricity		1,000			
To Phone		1,000			
To Commission		6,000			
To Insurance		1,000			
To Bad Debts		2,000			
To Loss on machine destroyed					
by fire (Rs. 10,000- Rs. 8,000)		2,000			
To Depreciation on Building		2,500			
To Depreciation on Machinery		3,000			
To Depreciation on Furniture		1,000			
To Provision for Doubtful Debts		2,500			
To Provision for Manager's Commission		3,000			
(10/110 x Rs. 33,000)					
To Net Profit t/f to Capital A/c		30,000			

	81,000		81,000

BALANCE SHEET

As at 31st March, 2018

Liabilities		Rs.	Assets		Rs.
Capital Account:			Building	50,000	
Opening Balance	52,000		Less: Depreciation	2,500	47,500
Add: Profit	30,000	82,000			
Loan		30,000	Machinery	22,000	
O/s Interest on Loan		1,000	Less: Destroyed by fire	10,000	
Sundry Creditors		40,000	Add: Insurance Claim	8,000	
Provident Fund:			Less: Depreciation	3,000	17,000
Employees: Contribution	1,000		Furniture	10,000	
Employer's Contribution	1,000	2,000	Less: Depreciation	1,000	9,000
O/s Manager's Commission		3,000	Stock in trade		23,000
			Debtors	50,000	
			Less: Provision	2,500	47,500
			Bills Receivable		4,000
			Cash at Bank		9,000
			Cash in hand		1,000
		1,58,000			1,58,000

Q14> From the following trial balance of Mr. X, prepare Trading and Profit and Loss Account for the year ending on 31st March 2018, and Balance Sheet as on that date after taking into consideration the adjustment given at the end of the trial balance:—

TRIAL BALANCE AS AT 31ST MARCH, 2018

Debit Balances	Rs.	Credit Balances	Rs.
Purchases (adjusted)	3,49,600	Sales	3,70,000
Wages	10,450	Capital Account	34,250
National Insurance	150	Discount earned	300
Carriage Inwards	200	Creditors	10,000

Carriage Outwards	250	Dividends Received	150
Lighting	300		
Rates and Insurance (including premium	200		
of Rs. 150 p.a. paid up to 30th Sept 2018)			
Stock at 31.3.2018	30,625		
Cash & bank	875		
Plant and Machinery	15,000		
Discount Allowed	50		
Debtors	3,000		
Furniture	4,000		
	4,14,700		4,14,700

Adjustments:

(a) National Insurance also includes employee's contribution of Rs. 75. Wages are shown "Net" after deducting national insurance contribution borne by the employee,

(b) Owing to the nature of employment, some employees are housed in the building of the business. The rental value of such portion is assessed at Rs. 250 p.a. The benefit to the employee treated as wages and the rental as income for Mr X.

(c) Depreciate Plant and Machinery @ 15% p.a. and Furniture @ 10% p.a.

(d) Goods costing Rs. 2,000 given by Mr. X. to his son.

(e) The Manager is entitled to a commission of 20% of the Net Profit after charging his commission.

(Calculation may be made nearest to the multiple of a Rupee).

Sol.

TRADING AND PROFIT & LOSS ACCOUNT

for the year ending on 31st March, 2018

Particulars		Rs.	Particulars	Rs.
To Purchases	3,49,600		By Sales	3,70,000
Less: Drawings	2,000	3,47,600		
To Wages	10,450			
Add: Employees Contribution				

to National Insurance	75			
Add: Employer's Contribution				
to National Insurance	75			
Add: Rental Value of free				
Accommodation	250	10,850		
To Carriage Inwards		200		
To Gross Profit c/d		11,350		
		3,70,000		3,70,000
To Carriage Outward		250	By Gross Profit b/d	11,350
To Lighting		300	By Discount earned	300
To Rates & Insurance	200		By Dividends received	150
Less: Prepaid	75	125	By Rental Value of Free	
To Discount Allowed		50	Accommodation	250
To Depreciation P & M		2,250		
(15,100x15,000)				
To Depreciation on Furniture (10/100x4,000)		400		
To Manager's Commission (20/120 x 8,675)		1,446		
To Net Profit t/f to Capital A/c		7,229		
		12,050		12,050

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Account:			Plant & Machinery	15,000	
Opening Balance	34,250		Less: Depreciation	2,250	12,750
Less: Drawings	2,000		Furniture	4,000	
(goods given to son)	32,250		Less: Depreciation	400	3,600
Add: Net Profit	7,229	39,479	Stock-in-trade		30,625
Sundry Creditors		10,000	Sundry Debtors		3,000
Manager's Commission			Prepaid Insurance		75
(yet to be paid)		1,446	Cash & Bank		875
		50,925			50,925

Q15> Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows: (Nov 2018)

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

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

Selling expenses amount to 1% of total Sales. You are required to compute the missing figures.

Sol :

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

Dr. Cr.

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit b/d	23,00,000
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		23,45,000

Q16> Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	**Credit Balances:**	₹
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information :

(i) Closing stock was valued at Rs 4,500

(ii) Salary of Rs 100 and Tax of Rs 200 are outstanding whereas insurance Rs 50 is prepaid.

(iii) Commission received in advance is Rs 100.

(iv) Interest accrued on investment is Rs 210

(v) Interest on overdraft is unpaid Rs 300

(vi) Reserve for bad debts is to be kept at Rs 1,000

(vii) Depreciation on furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments. (May 2019)

SOL.:

Trading & Profit and Loss Account of Mr. Sandeep for the year ended 31st December, 2018

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		*Less*: Sales return	(1,000)	8,000
Less: Purchase return	(2,000)	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
			Less: Advance	(100)	400
To Tax & Insurance	500		By Accrued interest		210
Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	650			
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			4,210

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		*Less*: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	*Less*: Provision on bad debts	(1,000)	4,000
Outstanding expenses:					
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

Q17> Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019. (Nov 2019)

Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ Rs 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted@ Rs 0.80 per unit manufactured & @ Rs 0.40 per unit of closing W.I.P.	
Repairs and maintenance	1,80,000

Units produced - 5,00,000 units

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

SOL.

In the Books of Mr. Shyamal

Manufacturing Account for the Year ended 31.03.2019

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		9,000	26,000	By Closing Work-in-Process	14,000	48,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,33,600
Opening Inventory	2,60,000					
Add: Purchases	8,20,000					
	10,80,000					
Inventory	(3,20,000)		7,60,000			
To Direct Wages – W.N. (1)			4,05,600			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,50,000			
To Indirect expenses: Hire charges of Factory			2,60,000			
Repairs & Maintenance			1,80,000			
			19,81,600			19,81,600

Working Notes:

(1)	Direct Wages – 5,00,000 units @ ₹0.80	=	₹4,00,000
	14,000 units @ ₹0.40	=	₹ 5,600
			₹ 4,05,600
(2)	Hire charges on Machinery – 5,00,000 units @ ₹0.70	=	₹3,50,000

Q18> The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2018, his profit and loss account revealed a net profit of Rs 15,10,000. This was after allowing for the following:

(i)Interest on capital @ 6% p.a.

(ii)Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @5% p.a..

(iii)A provision for Doubtful debts @ 5% of the trade receivables as at 31st December2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling Rs 1,85,000 and (2) prepaid insurance to the extent of Rs 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables Rs 21,00,000; Cash at bank Rs 5,20,000 and Trade payables Rs 13,84,000. During the year he withdrew Rs 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year.

(Nov 2019)

Sol.:

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		15,35,000

Balance Sheet of Mittal
as on 31st December, 2018

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000
Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		*Less:* Provision for doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		*Less:* Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	*Less:* Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

CH - 4

GOODS SENT ON APPROVAL BASIS

DANGAL QUESTIONS

ICAI RTP QUESTIONS	ICAI PAST QUESTIONS	TOTAL QUESTIONS
3	5	8

Lets DANGAL with ICAI RTP QUESTIONS

MAY 2018

Q1> 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 following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account

ANS.

In the books of 'X'

Goods on sales or return, sold and returned day book

Date 2017	Party to whom goods sent	L.F	Amount ₹	Date 2017	Sold ₹	Returned ₹
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		Amount ₹	2017		Amount ₹
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

MAY 2019

Q2> On 31st December, 2018 goods sold at a sale price ofRs. 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

ANS.

Journal Entries

Date 2018	Particulars		Dr. ₹	Cr. ₹
31st Dec.	Sales A/c To Ritu's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	3,000	3,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	2,250	2,250

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.3,000
Less: Profit (3,000 x 20/120)	Rs. 500
Cost of goods	Rs.2,500

Market price = 2,500 - (2,500 x 10%) =Rs. 2,250

MAY 2020

Q3> Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account . On 31.03.2018, the Trade Receivables balance stood at Rs. 75,000 which included Rs. 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to- Mr. Adhitya Rs. 3,900 and Mr. Bakkiram Rs. 2,600. Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

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

ANS In the Books of Mr. Ganesh

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2018	Sales A/c	Dr.		6,500	
March 31	To Trade receivables A/c				6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		5,000	
	To Trading A/c (Note 1)				5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		3,900	
	To Sales A/c				3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)				

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

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

Notes:

(1) Cost of goods lying with customers = 100/130 x Rs. 6,500 = Rs. 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> M/s Metha Bros, sends out goods on approval as follows:

January 10. A – Rs. 300 January 13. A returned Rs. 100 rest retained.

January 12. B – Rs. 200 January 22. B retained all the goods.

January 30. C- Rs. 1,500 January 31. No intimation.

Show how these transactions will appear when books are kept on double entry system. Give Journal entries and ledger accounts.

Sol :

JOURNAL OF M/S MEHTA BROS.

Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
Jan. 10	As A/c	Dr.		300	
	To Sale or Return A/c				300
	[Being goods sent on approval to 'A' entered in sale or return ledger]				
Jan. 12	B's A/c	Dr.		200	
	To Sale or Return A/c				200
	[Being goods sent to B on approval entered in Sale or Return ledger]				
Jan. 13	Sale or Return A/c	Dr.		100	
	ToA's A/c				100
	[Being goods returned by A entered in Sale or Return Ledger]				
Jan. 13	A's A/c (in main ledger)	Dr.		200	
	To A (in Sale or Return Leger)				200
	[Being goods approved transferred to Personal A/c in the main ledger]				
Jan. 13	Sale or Return A/c	Dr.		200	
	To Sales A/c (in main ledger)				200
	[Being goods approved transferred from Sale or Return ledger to main ledger]				
Jan. 22	B's A/c (in main ledger) To B (in Sale or Return ledger) [Being goods approved transferred to Personal A/c in the main ledger]	Dr.		200	200
Jan. 22	Sale or Return A/c (in Sale or Return ledger)	Dr.		200	

	To Sales A/c (in main ledger) [Being goods approved transferred from Sale or Return ledger to main ledger]				200
Jan. 30	C's A/c	Dr.		1,500	
	To Sale or Return A/c				1,500
	[Being goods sent on approval to C entered in Sale or Return ledger]				

Step 1: Recording in the books

SALE OR RETURN DAY BOOK

Date	Customer's Name	Sale or Return (L.F)	Amount (Rs.)
Jan. 10	A		300
Jan. 12	B		200
Jan. 30	C		1,500
			2,000

SALES AND RETURNS BOOK

Goods Sold Goods Returned								
Date	Customer's Name	Regular L.F	Sale or Return L.F		Date	Customer's Name	Sale or Return L.F.	Rs.
Jan. 13	A			200	Jan. 13	A		100
Jan. 22	B			200				

Step 2: Posting to Sales or Returns Ledger.

A'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 10	To Sale or Return A/c	300	Jan. 13	By A's A/c (in main ledger)	200
				By Sale or Return A/c	100
		300			300

B'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 12	To Sale or Return A/c	200	Jan. 22	By B's A/c (in main ledger)	200
		200			200

C'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 30	To Sale or Return A/c	1,500	Jan. 31	By Balance c/d	1,500
		1,500			1,500

SALE OR RETURN ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 13	ToA's A/c (returns)	100	Jan. 10	By A's A/c	300
Jan. 13	To Sales A/c (in main		Jan. 12	By B's A/c	200
	ledger)	200			
Jan. 22	To Sales A/c (in main				
	ledger)	200			
Jan. 31	To Balance c/d	1,500	Jan. 30	By C's A/c	1,500
		2,000			2,000

Step 3: Posting to Main Ledger.

A'SACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 13	To A (in Sale or Return ledger)	200	Jan. 31	By Balance c/d	200
		200			200

B'S ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 22	To B (in Sale or Return ledger)	200	Jan. 31	Balance c/d	200
		200			200

SALES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan 31	To Balance c/d	400	Jan 13	By Sale or Return A/c	200
				(in Sale or Return ledger)	
			Jan 22	By Sale or Return A/c	200
				(in Sale or Return ledger)	
		400			400

Q2> On 31 -12-2018 goods sold at sales price of Rs. 3,000 were lying with customer Anu to whom they were sold on 'Sale or Return' basis and recorded as actual sales. Since no consent has been received from the customer, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Sol:

JOURNAL OF ANU

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
Dec. 31	Sales A/c Dr.	3,000	
	To Anu's A/c [Being cancellation of sale entry for goods not yet approved]		3,000
	Stock with customers A/c Dr.	2,250	
	To Trading A/c [Being stock with customers recorded at Market price]		2,250

Working Note: Calculation of Cost and Market Price of Stock with customer

A. Sale price of goods sent on approval	Rs. 3,000
B. Less: Profit [3,000 x 20/120]	500
C. Cost of goods D. Market price = 2,500 – (2,500 x 10%) = 2,250	2,500

Note: Since the market price is less than the cost price, stock with customer is valued at market price

Q3> Ramu sells goods to his approved customers on 'Sale or Return' basis at a profit of 20% on sales, treating as actual sales. On 15th December, goods costing Rs. 1,000 were sent to Usha Traders. No confirmation has been received from Usha Traders until 31st December.

Give the necessary journal entries in the books of Ramu.

Sol:

JOURNAL

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
15th	Usha Traders A/c	Dr.	1,250	
Dec.	To Sales A/c			1,250
	(Being the sales made with sale value of Rs. 1,250 (cost = 1,000 + Profit 20% on sales (25% on cost – 1000 x 25/100))]			
31st	Sales A/c	Dr	1,250	
Dec.	To Usha traders			1,250
	(Being the cancellation of sale recorded earlier)			

31st	Stock with customers A/c	Dr.	1,000	
Dec.	To Trading A/c			1,000
	(Being stock at the end recorded with the customers at cost price)			

Q4> Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017. **(May 2018)**

December 2nd– Sent goods to customers on sale or return basis at cost plus 25% - Rs. 80,000

December 10th– Goods returned by customers Rs. 35,000

December 17th– Received letters from customers for approval Rs. 35,000

December 23rd– Goods with customers awaiting approval Rs. 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017.

Sol: **In the books of Mr. Badhri** **Journal Entries**

Date	Particulars		L.F.	Dr. (in ₹)	Cr. (in ₹)
2017					
Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Note:(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards a/c.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

(4) It has been considered that the transaction values are at involve price (including profit margin).

QS> 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: (Nov 2019)

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

SOL.:

Sale or Return Account

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
May 31	To Sundries: Sales	29,500	May 31	By Sundries (Goods sent on sale or return basis)	99,500
June 15	To Sundries: Returned	42,000			
June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000

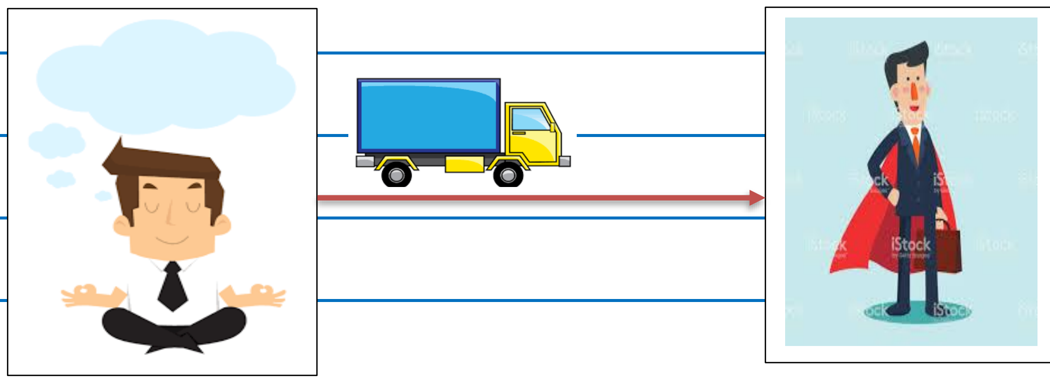
CH - 5

ACCOUNTING FOR CONSIGNEMENT

DANGAL QUESTIONS

ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
5	27	32

BASIC CONCEPTS



Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 MAY 2018

Mr. A of Assam sent on 18th February, 2017 a consignment of 1,000 DVD players to B of Bengal costing Rs. 100 each. Expenses of Rs. 1,500 were met by the consignor. B spent Rs. 3,000 for clearance and selling expenses were Rs. 20 per DVD player.
B sold on 15th March, 2017, 600 DVD players @ Rs. 160 per DVD player and again on 20th May, 2017, 300 DVD players @ Rs. 170 each.
B is entitled to a commission of Rs. 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per DVD player sold. B sent the amount due to A on 30th June, 2017.
You are required to prepare the consignment account and B's account in the books of A.

Sol:

In the books of A
Consignment Account

Dr.			Amount	Cr.			Amount
2017			Rs.	2017			Rs.
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 x Rs.160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 x Rs. 170)	51,000
Feb. 18	To	B's account		June 30	By	Consignment Stock	
		(Clearance charges)	3,000			(Working note 2)	10,450
June 30	To	B's account:					
		Selling expenses					
		(900 x Rs. 20)	18,000				
		Commission (Working note1)	24,900				
June 30	To	Profit and loss account (profit on consignment	10,050				

		transferred)					
			1,57,450				1,57,450

B's Account

Dr.							Cr.
			Amount				Amount
2017			Rs.	2017			Rs.
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account		June 30	By	Consignment account:	
		(Sales)	51,000			Selling expenses Commission	18,000 24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. **Calculation of total commission:**

Let total commission be x

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96,000 + ₹\ 51,000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22,500 + \frac{1}{4}[₹\ 1,47,000 - x - ₹\ 1,12,500]$$

$$x = ₹\ 22,500 + \frac{1}{4}[₹\ 34,500 - x]$$

$$4x + x = ₹\ 90,000 + ₹\ 34,500$$

$$5x = ₹\ 1,24,500$$

$$x = ₹\ 24,900$$

2. **Valuation of consignment stock:**

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹\,1,500 \times 100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000 \times 100)}{1,000}$	300
	10,450

QUESTION 2 **NOV 2018**

On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing Rs.1,00,000 were consigned to Chennai at the invoice price of Rs.1,50,000. The direct expenses of the consignor amounted to Rs.10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of Rs.1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were Rs.3,000. Mr. Jack accepted a bill drawn by Mr. Jill for Rs.1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

SOL:

In the books of Mr.Jill
ConsignmentAccount

Date		Particulars	Rs.	Date		Particulars	Rs.
2018				**2018**			
Jan. 1	To	Goods sent on Consignment A/c		Jan. 1	By	Goods sent on Consignment A/c (Loading)	
		(Invoice price)	1,50,000			Rs. (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar.31	By By	Jack – Sales Stock on Consignment A/c	1,20,000
Mar.31	To	Jack – Expenses – Commission*	3,000			1/5xRs. (1,50,000+10,000+3,000)	32,600
		(0.05xRs. 1,20,000)	6,000				
Mar.31	To	Stock Reserve A/c (Rs.50,000 x 1/5)	10,000				
	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600				
			2,02,600				2,02,600

*Invoice price of goods sold: = 4/5 of Rs. 1,50,000 = Rs. 1,20,000.

The goods were sold for Rs.1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr.Jack.

Jack's Account

	Particulars	Rs.		Particulars	Rs.	Rs.
To	Consignment A/c – Sales	1,20,000	By	Consignment A/c: Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000

			By	Bank A/c (Balancing figure)		11,000
		1,20,000				1,20,000

QUESTION 3 MAY 2019

Mr. Green of New Delhi purchased, 10,000 pieces of sarees at Rs.100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of Rs.120 per saree. The consignor paid Rs.3,000 for packing and freight. Mr. White sold 5,000 sarees at Rs.125 per saree and incurred Rs.1,000 for selling expenses and remitted Rs.5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White.

SOL :

(a) In the Books of Mr. Green ConsignmentA/c

	Rs.		Rs.
To Goods sent on Consignment A/c (6,000 x Rs. 120)	7,20,000	By White's A/c-Sales (5000 x Rs.125)	6,25,000
To Bank A/c – Packing, Freight charges	3,000	By Goods sent on Consignment A/c	1,20,000
To White's A/c – Selling expenses	1,000	(6000 xRs.20)	
To White's Account – Commission		By Consignment stock account	1,20,500
5% on Rs. 6,25,000 = 31,250		(Refer working note)	
20% on Rs. 25,000 = 5,000	36,250		
To Stock reserve A/c (1000 x Rs. 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		8,65,500

In the Book of Mr. White
Mr. Green's Account

	Rs.		Rs.
To Bank – Selling expense	1,000	By Sales – debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

Working Note:

Closing Stock valuation:

	₹
Cost price of 1000 sarees	1,20,000
1000 × 120 =1,20,000	
Add: Proportionate expenses (3,000 × 1,000/6,000)	500
	1,20,500

QUESTION 4 NOV 2019

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

You are required to prepare consignment account in the books of Manoj along with the necessary calculations.

SOL :

Consignment to JaipurAccount in the Books of Manoj

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

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

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

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price = ₹ 18,750.

Abnormal Loss at cost = ₹ 18,750 X 100/125 =	₹ 15,000
Add: Proportionate expenses of Manoj (10 % of ₹ 15,000)	= ₹ 1,500
	₹ 16,500

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

Manoj's Basic Invoice price of consignment =	₹ 1,87,500
Manoj's expenses on consignment =	₹ 15,000
	₹ 2,02,500

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

Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

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

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

QUESTION 5 MAY 2020

Ganpath of Nagpur consigns 500 cases of goods costing Rs. 1,500 each to Rawat of Jaipur. Ganpath pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	15,000
Freight	45,000
Loading Charges	15,000

Rawat sells 350 cases at Rs. 2,100 per case and incurs the following expenses:

Clearing charges	*18,000*
Warehousing and Storage charges	*25,000*
Packing and selling expenses	*7,000*

It is found that 50 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Ganpath.

Sol :

In the books of Ganpath
Consignment to Rawat of Jaipur Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Goods lost in Transit 50 cases @ ₹ 1,650 each (WN1)	82,500
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	By Consignment Inventories: In hand 50 @ ₹ 1,695 each (WN2)	84,750
To Rawat (Commission)	73,500	By Consignment Inventories: In transit 50 @ ₹ 1,650 each (WN3)	82,500
To Profit on Consignment ts/f to Profit & Loss A/c	36,250		
	9,84,750		9,84,750

Rawat's Account

Particulars	₹	Particulars	₹
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c (Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

1. Consignor's expenses on 500 cases amounts to Rs. 75,000; it comes to Rs. 150 per case. The cost of cases lost will be computed at Rs. 1,650 per case i.e. 1,500+150.
2. Rawat has incurred Rs. 18,000 on clearing 400 cases, i.e., Rs. 45 per case; while valuing closing inventories with the agent Rs. 45 per case has been added to cases in hand with the agent i.e. 1,500+150+45.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of Rs. 6,11,500 is not yet paid.

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> Mr Y consigned 800 packets of toothpaste, each packet containing 100 toothpastes. Cost price of each packet was Rs. 900. Mr Y spent Rs. 100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost on the way and Mr Y lodged claim with insurance company and could get Rs. 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent Rs. 39,950 as other non-recurring expenses and Rs. 22,500 as recurring expenses. He sold 740 packets at the rate of Rs. 12 per toothpaste. He was entitled to 2% commission on sales plus 1% del-credere commission. Required: Prepare Consignment Account. Calculate the cost of stock at the end abnormal loss and profit or loss on consignment

Sol: Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Goods sent on			By Consignee's A/c (Sales)	
consignment (800 x Rs. 900)		7,20,000	(740 x Rs. 1,200)	8,88,000
To Bank A/c (Freight charges			By Cash A/c (claim)	570
insurance etc (800 x Rs. 100)		80,000	By Profit & Loss A/c (abnormal	430
			loss) [Rs. 1,000 - Rs. 570]	
To Consignee's A/c:				
Non Recurring Expenses	39,950		By Consignment Stock A/c	
Recurring Expenses	22,500	62,450	Cost of 59 packets	53,100
To Consignees A/c (Commission)			Add: Consignee's Exp.	
2% on Rs. 8,88,000	17,760		(Rs. 80,000 x 59/800) 5,900	
1% on Rs. 8,88,000	8,880	26,640	Add: Consignee's Exp.	
To Profit & Loss A/c (Profit)	61,860		(Rs. 39,950 x 59/799) 2,950	61,950
		9,50,950		9,50,950

Working Note: Calculation of Abnormal Loss Rs.

A.	Cost of 1 packet	900
B.	Consignor's Expenses	100
C.	Total Cost of 1 packet [A + B]	1,000
D.	Less: Claim accepted	570
E.	Abnormal loss [C - D]	430

Q2> M/s Ram & Co. of Delhi purchased 20,000 pieces of sarees @ Rs. 200 per saree. Out of these, 12,000 sarees were sent on consignment to M/s Laxman Traders of Bombay at the selling price of Rs. 240 per saree. The Consignors paid Rs. 6,000 for packing and freight.

M/s Laxman Traders sold 10,000 sarees @ Rs. 250 per saree and incurred Rs. 2,000 towards selling expenses and remitted Rs. 10,00,000 to Delhi on account. M/s Laxman Traders are entitled to a commission of 5 per cent on total sales plus a further 20 per cent commission on any surplus price realised over Rs. 240 per saree.

6,000sarees were sold at Rs. 220 per saree by the Consignor. Owing to fall in the market price, the value of stock of sarees in hand is to be reduced by 10 per cent.

Prepare the Consignment Account and the account of M/s Laxman Traders in the books of the Consignor.

Sol:

In the Books of M/s Ram & Co., Delhi

Dr. CONSIGNMENT TO BOMBAY ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		By Laxman Traders (sales)	
(12,000 x Rs. 240)	28,80,000	(10,000x250)	25,00,000
To Bank A/c (expenses)	6,000	By Goods sent on Consignment	
To Laxman Traders (expenses)	2,000	(loading: 12,000 x Rs. 40)	4,80,000
To Laxman Traders (Commission)	1,45,000	By Consignment Stock A/c	3,60,900
To Profit & Loss A/c (Profit)	3,07,900		

	33,40,900		33,40,900

Dr.	LAXMAN TRADERS ACCOUNT		Cr.
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (sales)	25,00,000	By Consignment A/c (Expenses)	2,000
		By Consignment A/c (Commission)	1,45,000
		By Bank A/c	10,00,000
		By Balance c/d	13,53,000
	25,00,000		25,00,000

Working Notes:

(i) Consignee's Commission = 5% of Rs. 25,00,000 + 20% of Rs. 1,00,000 = Rs. 1,45,000

(ii) Valuation of Closing Stock on Consignment

A.	Cost of 2,000 Sarees [2,000 x Rs. 200]	4,00,000
B.	Add: proportionate expenses [Rs. 6,000 x 2,000/12,000]	1,000 4,01,000
C.	Less: 10%	40,100
D.	Value of closing stock to be brought into accounts	

Q3> Mr A of Assam sent on 18th February, a consignment of 1000 DVD player to B of Bengal costing of Rs.100 each. Expenses of Rs. 1,500 were met by the Consignor. B spent Rs. 3,000 for clearance and selling expenses were Rs. 20 per DVD player.

B sold on 15th March, 600 DVD Players sold @ Rs. 160 per DVD Player and again on 20th may, 300 DVD Players @ Rs. 170.

B is entitled to a commission of Rs. 25 per DVD Player sold plus 1/4 pf the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per DVD Player sold. B sent the amount due to A on 30th June.

You are requested to show the consignment account and B's account in the books of A.

Sol.

Dr. **CONSIGNMENT ACCOUNT IN THE BOOKS OF A** Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,00,000	By B's A/c (sales) (600 x Rs. 160)	96,000
To Cash/Bank A/c (Expenses)	1,500	By B's A/c (Sales) (300 x Rs. 170)	51,000
To B's A/c (Clearance charges)	3000	By Consignment Stock A/c	10,450
To B's A/c			
Selling expenses (900 x Rs. 20)	18,000		
Commission	24,900		
To Profit and Loss A/c	10,500		
	1,57,450		1,57,450

Dr. **B'S ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Sales)	96,000	By Consignment A/c	
To Consignment A/c (Sales)	51,000	(Clearance charges)	3,000
		By Consignment A/c	
		Selling expenses	18,000
		Commission	24,900
		By Cash/Bank A/c	1,01,000
	1,47,000		1,47,000

Working Notes:

1. Calculation of Total Commission:

Let total commission be x

$x = 900 \times Rs.\ 25 + [(Rs.\ 96,000 + Rs.\ 51,000) - x - (900 \times Rs.\ 125)]$

$x = Rs.\ 22,500 + [\ Rs.\ 1,47,000 - x - Rs.\ 1,12,500]$

$x = Rs.\ 22,500 + [\ Rs.\ 34,500 - x]$

$4x + x = Rs.\ 90,000 + ^{*}\ 34,500$

5x = Rs. 1,24,500 x = Rs. 24,900

2. Valuation of Consignment Stock:	Rs.
100 DVD players @ Rs. 100 each	10,000
Add: Proportionate expenses of A	150
Proportionate expenses paid by B	300
	10,450

Q4> Ramesh consigned 2,000 MT of chemicals at a cost of Rs. 800 per MT to John, Ramesh paid freight and insurance charges of Rs. 20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT of chemicals and sold 1,000 MT at an average price of Rs. 1,000 per MT. John incurred the following expenses. Godown Rent Rs. 5,000, Insurance Rs. 3,000, Clearing Charges Rs.4,500. Insurance claim received against fire Rs. 4,00,000 after admitting sale the salvage value of Stock destroyed by fire at Rs. 10,000. John was entitled to a commission of 10% on proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sales proceeds, Prepare a Consignment Account and John's Account in the books of Ramesh.

Sol. Dr. CONSIGNMENT TO JOHN ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	16,00,000	By John's (Sales)	10,00,000
To Bank (Freight and Insurance)	20,000	By Abnormal Loss A/c	
To John's A/c (Commission)	1,00,000	(Rs. 4,05,000- Rs. 10,000)	3,95,000
To John's A/c (Godown Rent)	5,000	By Consignment Stock A/c:	
To John's A/c (Insurance)	3,000	Normal Stock	4,06,500
To John's A/c (Clearing Charges)	4,500	Salvaged Stock	10,000
To Profit and Loss A/c (Profit)	79,000		
	18,11,500		18,11,500

Dr. JOHN'S ACCOUNT Cr

Particulars	Rs.	Particulars	Rs.
To Consignment to John A/c		By Consignment to John A/c:	
(Sale Proceeds)	10,00,000	Godown Rent	5,000
		Insurance	3,000
		Clearing Charges	4,500
		Commission	1,00,000
		By Bank A/c (Balance remitted)	8,87,500
	10,00,000		10,00,000

Working Note: Valuation of Goods Destroyed and Unsold Goods

	Particulars	Goods Destroyed (500 MT) Rs.	Unsold Goods (500 MT) Rs.
A	Cost (500 x Rs. 800)	4,00,000	4,00,000
B	Proportionate Freight and Insurance	5,000	5,000
	(Rs. 20,000 x 500/2,000)		
C	Proportionate Clearing Charges (Rs. 4,500 x 500/1500)	—	1,500
D	Total	4,05,000	4,05,000

Q5> Rahim of Bombay consigned to Raju of Madras, goods to be sold at invoice price which represents 125% of cost. Raju is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rahim were Rs. 10,000. The account sales received by Rahim shows that Raju effected sales aggregating to Rs. 1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs.8,000. 10% of the consignment goods of the value of Rs. 12,500 were destroyed in fire at the Madras godown and the Insurance Company paid Rs.12,000 net of salvage. Raju remitted the balance in favour of Rahim. Prepare Consignment Account and the Account of Raju in the books of Rahim along with necessary workings.

Sol :

Dr. CONSIGNMENT TO MADRAS ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,25,000.00	By Raju's A/c (Sales)	1,00,000.00
To Bank A/c (Freight & Insurance)	10,000.00	By Loss due to Fire A/c	11,000.00
To Raju's A/c (Expanses Incurred)	8,000.00	By Consignment Stock A/c	20,250.00
To Raju's A/c (Commission)	10,937.50	By Goods sent on Consignment	
To Consignment Stock Reserve A/c	3,750.00	[Rs. 1,25,000x20/100]	25,000.00
		By Profit & Loss A/c (Loss)	1,437.50
	1,57,687.50		1,57,687.50

Dr. RAJU'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Madras A/c		By Consignment to Madras A/c	
(Sales)	1,00,000.00	(Expenses)	8,000.00
To Loss due to Fire A/c		By Consignment to Madras A/c	
(Insurance Claim)	12,000.00	(Commission)	10,937.50
		By Bank A/c (Balance remitted)	93,062.50
	1,12,000.00		1,12,000.00

Working Notes:		Rs.
(i)	Invoice Value of Total Goods sent on Consignment	
	(Invoice Value of Goods destroyed x 10)	1,25,000.00
(ii)	Calculation of Consignee's Commission	
	A Sale Proceeds received by Raju on 75% of Consignment	1,00,000.00
	B Invoice Value of 75% of Consignment (75% of 1,25,000)	93,750.00
	C Excess sale price realised by Raju (A - B) D Commission payable to Raju	6,250.00
	@ 10% on Invoice value of Rs. 93,750	9,375.00

	@ 25% on Excess sale price realised	1,562.50 10,937.50
(iii) Calculation of Unsold Stock (being 15%)		
A Invoice value of Stock (Rs. 1,25,000 x 15/100)		18,750
B Add: Proportionate Freight and Insurance (Rs. 10,000 x 15/100)		1,500
C Value of Stock on Consignment (A + B)		20,250
(iv) Stock Reserve at 25% on cost (Rs. 18,750 x 25/125)		3,750
(v) Calculation of Abnormal Loss		
A Cost price of goods destroyed (Rs. 12,500 x 80/100)		10,000
B Add: Proportionate Freight and Insurance (Rs. 10,000 x 10/100)		1,000
		11,000

Q6> M of Mathura, consigned 5,000 kg of oil costing Rs. 20 per kg to S of Surat. M paid Rs. 25,000 as freight and insurance. 125 kg of oil was destroyed in transit. The insurance claim was settled at Rs. 2,250 and was paid directly to the consignors.

S took delivery of consignment and accepted a Bill drawn upon them by M for Rs. 50,000. S reported as follows:

(i) 3,750 kg. were sold at Rs. 30 per kg

(ii) His expenses were: Godown Rent Rs. 10,000, Wages Rs. 1,000, Printing & Stationery, Rs. 5,000

(iii) 125 kg were lost due to leakage which is quite normal.

S is entitled to a commission of 5% on the sales effected. S paid the amount due in respect of the consignment. Show the Consignment Account, the account of S and the Abnormal Loss Account in The books of M for the year ended 31st March, 2018.

Sol. Dr. CONSIGNMENT TO MADRAS ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.

To Goods sent on Consignment A/c		1,00,000	By Loss in Transit A/c (cost of 125 kg.)	3,125
To Cash A/c (freight & ins.)		25,000	By S (Sales)	1,12,500
To S A/c			By Consignment Stock A/c	25,658
Expenses incurred	16,000		By P & L A/c (Loss)	5,342
Commission	5,625	21,625		
		1.46,625		1,46,625

Dr. RAMESH & CO.'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Madras A/c (Sales)	1,12,500	By Bills Receivable A/c	50,000
		By Consignment to Madras A/c:	16,000
		Expenses	5,625
		Commission	40,875
		By Bank A/c (Balance remitted)	
	1,12,500		1,12,500

Dr. LOSS IN TRANSIT ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Madras A/c	3,125	By Insurance Claim (recovered)	2,250
		By Profit & Loss A/c (irrecovered)	875
	3,125		3,125

Working Note: Calculation of Cost of Closing Stock	Units	Rs.
A Cost of 5,000 kg, @ Rs. 20	5,000	1,00,000
B Add: Consignor's Expenses (Freight & insurance)	—	25,000
C Total Cost of 5,000 kg. (A + B)	5,000	1,25,000
D Less: Cost of 125 kg lost in transit (Rs. 1,25,000 x 125/5,000)	125	3,125
E Cost of 4,875 kg that have reached the city of Consignee (C - D)	4,875	1,21,875
F Less: Normal Loss	125	—
G Cost of 4,750 kg available for sale (since 125 kg is normal loss)	4,750	1,21,875
H Cost of 1,000 kg in hand (Rs. 1,21,875 x 1,000/4,750)	1,000	25,658

Q7> Mr Karamchand, whose accounting year ends on 31st March consigned 100 bags of sugar, each bag costing Rs. 300 to Amarchand of Bombay on 1st Jan. He had paid Rs. 500 towards freight and insurance. 15 bags were damaged in transit and on 30th March, the consignor had received Rs. 1,000 on account of the damaged bags from the Insurance Company. Amarchand took delivery of the goods on 10th Jan. and immediately accepted a bill drawn on him for Rs. 20,000 for 60 days. On 31st March, the consignee reported that— (i) 70 bags were sold @ Rs. 350 per bag. (ii) The damaged bags were sold @ Rs. 110 per bag and (iii) He had paid Godown rent Rs. 700 Clearing charges Rs. 1,000, Carriage outwards Rs. 300. He is entitled to a commission at 10% on the sale proceeds of all goods excepting damaged goods. Assuming that Amarchand remits the balance by bank draft on 31st March, show the journal entries in the books of Mr Karamchand (including the entries passed at the time of closing the books). Assuming that no portion of the expenses incurred by the consignee is attributable to the damaged bags, determine the loss on the damaged bags

Sol.

JOURNAL OF MR KARAMCHAND

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
2018	Consignment to Bombay A/c	Dr.	30,000	
Jan. 1	To Goods sent on Consignment A/c			30,000
	(For 100 bags of sugar costing Rs.300 per bag sent on consignment to Amarchand of Bombay)			
	Consignment to Bombay A/c	Dr.	500	
	To Bank A/c			500
	(For freight and insurance charges paid in respect of consignment to Bombay)			
Jan. 10	Bills Receivable A/c	Dr.	20,000	
	To Amarchand's A/c			20,000
	(For B/R received from Amarchand)			
Mar. 30	Bank A/c Dr.		1,000	

	To Consignment to Bombay A/c (For amount of claim received from Insurance Co.)		1,000
Mar. 31	Amarchand's A/c Dr.	26,150	
	To Consignment to Bombay A/c		26,150
	(For sale of 70 bags @ Rs. 350 per bag & 15 @ Rs. 110 per bag)		
	Abnormal Loss A/c Dr.	1,925	
	To Consignment to Bombay A/c		1,925
	(For loss suffered on account of damage done to 15 bags)		
	Consignment to Bombay A/c Dr.	4,450	
	To Amarchand's A/c		4,450
	(For expenses incurred and commission charged by the consignee as follows: Godown rent Rs. 700, Clearing Charges Rs. 1,000, Carriage outwards Rs. 300 and Commission @ 10% on Rs. 24,500, i.e. Rs. 2,450)		
	Bank A/c Dr.	1,700	
	To Amarchand's A/c		1,700
	(For the Bank Draft received for balance due from him)		
	Consignment Stock A/c Dr.	4,751	
	To Consignment to Bombay A/c		4,751
	(For stock with the consignee valued at cost plus proportionate non-recurring expenses)		
	Profit & Loss A/c Dr.	1,124	
	To Consignment to Bombay A/c		1,124
	(For loss transferred to Profit and Loss A/c)		

Working Notes:

(i) Valuation of Closing Stock with Consignee:

Damaged goods (15)	Unsold goods (15)	Rs.
A Cost of bags @ Rs. 300	4,500	4,500
B Add: Proportionate non-recurring expenses of		
Consignor @ Rs. 5	75	75

C Add: Proportionate non-recurring expenses of		
Consignee @ Rs. 11.76	—	176
	4,575	4,751

(ii) Loss on damaged goods = Cost - Sale proceeds - Claim from Insurance Co.

= Rs. 4,575 — Rs. 1,650 - Rs. 1,000 = Rs. 1,925

(iii) It has been assumed that carriage outwards Rs. 300 spent by the consignee relates to sales.

(iv) Figures have been rounded off to the nearest rupee.

Q8> On 1st January goods cost price of which was Rs. 1,32,000, were consigned by Shri Ganesh of Madras to his agent Shri Hari at Amritsar at a proforma invoice price of 20% above cost. Shri Harish paid freight and other forwarding charges amounting to Rs. 4,000. He was allowed Rs. 2,000 p.a. towards establishment costs, 5% commission and 5% del-credere commission on gross sales. Shri Harish paid Rs.1,000 as rent of godown for the 3 months ended 31st March.

Three-fourth of the goods were sold at 33-1/3% profit on cost, half of which were credit sales. Half the balance goods were stolen, but the stock being insured a claim lodged for Rs. 14,000 was settled for Rs. 13,800. Balance stock was valued at proforma invoice price.

Required: Prepare the Consignment Account and Stock lost on Consignment Account giving effect to abnormal loss, for 3 months ending on 31st March in the books of Shri Ganesh.

Sol

Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Goods sent on Consignment A/c			By Mahesh A/c:		
(1,32,000 x 120/100)		1,58,400	Cash Sales	66,000	

To Bank A/c		4,000	Credit Sales	66,000	1,32,000
(Insurance & Forwarding changes)			By Stock Lost on Consignment A/c		17,000
To Y A/c:			By Consignment Stock A/c		20,300
Establishment	500		[1/2 x 1/4 x (1,58,400 + 4,000)]		
Rent	1,000		By Goods sent on Consignment A/c		26,400
Commission	6,600		(Rs. 1,58,400- Rs. 1,32,000)		
(5% on Rs. 1,32,000)					
Del-credere Comm.	3,960	12,060			
(3% on Rs. 1,32,000)					
To Stock Reserve A/c (Rs. 26,400 x 1/8)		3,300			
To Profit on Consignment		17,940			
(transferred to P&L A/c)					
		1,95,400			1,95,400

Dr. STOCK LOST ON CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Consignment A/c		17,000	By Insurance Company (claim)		13,800
			By P&L A/c		3,200
		17,000			17,000

Q9> On 1st April 2017, Mr Doshi of Darjeeling consigned 2,000 Kg. of Tea costing Rs. 60 per Kg. to Mr. Naik of Nagpur. Mr Doshi incurred the following expenses:

Freight Rs. 2,000, Insurance Rs. 300, Sundry Expenses Rs. 700.

During the year ended 31st March, 2018, Mr Naik incurred the following expenses:

Freight Rs. 600, Godown Rent Rs. 500, Carriage to godown Rs. 1,000.

On 1st December, 2017, Mr Naik sold 1,200 Kg. of tea for cash at a profit of 25% on sales. On 15th

December, 2017, Mr Naik returned 150 Kg. of Tea, which were of poor quality, to Mr Doshi and paid return freight and carriage of Rs. 250. Out of the remaining Tea, 200 Kg. being partially damaged were valued at 30% less than cost. Mr Naik charged his commission at 5% and the balance so far due from him to Mr Doshi on 31st March, 2018. Mr Doshi closes his books every year on 31st March.

Required: Prepare the following Accounts in the books of Mr Doshi:

(a) Consignment to Nagpur, (b) Goods sent on Consignment, and

(c) Personal Account of Mr Naik.

Sol. Dr. CONSIGNMENT TO NAGPUR ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	1,20,000	By Naik (Sale Proceeds)	
To Bank A/c (Expenses)	3,000	(1,200 x 80)	96,000
To Naik (Expenses)	2,100	By Consignment Stock A/c:	
To Naik (Return Freight)	250	Goods	27,900
To B (Commission[5% on Rs.96,000)	4,800	Damaged	7,980
To Profit t/f to P&L A/c	15,150	By Profit & Loss A/c	
		(Loss on Damaged) (12,400 -7,980)	4,420
		By Goods Sent on Consignment	
		A/c (Return) (150 x Rs. 60)	9,000
	1,45,300		1,45,300

Dr. NAIK'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Nagpur		By Consignment to Nagpur A/c (Exp.)	2,100
A/c (sales)	96,000	By Consignment to Nagpur A/c (Exp.)	250
		By Consignment to Nagpur A/c (Comm.)	4,800
		By Bank A/c	88,850
	96,000		96,000

Working Notes:

(i) Statement showing the Calculation of Abnormal Loss and Unsold Stock

Particulars	Units	Rs.
A. Cost of Goods Sent	2,000	1,20,000
B. Expenses incurred by Consignor	—	3,000
C. Total Cost of Goods Sent (A + B)	2,000	1,23,000
D. Add: Non-recurring expenses incurred by Consignee	—	1,000
E. Cost of Goods received by consignee	2,000	1,24,000
F. Cost of Unsold Stock (Goods units) (450 kg)	450	27,900
G. Cost of Damaged units (200 kg)	200	12,240
H. Gross Realizable Value of Damaged Units (Cost—30%) (12,000 - 3,000)		8,400
I. Less: Consignee's Commission @ 5%		420
J. Net Realizable Value		7,980

Since stock is to be values at cost or NRV w.e. lower, stock has been valued at Rs. 7,980.

Q10> Mr Shetty is a consignee agent for Electra Engineers Ltd., Bombay, who manufacture transistors. Model P and Model T are the most popular models with fixed retail selling price of Rs. 200 and Rs. 250 respectively, on which the manufacturers have a profit of 20% calculated on the selling prices. The consignment arrangement with Mr Shetty provides for the following commission structure:

(i) Model P—2.5% on the selling price, (ii) Model T—4% on the selling price,

On July 1 stock with Mr Shetty was 200 Nos. of Model T and 200 Nos. of Model P. During the half year ended 31st Dec. the transactions were:

	Model P	Model T
Goods sent to Mr Shetty	2000 Nos.	1000 Nos.
Sales by Mr Shetty	2100 Nos.	900 Nos.

The consignments sent to Mr Shetty cost Rs. 30,000 in terms of freight incurred at consignor's end, and were transferred at cost. FIFO Method has been used.

Required: Show the Consignment A/c in the books of Electra Engineers Ltd., showing separately the computation of commission due and the value of closing stock.

Sol: Dr. CONSIGNMENT TO SHETTY ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Consignment Stock A/c:			By Shetty A/c-Sale proceeds:		
P 200 @ Rs. 160	32,000		P 2,100 @ Rs.200	4,20,000	
T 200 @ Rs. 200	40,000	72,000	T 900 @ Rs. 250	2,25,000	6,45,000
To Goods Sent on Consignment A/c:			By Consignment Stock A/c:		
P 2,000 @ Rs.160	3,20,000		P	17,000	
T 1,000 @ Rs.200	2,00,000	5,20,000	T	63,000	80,000
To Bank A/c (freight) To Shetty A/c-commission		30,000			
2.5% on Rs. 4,20,000	10,500				
4% on Rs. 2,25,000	9,000	19,500			
To Profit on Consignment					
transferred to P/L A/c		83,500			
		7,25,000			7,25,000

Working Notes:

(i)Cost price of each set: Model P= 80% of Rs. 200= Rs. 160, Model T = 80% of Rs. 250= Rs. 200

(ii) Freight charged per set: Rs. 30,000/3,000 = Rs. 10

(iii) Valuation of closing stock:	Rs.
P 100 @ Rs. 160	16,000
T 300 @ Rs. 200	60,000
	76,000
Add: Freight for 400 sets @ Rs. 10	4,000
	80,000

Q11> Ram & Co., Calcutta, sent 50 cases of hair oil valued at Rs. 200 each, to Krishna of Kakinada, for sale on consignment basis. They paid freight and insurance Rs. 200. Each case contained 40 bottles. When Krishna received the consignment, he found two cases damaged and he salvaged 40 bottles out of them Krishna, whose terms of commission were 5% normal commission and 1 % Del Credere, sold 1,300 bottles at Rs. 8 each partly on credit and partly for cash. One customer who had lifted 100 bottles paid only for 75 bottles and the balance has become a bad debt.

Ram & Co., have decided to treat the damage in transit as an abnormal loss to be separately written off in their Profit and Loss Account. Show in the books of Ram and Co.;

(a) Consignment a/c; (b) Krishna's a/c, showing the amount due from him; and (c) Notes on calculation of closing stock on Consignment a/c.

Sol. Dr. CONSIGNMENT TO KAKINADA ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	10,000	By Krishna (Sale Proceeds)	10,400
To Bank A/c (Expenses)	200	(1,300 x Rs. 8)	
To B (Commission)		By Loss-in-transit A/c	204
[Rs. 10,400 x 6/100]	624	By Consignment Stock A/c	3,366
To Profit t/f to P & L A/c	3,146		
	13,970		13,970

Dr. **KRISHNA'S ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to	10,400	By Consignment to Kakinada	
Kakinada A/c (sales)		A/c (Comm.)	624
		By Balance c/d	9,776
	10,400		10,400

Working Note:

(I) STATEMENT SHOWING THE CALCULATION OF ABNORMAL LOSS AND UNSOLD STOCK

Particulars	Units	Rs.

A.	Cost of Goods Sent	2,000	1,000
B.	Expenses incurred by Consignor	—	200
C.	Total Cost of Goods Sent (A + B)	2,000	10,200
D.	Less: Cost of Goods lost-in-transit	40	204
E.	Cost of Goods reached the city of Consigned (C - D)	1,960	9,966
F.	Cost of Unsold Stock [Rs. 9,966 x 660/1960]	660	3,566

Q12> Niresh consigns 1,000 bats costing Rs. 500 each to Swaroop for sales and incurs Rs. 4,000 towards freight and Rs. 1,000 for insurance. Swaroop was able to take delivery of 900 bats only and 100 bats were destroyed in transit. Insurance Co. admitted the claim and paid the same. Swaroop will be entitled to a commission of 5% on sales, 2% Del credere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20%. Swaroop has spent Rs. 2,000 towards sales expenses. The sale account is as under:—

500 bats at Rs. 600 per bat each, 200 bats at Rs. 700 per bat credit.

Consignment debtors paid their dues except one customer to whom 4 bats sold for Rs. 2,800 could pay Rs. 800. Show Consignment Account, Consignment Debtors A/c, Swaroop A/c and commission.

Sol. Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Goods sent on Consignment A/c			By Swaroop A/c	
(Rs. 1,000 x 1 500)		5,00,000	Cash Sales 3,00,000	
To Bank A/c:			(500 x Rs. 600)	
Freight	4,000		Credit Sales 1,40,000	4,40,000
Insurance	1,000	5,000	(200 x Rs. 700)	
To Swaroop A/c (Exp. & Comm.)			By Stock Destroyed in Transit A/c	50,500
Sales Expenses	2,000		[100/1000 (Rs. 5,00,000 + Rs. 5,000)]	
Commission	22,000		By Consignment Stock A/c	1,01,000

(5% on 4,40,000)			[200/1000 (5,00,000 + 5,000)]	
Del-credere Commission	2,800			
(2% on 1,40,000)				
Special Commission	5,000	31,800		
25/100 x [4,40,000 - (700 x 500 x 120/100)]				
To Profit on Consignment		54,700		
(transferred to P&L A/c)				
		5,91,500		5,91,500

Dr. CONSIGNMENT DEBTORS ACCOUNT Cr.

Particulars	Rs.	Particulars	
To Swaroop A/c	1,40,000	By Bank A/c	1,38,000
		[1,40,000 - (2,800 - 800)]	
		By Swaroop A/c (Bad debts)	2,000
	1,40,000		1,40,000

Dr. SWAROOP'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Sales]	4,40,000	By Consignment A/c	31,800
To Consignment Debtors A/c	2,000	By Consignment Debtors	1,40,000
		By Bank (remittance)	2,70,200
	4,42,000		4,42,000

Q13> Goods are invoiced by Shri Amar, Consignor, to his agent Shri Ashok at selling price. The agent reports sales made and collection of book-debts by him and by monthly advice. He received 5% commission on cash collected plus an allowance of expenses @ Rs. 400 per annum.

During the half year ended 30th Sept, goods were invoiced to the agent at a value of Rs. 80,600. Such goods cost Shri Amar Rs. 59,000 plus freight and packing charges thereon Rs. 3,740. During the same period, sales were made by the agent amounting to Rs. 68,400. Debts collected were Rs. 57,600 and discounts were allowed amounted to Rs. 400. The agent remitted to Shri Amar Rs. 56,000. Some of the goods consigned to Shri Ashok were damaged in transit and a claim on the insurance company was settled for Rs. 1,240.

On 30th Sept., the stock in the hands of the agent and unsold represented a cost of Shri Amar Rs. 8,200. Required: Prepare the consignment account and the account of Shri Ashok in the books of Shri Amar, for the half year ended 30th Sept.

Sol. Dr. CONSIGNMENT TO ASHOK ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	59,000	By Ashok A/c-sales	68,400
To Bank A/c (freight etc.)	3,740	By Loss in Transit A/c	776
To Ashok A/c:		By Consignment Stock A/c	8,720
Allowance for expenses for			
6 months	6,200		
Discount allowed to customers	400		
Commission @ 5% on Rs. 57,600	2,880		
To Profit on Consignment			
transferred to P/L A/c	11,676		
	77,896		77,896

Dr. LOSS IN TRANSIT ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Ashok A/c	776	By Bank A/c (insurance claim	
To Profit & Loss A/c (transfer)	464	recovered)	1,240
	1,240		1,240

Dr. ASHOK'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Ashok A/c	68,400	By Consignment to Ashok A/c:	

		Allowable for expenses	200
		Discount allowed to	400
		customers	
		Commission	2,880
		By Bank A/c	56,000
		By Balance c/f	8,920
	68,400		68,400

Working Notes:	Rs.
(i) Cost of goods damaged in transit:	
A. Cost of good sent	59,000
B. Less: Cost of goods sold: Rs. 59,000 x Rs. 68,400/ Rs. 80,600]	50,069
C. Less: Cost of Stock in the hands of consignee	8,200
D. Cost of goods damaged	731
(ii) Value of Goods damaged and Unsold Stock	
A. Cost of Goods sent	59,000
B. Consignor's Expenses	3,740
C. Total Cost of Goods sent	62,740
D. Less: Cost of Goods lost in transit [62,740 x 730/59,000]	776
E. Cost of Goods reached the city of consignee	61,964
F. Add: Non-recurring Expenses	—
G. Cost of Goods received by Consignee	61,964
H. Cost of Unsold Stock [62,740 x 8,200/59,000]	8,720

Q14> 2,000 shirts were consigned by Bhagwan & Company of Delhi to Shreyans to Tokyo at a cost of Rs. 150 each. Bhagwan & Company paid freight Rs. 20,000 and insurance Rs. 3,000. During the transit 200 shirts were totally damaged by fire. Sheryans took delivery of the remaining shirts and paid Rs. 28,800 as customs duty.

Shreyans had sent a bank draft to Bhagwan & Company for Rs. 1,00,000 as advance payment,

1,600 shirts were sold by him at Rs. 200 each. Expenses incurred by Shreyans on godown rent and advertisements,etc. amounted to Rs. 4,000. He is entitled to a commission of 5%.

Sol. Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Goods sent on Consignment A/c		3,00,000	By Consignment Debtors A/c		
To Bank A/c: (Expenses)			(Credit Sale = 1600 x 200)		3,20,000
Freight	20,000		By Stock lost in transit A/c		32,300
Insurance	3,000	23,000	[3,00,000 + 23,000) x 200/2000]		
To Shreyans (Exp. & Comm.)			By Consignment Stock A/c		
Customs duty	28,800		Cost (200 x 150)	30,000	
Expenses	4,000		Foreign & Ins.		
Commission (5% on x 32,000)	16,000	48,800	(23,000x2002,000)	2,300	
To Consignment Debtors A/c (Bad Debts)		2,000	Custom Duty	3,200	35,500
To Profit on Consignment t/f to			(28,800x200/1,800)		
P&L A/c		14,000			
		3,87,000			3,87,000

Dr. SHREYAN'S ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Consignment Debtors A/c			By Bank A/c		1,00,000
(Collected)		3,18,000	By Consignment A/c:		
			Customs duty	28,800	
			Expenses	4,000	
			Commission	16,000	48,800
			By Bank A/c (final remit.)		1,69,200
		3,18,000			3,18,000

Q15> On 1st January Lila & Co., of Calcutta consigned 100 cases of Milk Powder to Shila& Co., of Bombay. The goods were charged at a proforma invoice value of Rs. 10,000 including a profit of 25% on invoice price. On the same date the consignors paid Rs. 600 for Freight and Insurance. On 1st July, the consignees paid Import Duty Rs. 1,000, Dock Dues Rs. 200 and sent to consignors a Bank Draft for Rs. 4,000 as advance. On 1st August, they sold 80 cases for Rs. 10,500 and sent a remittance for the balance due to the consignor after deducting commission at the rate 5% on gross sale proceeds. Show the Consignment Account and Shila& Co's Account in Lila & Co's Books.

Sol. Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Goods sent on Consignment		10,000	By Shila& Co. (sales)	10,500
To Bank A/c (Freight & Insurance		600	By Goods sent on Consignment	2,500
To Shila& Co. (Exp. & Comm.)			(Rs. 10,000x25/100)	
Import	1,000		By Consignment Stock A/c	2,360
Dock Dues	200		(20% of [10,000 + 600 + 1,000 + 200]	
Commission				
(5/100 x 10,500)	525	1,725		
To Consignment Stock Reserve				
(20/100 x 2,500)		500		
To Profit transferred to P&L A/c		2,535		
		15,360		15,360

Dr. SHILA &CO.S ACCOUNT Cr.

Particulars	Rs.	Particulars		Rs.
To Consignment A/c	10,500	By Consignment A/c		
		Import Duty	1,000	
		Dock Dues	200	
		Commission	525	1,725
		By Bank A/c (Bal. figure)		8,775

	10,550			10,550

Q16> On 1st Jan. Mr John of Bombay consigned to Mr Raj of Madras goods for sale at invoice price. Mr Raj is entitled to a commission of 5 per cent on sales at invoice price and 20 per cent of any surplus price realised. Goods costing Rs. 1,00,000 were consigned to Madras at the invoice price of Rs. 1,50,000. The direct expenses of the consignment amounted to Rs. 10,000. On 31st March an account sales was received by Mr John from Mr Raj showing that he had effected sales of Rs. 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were Rs. 3,000. Mr Raj accepted a bill drawn by Mr John for Rs. 1,00,000 and remitted the balance due in cash. Show the Consignment Account and the account of Mr Raj in the books Mr John.

Sol. Dr. CONSIGNMENT TO MADRAS ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Goods sent on Consignment A/c To Bank A/c (Expenses)		1,50,000 10,000	By Mr. Raj A/c (sales) By Goods sent on Consignment	1,20,000 50,000
To Mr. Raj A/c (Exp. & Comm.)			[Total Load = (1,50,000 - 1,00,000]	
Expenses	3,000		By Consignment Stock A/c	
Commission	6,000	9,000	[1/5(1,50,000 + 10,000)]	32,000
To Stock Reserve A/c[30,000 x 1/3]		10,000		
To Profit on Consignment (transferred)		23,000		
		2,02,000		2,02,000

Dr. MR. RAJ'S ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Consignment A/c		1,20,000	By Consignment A/c: Expenses	3,000	
			Commission	6,000	9,000
			By Bills Receivable A/c		1,00,000

			By Cash A/c	11,000
		1,20,000		1,20,000

Q17> Karnath sold goods on behalf of Vijay Sales Corporation on Consignment basis. On April 1, 2018, he had with him a stock of Rs. 20,000 consignment.

Karnath had instruction to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales in addition to 1% del-credere commission on total sales.

During the year ended 31st March, 2018, cash sales were Rs. 1,20,000, credit sales were Rs. 1,05,000 and Karnath's expenses relating to the consignment Rs. 3,000 being salaries and insurance. Bad debts were Rs. 3,000 and goods sent on consignment Rs. 2,00,000.

Required: Prepare Consignment Account in the books Vijay Sales Corp.

Sol. Dr. CONSIGNMENT ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Consignment Stock A/c			By Karnath's A/c (Sales)	2,25,000
(op. stock)		20,000	By Consignment Stock A/c	40,000
To Goods sent on consignment		2,00,000	(Closing Stock)	
To Kamath's A/c (Exp. & Comm.)			[20,000 + 2,00,000 -	
Salaries & Insurance	3,000		(100/125 x 2,25,000)]	
Ordinary Commission (4% on 2,25,000) Del-credere Commission	9,000 2,250	14,250		
(1% on x 2,25,000) To Profit on Consignment transferred to Profit & Loss A/c		30,750		
		2,65,000		2,65,000

Q18> Punjab Cycle Co. of Ludhiana consigned 100 bicycles to Kanpur Cycle Co. of Kanpur costing Rs. 1,500 each, invoiced at Rs. 2,000 each. The consignor paid freight Rs. 10,000 and insurance in transit Rs. 1,500. During transit, 10 bicycles were totally damaged. Kanpur Cycle Co. took delivery of the remaining bicycles and paid Rs. 1,530 for octroi duty. Kanpur Cycle Co. sent a bank draft to Punjab Cycle Co. for Rs. 50,000 as advance and later on sent an account sales showing that 80 bicycles had been sold @ Rs. 2,200 each. Expenses incurred by Kanpur Cycle Co. on godown rent were Rs. 2,000. Kanpur Cycle Co. is entitled to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price. Insurance claim was settled at Rs. 14,000.

Required: Prepare consignment account, consignee's account and accidental loss account in the books of the consignor.

Sol.

Dr. CONSIGNMENT TO KANPUR ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	2,00,000	By Kanpur Cycle Co.	
To Bank A/c (Expenses)	11,500	(Sale Proceeds)	
To Kanpur Cycle Co. (Expenses):		(80 x Rs. 2,200)	1,76,000
Octroi	1,530	By Loss-in-transit	21,320
Godown Rent	2,000	By Consignment Stock A/c	
To Kanpur Cycle Co. (Commission)	12,000	By Goods Sent on Consignment	50,000
To Consignment Stock Reserve A/c	5,000	A/c (100 x Rs. 500)	
To Profit f/t to P & L A/c	31,440		
	2,63,470		2,63,470

Dr. KANPUR CYCLE CO. ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Kanpur A/c		By Bank A/c (Advance)	50,000
(sales)	1,76,000	By Consignment to Kanpur A/c (Exp.)	3,530

		By Consignment to Kanpur A/c (Comm.)	12,000
		By Balance c/d	1,10,470
	1,76,000		1,76,000

Dr. **LOSS-IN-TRANSIT ACCOUNT** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Consignment to Kanpur A/c	16,150	By Insurance Co. (Recovered Loss)	14,000
		By Profit & Loss A/c (Loss)	2,150
	16,150		16,150

Working Notes:

(I) STATEMENT SHOWING THE CALCULATION OF ABNORMAL LOSS AND UNSOLD STOCK

Particulars	Units	Rs.
A. Cost of Goods Sent	100	1,50,000
B. Expenses incurred by Consignor	—	11,500
C. Total Cost of Goods Sent (A + B)	100	1,61,500
D. Less: Cost of Goods lost-in-transit	10	16,150
E. Cost of Goods reached the city of Consignee C - D	90	1,45,350
F. Add: Non-recurring expenses incurred by Consignee	—	1,530
G. Cost of Goods received by consignee (E + F)	90	1,46,880
H. Cost of Unsold Stock	10	16,320

(II) CALCULATION OF INVOICE VALUE OF GOODS-IN-TRANSIT AND UNSOLD STOCK

Particulars	Unsold Stock
A. Cost	16,320
B. Add: Loading @Rs. 500 per unit	5,000
C. Invoice Value [A + B]	21,320

(iii) Commission	Rs.
5% on Invoice Price **(80 x** Rs.**2,000 x 5/100)**	8,000
25% Of Surplus **(80 x** Rs.**200 x 25/100)**	**4,000**
	12,000

Q19> Kay sent **500** articles to his agent Jay at an invoice price of Rs.**25** per article and paid freight and cartage Rs.**460**. Jay sold **300** articles @ Rs.**30** per article and sent an account sales, deducting Rs.**200** for storage charges and Rs.**300** for selling expenses. He charged 10% commission on the gross sale proceeds and remitted the amount due to Kay. Jay also informed Kay that **50** articles had been damaged in transit and they cduld fetch 70% of their cost.

Required: Record the transactions in Kay's ledger showing the profit earned by the consignor.

Sol

Dr. CONSIGNMENT TO KANPUR ACCOUNT Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods Sent on Consignment A/c	12,500	By Jay (Sale Proceeds)	
To Bank A/c (Expenses)	460	(300 x Rs. 30)	9,000
To Jay (Expenses):	500	By Loss on Goods damaged-in-transit A/c	389
To Jay Commission		By Consignment Stock A/c:	
[Rs. 9,000 x 10/100]	900	Good	3,888
		Damaged	907
		By Loss t/f to P&L A/c	176
	14,360		14,360

Working Note:

(1) STATEMENT SHOWING THE CALCULATION OF ABNORMAL LOSS AND UNSOLD STOCK

Particulars	Units	Rs.
A. Cost of Goods Sent	500	12,500
B. Expenses incurred by Consignor	—	460
C. Total Cost of Goods Sent (A + B)	500	12,960
D. Cost of Unsold Stock (Good)	150	3,888
E. Cost of Damaged units	50	1,296
F. Less: 30% Loss on damaged units		388.8
G. Realizable Value of damaged goods		907.2

Q20> Renco Ltd., consign on 1st Nov., 1,000 tins of groundnut oil from Ulhasnagar to their agent Khem Singh at Dhanbad. Each tin costs Rs. 30 at the rate of Rs. 3 per kg. Renco Ltd., pay 5,000 by way of freight and other expenses. During transit 25 tins were accidentally destroyed. Khem Singh takes delivery on 15th Nov. and accepts a bill for Rs. 2,000 drawn by Renco Ltd. At 3 months. On 31st March Khem Singh sold 800 tins @ Rs. 50 per tin and reports to Renco Ltd., a theft of 35 tins. Khem Singh had also paid Rs. 600 as clearng charges, Rs. 1,000 as godown rent and Rs. 2,000 by way of labour charges and fire insurance. Khem Singh is entitled to receive a commission of 5% plus 1 % for del credere risk. Required: Show important Ledger Accounts up to 31st March in the books of Renco Ltd. Assuming that Khem Singh pays the dues by bank draft.

Sol. Dr. CONSIGNMENT TO DHANBAD ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c		30,000	By Khem Singh A/c (sale proceeds)	40,000
To Bank A/c (freight and other expenses)		5,000	By Profit & Loss A/c (accidental loss)	875
To Khem Singh A/c—expenses:			By Profit & Loss A/c (loss due	
Clearing charges	600		to theft)	1,247
Godown rent	1,000		By Consignment Stock A/c	4,986
Labour charges	2,000	3,600		
To Khem Singh A/c (commission)				
Ordinary	2,000			
Del credere	400	2,400		
To Profit on Consignment				
Transferred to P/L A/c		6,108		
		47,108		47,108

Dr. KHEM SINGH (CONSIGNEE) ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Dhanbad A/c (Sales)	40,000	By Bills Receivable A/c	20,000
		By Consignment to Dhanbad A/c: Expenses Commission	3,600 2,400
		By Bank A/c (balance received)	14,000
	40,000		40,000

Working Note: Valuation of losses and unsold stock:

Particulars	Units	Rs.
A. Cost of Goods Sent	1,000	30,000
B. Consignor in Expenses	—	5,000
C. Total Cost of of Goods Sent	1,000	35,000
D. **Less:**Cost of Loss in transit	25	875
E. Cost of Goods reached the city of consignee	975	34,125
F. **Add:**Non-recurring expenses	—	600
G. Cost of Goods received by consignee	975	34,725
H. Cost of Goods Stolen [34,725 **x** 35/975]		1,247
I. Cost of Unsold Stock [34,725 **x** 140/975]		4,986

Q21> Shri Jayaram of Madras consigned 1,000 cases of tinned fruit (Cost Rs. 7,500) to Govind Lai of Bombay on the 1st April charging them at a proforma invoice price to show a profit of 25 per cent on sales. Jayaram paid on the same date Rs. 600 in respect of freight etc. During the half year ending 30th Sept, Govind Lai Incurred expenses of Rs. 200 on godown rent and sold 800 cases of the consignment for Rs. 8,000. Govind Lai is entitled to 5% Commission on sales. Record the entries in the books of Shri Jayaram. Also give the solution by Memorandum Column Method.

Sol.

Dr. CONSIGNMENT TO BOMBAY ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	10,000	By Govind Lai (Sales)	8,000
[Rs. 7,500 + (Rs. 7,500 x 25/75)]		By Goods sent on Consignment A/c	
To Cash A/c (Freight and Insurance)	600	[Rs. 10,000 x 25/100]	2,500
To Govind Lai (Expenses)	200	By Consignment Stock A/c	
To Govind Lai (Commission)	400	Invoice Price 2,000	
To Consignment Stock Reserve A/c	500	Add: Prop. Freight 120	2,120
[Rs. 2,000 x 25/100]			
To Profit & Loss A/c (Profit)	920		
	12,620		12,620

Dr. GOVIND LAL'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment to Bombay A/c		By Consignment to Bombay A/c:	
(Sales)	8Rs.000	Expenses	200
		Commission	400
		By Balance c/d	7,400
	8,000		8,000

Dr. MEMORANDUM COLUMN METHOD CONSIGNMENT TO BOMBAY ACCOUNT Cr.

Particulars	Invoice Price **Rs.**	Cost **Rs.**	Particulars	Invoice Price **Rs.**	Cost
To Goods sent on Consign-			By Govind Lai (800 cases)	8,000	8,000
ment (1,000 cases)	10,000	7,500	By Stock (200 cases)	2,120	1,620
To Cash (Freight & Insurance)	600	600	(Cost Rs. 1.500 plusRs. 120)		
To Govind Lai			By Loss	1,080	
Commission	400	400			
Expenses	200	200			
To P & L A/c		920			
	11,200	9,620		11,200	9,620

Q22> The Calicut Consignment Stock Account in the books of Ranjit of Bombay showed a debit balance of Rs.1,500 representing the cost of ten bicycles on 1st April. On 1st June, Ranjit sent a further consignment to Calicut of 40 bicycles costing Rs. 160 each. The freight and other charges amounted to Rs. 210. On 30th Sept., Calicut agent sent an account sale showing that 8 bicycles from the old stock realised Rs. 140 each and 25 bicycles from the second consignment realised Rs. 200 each. 15 bicycles remained in stock unsold. The Calicut agent remitted an acceptance for Rs. 4,000 which was discounted for Rs. 3,915. Two bicycles from the old stock were unsalable, which the Agent returned to Bombay, on which he incurred an expenditure of Rs. 30. The agent is entitled to 5% commission, which covers all out of pocket expenses to consignment. Prepare Consignment Stock, Consignment Trading, Consignment Expenses and Consignment Profit & Loss Account, supposing that Ranjit closes his accounts on 31st March.

Sol. Dr. CALICUT CONSIGNMENT STOCK ACCOUNT Cr.

Particulars	No.	Rs.	Particulars	No.	Rs.
To Balance b/d	10	1,500	By Consignment Trading A/c	33	5,200
To Goods sent on			By Goods sent on		
Consignment A/c	40	6,400	Consignment A/c (Return)	2	300
			By Balance c/d	15	2,400
	50	7,900		50	7,900

CALICUT CONSIGNMENT TRADING ACCOUNT

Dr. FOR THE PERIOD ENDING ON 31ST MARCH Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment Stock A/c (Cost of goods sold)	5,200	By Calicut Agent's A/c (Sales)	6,120
To Gross Profit t/f to Profit & Loss A/c	920		
	6,120		6,120

Dr. CALICUT CONSIGNMENT EXPENSES ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c (freight & other charges)	210	By Calicut Consignment	
To Calicut Agent's A/c		Profit & Loss A/c	467
(Expenses & Commission)	336	By Balance c/d	
		(freight etc, on 15 bicycles)	79
	546		546

Dr. CALICUT CONSIGNMENT PROFIT AND LOSS ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment Expenses A/c	467	By Calicut Consignment Trading A/c	920
To Profit & Loss A/c (Profit)	453	(Gross Profit)	
	920		920

Q23> Star Mills Ltd. Surat, sends regular consignments of yarn to X who is the selling agent of the Mill and is entitled to a commission of 10 paise per kg of yarn sold. This includes del credere commission. Following further information is furnished to you: On 1 st April 2017, stock of yarn with the agent 20,000 kg, costing Rs. 50,000. During the year ended 31st March, 2018. Total quantity of yarn consigned—1,60,000 kg @ Rs. 3 per kg, Total quantity of yarn sold—1,50,000 kg @ Rs. 3.75 per kg (these included that opening stock of 20,000 kg). Total remittances by the Agent— Rs. 5,10,000, Railway freight paid by the agent—Rs. 40,000. Of the sales made, X could not collect Rs. 11,000 due to the insolvency of the customer.5,000kg of yarn were damaged in transit by Railway for which the agent recovered Rs. 6,000. The damaged goods were sold at the rate of Rs. 1.50 per kg. Show the following Ledger Accounts in the books of Star Mills Ltd. for the year ended 31st March, 2018.

(a) Consignment Account (b) Goods damaged-in-transit Account, and

(c) X's Account.

Sol.

DR. **CONSIGNMENT ACCOUNT** CR.

Particulars	Rs.	Particulars	Rs.
To Consignment Stock A/c (20,000 kg)	50,000	By X's A/c (Sales)	5,62,500
To Goods sent on Consignment A/c	4,80,000	(1,50,000 kg sold @ Rs. 3.75 per kg)	
(1,60,000 kg @ Rs. 3 per kg)		By Goods Damaged A/c	16,250
To X's A/c (Railway freight)	40,000	(Value of 5,000 kg damaged)	
To X's A/c (Commission @ 10 Paise)	15,000	By Consignment Stock A/c	81,250
To Profit & Loss A/c (Profit)	75,000		
	6,60,000		6,60,000

DR. **GOODS DAMAGED (IN TRANSIT) ACCOUNT** CR.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c (5,000 kg)	16,250	By X's A/c (Amount recovered	
To X's A/c (Commission)		from Railway)	6,000
[@ 10 Paise per kg on 5,000 kg]	500	By X's A/c (5,000 kg damaged	7,500
		goods sold @ Rs. 1.50 per kg)	
		By Profit and Loss A/c	3,250
	16,750		16,750

DR. **XS ACCOUNT** CR.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	5,62,500	By Consignment A/c (Railway freight)	40,000
(1,50,000 kg of goods sold)		By Consignment A/c (Commission)	15,000
To Goods Damaged A/c	6,000	By Goods Damaged A/c	
(Amount recovered from Railway)		(Commission)	500
To Goods Damaged A/c	7,500	By Bank A/c (Remittance)	5,10,000
(5,000 kg of damaged goods sold)		By Balance c/d	10,500
	5,76,000		5,76,000

Working Note: Valuation of Goods Damaged in Transit and Closing Stock

Particulars	Goods damaged in transit (5,000 kg) Rs.	Unsold stock (25,000 kg) Rs.
A Cost @ Rs. 3 per kg	15,000	75,000
B Add: Proportionate freight		
@ 25 Paise per kg	1,250	6,250
	16,250	81,250

Q24> Messrs. Goswami Brothers were appointed Agents by Sunrise Limited in 2017. You are given the following particulars relating to the year 2017-2018.

(i) Cost of Goods despatched by the Company on consignment	7,50,000
(ii) Goods fully destroyed in Transit (original cost) (iii) Expenses incurred by the Company towards:	50,000
Freight	2,500
Insurance	1,500
(iv) Expenses incurred by Goswami Brothers: Landing & Clearing	1,500
Godown Rent	1,000
Transport Charges uptoGodown	1,000
Advertisements	800
Insurance	800
(v) Advance remitted by the Agent	1,50,000
(vi) Bills payable accepted	25,000
(vii) Goods destroyed by fire (at original cost) in Agent's godown	35,000
(viii) Bad Debts	3,000
(ix) Unsold stock with Agent at the close of the year (at original cost)	50,000
(x) Insurance claim recovered by the Consignor towards loss in transit	48,000
(xi) Insurance claim recovered by the Agent towards loss by fire. All sales were effected by the Agent at 25% on original cost.	35,000

The Agent is entitled to a Commission of 10% on gross sales.	

Show the Consignor's Account (Sunrise Ltd.) as would appear in the Books of Goswami Brothers.

Sol. **Dr.** **CONSIGNOR'S ACCOUNT** **Cr.**

Particulars	Rs.	Particulars		Rs.
To Cash/Bank A/c (Advance)	1,50,000	By Cash/Bank A/c (Claim)		35,000
To Cash/Bank A/c (Expenses)	5,100	By Cash/Bank A/c (Sales)		
To Bills Payable A/c	25,000	Cost	7,50,000	
To Bad Debts	3,000	Lost in Transit	(50,000)	
To Commission A/c	76,875	Lost-in-Godown	(35,000)	
. (10% on Rs. 7,68,750)		Unsold Stocks	(50,000)	
To Balance c/d	5,43,775		6,15,000	
		Add: Profit	1,53,750	7,68,750
	8,03,750			8,03,750

Q.25 Shri Ganpath of Nagpur consigns 500 cases of goods costing Rs.1,500 each to Rawat of Jaipur. Shri Ganpath pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	15,000
Freight	45,000
Loading Charges	15,000

Shri Rawat sells 350 cases at Rs.2,100 per case and incurs the following expenses:

Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Shri Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's

Account in the books of Shri Ganpath.

Sol.

In the books of Shri Ganpath

Consignment to Rawat of Jaipur Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
		By Goods lost in Transit 50 cases @ ₹ 1,650 each*	82,500
To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Consignment Inventories:	
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	In hand 50 @ ₹ 1,695 each	84,750
To Rawat (Commission)	73,500	By Consignment Inventories:	
To Profit on Consignment ts/f to Profit & Loss A/c	36,250	In transit 50 @ ₹ 1,650 each**	82,500
	9,84,750		9,84,750

*Considered as abnormal loss.

** The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value.

Rawat's Account

Particulars	₹	Particulars	₹
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c(Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

(i) Consignor's expenses on 500 cases amounts to Rs.75,000; it comes to Rs.150 per case. The cost of cases lost will be computed at Rs.1,650 per case.

(ii) Rawat has incurred Rs.18,000 on clearing 400 cases, i.e., Rs.45 per case; while valuing closing inventories with the agent Rs.45 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs.6,11,500 is not yet paid.

Q26> Raj of Gwalior consigned 15,000 kgs of Ghee at Rs.30 per kg to his agent Siraj at Delhi. He spent Rs.5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. Rs.9,000 was paid to consignor directly by the Insurance company as Insurance claim.

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

You are required to calculate:

(i) The amount of abnormal loss (ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

Sol : **Working Notes:**

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x Rs.30)	12,000
Add: expenses incurred by the consignor @ Rs.5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

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

Consignment Account

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

Q27> Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were Rs 12,000. The account sales received by Anand shows that Raj has effected sales amounting to Rs 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs 9,600 10% of consignment goods of the value of Rs 15,000 were destroyed in fire at the Pune godown and the insurance company paid Rs 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and ·the account of Raj in the books of Anand along with the necessary calculations

SOL.:

Books of Anand

Consignment to Raj (Pune) Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Goods sent on Consignment A/c	1,50,000	By Goods sent on Consignment A/c(loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which ₹ 12,000 received from insurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on Consignment A/c	24,300
To Inventories Reserve A/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		1,89,225

Raj's Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		1,20,000

Working Notes:

1. Calculation of Loading of goods sent on consignment:

Abnormal Loss at Invoice price = Rs15,000.

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

Hence the value of goods sent on consignment = Rs15,000 x 100/ 10 = Rs1,50,000.

Loading of goods sent on consignment = Rs1,50,000 X 25/125 = Rs30,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	₹15,000
Abnormal Loss at cost = ₹15,000 x 100/125	=	₹12,000
Proportionate expenses of Anand (10 % of ₹12,000)	=	₹ 1,200
		₹13,200

3. Calculation of closing Inventories (15%):

Anand's Basic Invoice price of consignment	=	₹1,50,000
Anand's expenses on consignment	=	₹ 12,000
		₹1,62,000
Value of closing Inventories = 15% of ₹1,62,000	=	₹24,300

Loading in closing Inventories = ₹4,500 (30,000 x 15%)

4. Calculation of commission:

Invoice price of the goods sold = 75% of Rs1,50,000 = Rs1,12,500

Excess of selling price over invoice price = (Rs1,20,000- Rs1,12,500) = 7,500

Total commission = 10% of Rs1,12,500 + 25% of Rs7,500

= Rs11,250 + Rs1,875 = Rs13,125

Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

CH - 6

BILLS OF EXCHANGE & PROMISSORY NOTES

DANGAL QUESTIONS

ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
3	7	10

BASIC CONCEPTS

Lets DANGAL with ICAI RTP QUESTIONS

MAY 2018

Q1> Mr. B accepted a bill for Rs. 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs. 9,800. On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

ANS.:

Journal Entries in the Books of Mr. A

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			

December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

MAY 2019

Q2> Rita owed Rs.1,00,000 to Siriman. On 1st October, 2018, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for Rs.99,000 on 3rd October, 2018. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that Rs.50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate. Pass journal entries (with narration) in the books of Siriman.

ANS. **In the books of Siriman** **Journal Entries**

Particulars	**L.F.**		**Dr. ₹**	**Cr. ₹**
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)		Dr.	51,500	 51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)		Dr.	50,000	 50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)		Dr.	50,000	 50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)		Dr. Dr.	20,000 30,000	 50,000

NOV 2018

Q3> *Prepare Journal entries for the following transactions in K. Katrak's books.*

(i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.

(ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs. 10 discount.

(iv) Katrak's acceptance to Patel for Rs. 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

ANS.

Books of K. Katrak

Journal Entries

(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

Lets DANGAL with ICAI PAST QUESTIONS

Q1> Arun and Anand were friends and in need of funds. On 1st Jan., Awn drew a bill for Rs. 2,00,000 for 3 months on Anand. On 4th Jan. Arun got the bill discounted at 10% p.a. and remitted half of the proceeds to Anand. At maturity, Anand could not meet the bill, instead, Arun accepted Anand's bill for Rs.1,20,000on 4th April for two months. This was discounted by Anand at 12% p.a. Out of this, Rs.19,600 was paid to Arun after deducting Rs.400 discounting charges. Due to financial crisis, Arun became insolvent and the bill drawn on him was dishonoured and his estate paid 50%. Days of grace for discount purposes may be ignored. Give journal entries in the books of Arun. Also prepare Anand's Account in Arun's books and Arun's Account in the books of Anand.

Sol

JOURNAL OF ARUN

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
Jan. 1	Bills Receivable A/c	Dr.		2,00,000	
	To Anand				2,00,000
	(Being the bill for ₹ 2,00,000 drawn on Anand)				
Jan. 4	Bank A/c	Dr.		1,95,000	
	Discount A/c	Dr.		5,000	
	To Bills Receivable A/c				2,00,000
	(Being the bill discounted @ 10% p.a.)				
Jan. 4	Anand	Dr.		1,00,000	
	To Bank A/c				97,500
	To Discount A/c				2,500
	(Being half the proceeds sent to Anand)				
April 4	Anand	Dr.		1,20,000	
	To Bills Payable A/c				1,20,000
	(Being the bill of Anand accepted)				
April 4	Bank A/c	Dr.		19,600	
	Discount A/c	Dr.		400	
	To Anand				20,000
	(Being proceeds received from Anand)				
July 7	Bills Payable A/c	Dr.		1,20,000	
	To Anand				1,20,000
	(Being the bill dishonoured)				
	Anand	Dr.		1,20,000	
	To Bank A/c				60,000
	To Deficiency A/c				60,000
	(Being 50% payments made to Anand and unpaid balance transferred to Deficiency A/c)				

Dr. **ANAND'S ACCOUNT IN THE BOOKS OF ARUN** Cr.

Particulars	₹	Particulars	₹
To Bank A/c	97,500	By Bills Receivable A/c	2,00,000
To Discount A/c	2,500	By Bank A/c	19,600
To Bills Payable A/c	1,20,000	By Discount A/c	400
To Bank A/c	60,000	By Bills Payable A/c	1,20,000
To Deficiency A/c	60,000		
	3,40,000		3,40,000

Dr. **ARUN'S ACCOUNT IN THE BOOKS OF ANAND** Cr.

Particulars	₹	Particulars	₹
To Bills Payable A/c	2,00,000	By Bank A/c	97,500
To Bank A/c	19,600	By Discount A/c	2,500
To Discount A/c	400	By Bills Receivable A/c	1,20,000
To Bank A/c	1,20,000	By Bank A/c	60,000
		By Bad Debts A/c	60,000
	3,40,000		3,40,000

Q2> *Record the following transactions in the Journals of Ram and Hari:*

Ram sells goods for Rs.1,00,000 to Hari on 1st January and on the same day draws a bill on Hari at three months for the amount. Hari accepts it and returns it to Ram, who discounts it on 4th January with his bank at 12% per annum. The acceptance is dishonored on due date and the bank pays Rs.250 as noting charges.

Sol:

RAM'S JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jan. 1	Hari's A/c Dr.		1,00,000	
	To Sales A/c			1,00,000
	(Being the goods sold to Hari on credit)			
	Bills Receivable A/c Dr.		1,00,000	
	To Hari's A/c			1,00,000
	(Bill accepted Hari for the amount due)			

Jan. 4	Bank A/c Dr.		97,000	
	Discount A/c Dr.		3,000	
	To Bills Receivable A/c			
	(Bill accepted by Hari discounted with the bank at 12% p.a.)			1,00,000
	Hari's A/c Dr.		1,00,250	
	To Bank A/c			1,00,250
	(Being the amount of bill dishonoured and noting charges paid thereon, debited to Hari's account)			

HARI'S JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jan. 1	Purchases A/c Dr.		1,00,000	
	To Ram's A/c			1,00,000
	(Being the goods purchased from Ram on credit)			
	Ram's A/c Dr.		1,00,000	
	To Bills Payable A/c			1,00,000
	(Being the Acceptance given on the bill drawn by Ram)			
Jan. 4	Bills Payable A/c Dr.		1,00,000	
	Trade Expenses A/c Dr.		250	
	To Ram's A/c			1,00,250
	(Dishonour of the bill accepted by Ram on the due date)			

Q3> On 1st Jan, A drew and B accepted a bill at three months for 2,000. On 4th Jan, A discounted the bill a 15% p.a. and remitted half the proceeds to B. On 1st Feb., B drew and A accepted a bill at four months for 1,500. On 4th Feb. B discounted the bill at 15% p.a. and remitted half the proceeds to A. A and B agreed to share the discounts equally. At maturity, A met his acceptance but B failed to meet and recourse was had to A. A drew and B accepted a new bill at three months for the amounts of the original bill plus interest at 18% p.a. On July 1, B became a bankrupt and paid to his creditors only 50 *paise in the rupee. Record these transactions in A's journal and prepare B's Account.*

Sol

A'S JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
Jan. 1	Bills Receivable A/c	Dr.		2,000.00	
	To *B*				2,000.00
	(Being the acceptance of a bill received from *B*)				
Jan. 4	Bank A/c	Dr.		1,925.00	
	Discount A/c	Dr.		75.00	
	To Bills Receivable A/c				2,000.00
	(Being the bill discounted @ 15% p.a.)				
Jan. 4	*B*	Dr.		1,000.00	
	To Bank A/c				962.50
	To Discount A/c				37.50
	(Being half of the proceeds remitted to *B*)				
Feb. 1	*B*	Dr.		1,500.00	
	To Bills Payable A/c				1,500.00
	(Being the acceptance of a bill given to *B*)				
Feb. 4	Bank A/c	Dr.		712.50	
	Discount A/c	Dr.		37.50	
	To *B*				750.00
	(Being half of the proceeds of the bill received from *B*)				
April 4	*B*	Dr.		2,000.00	
	To Bank A/c				2,000.00
	(Being the bill dishonoured)				
April 4	*B*	Dr.			90.00
	To Interest A/c				90.00
	(Being the interest charged for 3 months on ₹ 2,000 @ 18% p.a.)				
April 4	Bills Receivable A/c	Dr.		2,090.00	
	To *B*				2,090.00
	(Being the acceptance of a bill received from *B*)				
June 4	Bills Payable A/c	Dr.		1,500.00	
	To Bank A/c				1,500.00
	(Being the bill discharged at maturity)				
July 1	*B*	Dr.		2,090.00	
	To Bills Receivable A/c				2,090.00
	(Being the bill dishonoured)				
July 1	Bank A/c	Dr.		920.00	
	Bad Debts A/c	Dr.		920.00	
	To *B*				1,840.00
	(Being a dividend of 50 paise in a rupee received from estate of *B* and the balance written off as bad debts)				

Dr. **B'S ACCOUNT IN A'S LEDGER** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 4	To Bank A/c	962.50	Jan. 1	By Bills Receivable A/c	2,000.00
Jan. 4	To Discount A/c	37.50	Feb. 4	By Bank A/c	712.50
Feb. 1	To Bills Payable A/c	1,500.00	Feb. 4	By Discount A/c	37.50
Apr. 4	To Bank A/c (B/R dishonoured)	2,000.00	Apr. 4	By Bills Receivable A/c	2,090.00
			July 1	By Bank A/c	920.00
Apr. 4	To Interest A/c	90.00	July 1	By Bad Debts A/c	920.00
July 1	To Bills Receivable A/c (Dishonoured)	2,090.00			
		6,680.00			6,680.00

Q4> Anil draws a bill for Rs.9,000 on Sanjay on 5th April for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for 8,820 and remits one-third amount to Sanjay.

On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for 12,600 for three months, which Sanjay discount it for 12,330 and remits Rs. 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realised from his estate on 15th October.

Required: Pass necessary Journal entries for the above transactions in the books of Anil.

Sol: **JOURNAL OF ANIL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr. 5	Bills Receivable A/c Dr.		9,000	
	To Sanjay's A/c			9,000
	(Being acceptance received from Sanjay for mutual accommodation)			
	Bank A/c Dr.		8,820	
	Discount A/c Dr.		180	
	To Bills receivable A/c			9,000
	(Being Bill discounted with bank)			

	Sanjay's A/c Dr.	3,000	
	To Bank A/c		2,940
	To Discount A/c		60
	(Being one-third proceeds of the bill sent to Sanjay)		
July 8	Sanjay's A/c Dr.	12,600	
	To Bills payable A/c		12,600
	(Being acceptance given)		
	Bank A/c Dr.	2,220	
	Discount A/c $\left(270 \times \frac{(6,000 + 2,220)}{12,330}\right)$ Dr.	180	
	To Sanjay's A/c		2,400
	(Being proceeds of second bill received from Sanjay)		
Oct. 11	Bills payable A/c Dr.	12,600	
	To Sanjay's A/c		12,600
	(Being bill dishonoured due to insolvency)		
Oct. 15	Sanjay's A/c (6,000 + 2,400) Dr.	8,400	
	To Bank A/c		4,200
	To Deficiency A/c		4,200
	(Being insolvent, only 50% amount paid to Sanjay)		

QS> *Shubham draws on Rajendra a bill for Rs. 45,000 on 1st June for 3 months. Rajendra accepts the bill and sends it to Shubham who gets it discounted for 44,100. Shubham immediately remits 14,700 to Rajendra. On the due date Shubham, being unable to remit the amount due, accepts a bill for 63,000 for three months which is discounted by Rajendra for 61,650. Rajendra sends 11,100 to Shubham. On the due date Shubham becomes insolvent, his estate paying forty paise in the rupee. Give Journal Entries in the books of Shubham and Rajendra.*

Sol

JOURNAL OF SHUBHAM

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
June	Bills Receivable A/c	Dr.		45,000	
	To Rajendra				45,000
	(Being acceptance received from Rajendra)				
June 4	Bank A/c	Dr.		44,100	
	Discount A/c	Dr.		900	
	To Bills Receivable A/c				45,000
	(Being bill discounted with Bank)				
June 4	Rajendra	Dr.		15,000	
	To Bank A/c				14,700
	To Discount A/c				300
	(Being 1/3rd proceeds of the discounted bill remitted to Rajendra)				
Sept. 4	Rajendra	Dr.		63,000	
	To Bills Payable A/c				63,000
	(Being acceptance given to Rajendra)				
Sept. 4	Bank A/c	Dr.		11,100	
	Discount A/c	Dr.		900	
	To Rajendra				12,000
	(Being amount received from Rajendra)				
Dec. 7	Bills Payable A/c	Dr.		63,000	
	To Rajendra				63,000
	(Being bill dishonoured due to insolvency)				
	Rajendra	Dr.		42,000	
	To Bank A/c				16,800
	To Deficiency				25,200
	(Being 40% share paid to Rajendra from our estate)				

Working Note: Calculation of discount to be borne by Shubham

A .	Amount due by Shubham but not remitted to Rajendra (45,000 — 15,000)	30,000
B.	Add: Amount received by Shubham from Rajendra	11,100
C.	Total amount due to Rajendra	41,100
D.	Discount to be borne = Rs 1350 x $\frac{14,110}{61,650}$ = Rs 900	

JOURNAL OF RAJENDRA

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
June 1	Shubham	Dr.		45,000	
	To Bills Payable A/c				45,000
	(Being the acceptance given to Shubham)				
June 4	Bank A/c	Dr.		14,700	
	Discount A/c			300	
	To Shubham				15,000
	(Being 1/3rd proceeds of disczounted bill received from Shubham)				
Sept. 4	Bills Receivable A/c	Dr.		63,000	
	To Shubham				63,000
	(Being acceptance received from Shubham)				
	Bank A/c	Dr.		61,650	
	Disçount A/c	Dr.		1,350	
	To Bills Receivable A/c				63,000
	(Being the bill discounted with the bank)				
	Bills Payable A/c	Dr.		45,000	
	To Bank A/c				45,000
	(Being the bill discharged)				
	Shubham	Dr.		12,000	
	To Bank A/c				11,100
	To Discount A/c				900
	(Being the amount paid to Shubham)				
Dec. 7	Shubham	Dr.		63,000	
	To Bank A/c				63,000
	(Being bill dishonoured due to Shubham's insolvency)				
	Bank A/c	Dr.		16,800	
	Bad Debts A/c	Dr.		25,200	
	To Shubham				42,000
	(Being 40% share received from Shubham)				

Q6> *On 1st July G drew a bill for 80,000 for 3 months on H for mutual accommodation. H accepted the bill* of exchange. G had purchased goods worth 81,000 from J on the same date. G endorsed H acceptance to J in full settlement.

On 1st September J purchased goods worth 90,000 from H.J. endorsed the bill of exchange received from G to H and paid 9,000 in full settlement of the amount due to H.

On 1st October H purchased goods worth 1,00,000 from G. He paid the amount due to G by cheque. Give the necessary Journal Entries in the books of H.

Sol:

JOURNAL OF H

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
July 1	G	Dr.		80,000	
	To Bills Payable A/c				80,000
	(Being Bill accepted)				
Sept. 1	J	Dr.		90,000	
	To Sales A/c				90,000
	(Being the goods sold to J)				
	Bill Receivable A/c	Dr.		80,000	
	Cash A/c	Dr.		9,000	
	Discount A/c	Dr.		1,000	
	To J's Capital A/c				90,000
	(Being B/R of ₹ 80,000 & Cash ₹ 9,000 received from J and allowed him discount of ₹ 1,000.)				
	Bills Payable A/c	Dr.		80,000	
	To Bills Receivable A/c				80,000
	(Being own acceptance received from J's endorsement, cancelled)				
Oct. 1	Purchases A/c	Dr.		1,00,000	
	To G A/c				1,00,000
	(Being the goods purchased from G)				
	G	Dr.		20,000	
	To Bank A/c				20,000
	(Being the Balance paid by cheque)				

Q7> On Ist January 2018, Akshay draws two bills of exchange for Rs 16,000 and Rs 25,000. The bill of exchange for Rs 16,000 is for two months while the bill of exchange for Rs 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March,2018, Vishal retires the acceptance for Rs 25,000, the interest rebate i.e. discount being Rs 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

SOL.: Journal Entries in the books of Akshay

2018			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000

	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

CH - 7

AVERAGE DUE DATE & ACCOUNT CURRENT

DANGAL QUESTIONS

ICAI RTP QUESTIONS	ICAI PAST QUESTIONS	TOTAL QUESTIONS
4	12	16

BASIC CONCEPTS

STUDENT NOTES

Lets DANGAL with ICAI RTP QUESTIONS

MAY 2018

Q1> *Calculate average due date from the following information:*

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

ANS.

Calculation of Average Due Date

(Taking 4th May, 2017 as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days from the base date i.e. May 4, 2017	Product ₹
2017		2017			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

$$\text{Average due date} = \text{Base date} + \text{Days equal to } \frac{\text{Total of products}}{\text{Total amount}}$$

$$= 4^{th} \text{ May, 2017} + \frac{₹\ 6,22,500}{17,750} = 4^{th} \text{ May, 2017} + 35 \text{ days} = 8^{th} \text{ June, 2017}$$

MAY 2019

Q2> *Ram purchases goods on credit. His due dates for payments were as under:*

Transaction Date	₹	Due Date
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 10

Calculate Average due date.

ANS.

Calculation of average due date (Base date: 8th April)

Due Date	Amount	No. of days from base date	Product
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
10th July	400	93	37,200
	1,175		63,350

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 63,350/1,175

= 8th April + 54 days = 1st June

MAY 2020

Q3> *Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:*

Date of bill	Amount	Usance of bill
9th April 2018	₹ 3,000	for 4 months
18th April 2018	₹ 5,500	for 3 months
25th May 2018	₹ 3,000	for 6 months
5th June 2018	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for Rs. 10,000 due in 4 months and the other for the balance with interest, due in 6 months.

Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.

ANS.

Calculation of Average Due Date

Taking Base Date 21.07.2018

Date of bill	Period	Due Date	Amount	Number of Days from Base Date	Product
			₹		₹
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = \text{21st July} + \frac{7,50,000}{17,500} = 21.7.2018 + 43 \text{ days} = 2.09.2018.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;

Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

Ist bill = Interest will be charged on Rs. 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)

= Rs. 10,000 x 10% x 63/365 = Rs. 172.60

2nd bill = Interest will be charged on Rs. 7,500 (Rs. 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2018 to 4.1.2019)

= Rs. 7,500 x 10% x 124/365 = Rs. 254.80.

Therefore, the value of the two bills:

First bill = Rs. 10,000

Second bill = Rs. (7,500+ 172.60+ 254.80) = Rs. 7,927.4

NOV 2018

Q4> *Mehnaaz accepted the following bills drawn by Shehnaaz.*

On 8th March, 2018 Rs. 4,000 for 4 months. *On 16th March, 2018 Rs. 5,000 for 3 months.*

On 7th April, 2018 Rs. 6,000 for 5 months. *On 17th May, 2018 Rs. 5,000 for 3 months.*

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save Rs. 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 157.

ANS.

Taking 19.6.2018 as a Base date

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of Rs. 157. The yearly interest is Rs. 20,000 × 18% = Rs. 3,600.

Assume that days corresponding to interest of Rs. 157 are Y.

Then, 3,600 × Y/365 = Rs. 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save Rs. 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> Hari owes Ram Rs. 2,000 on 1st April, 2018. From 1st April, 2018 to 30th June, 2018 the following further transactions took place between Hari and Ram:

April 10 Hari buys goods from Ram for Rs. 5,000.

May 16 Hari receives cash loan of Rs. 10,000 from Ram.

June 9 Hari buys goods from Ram for Rs. 3,000.

Hari pays the whole amount, together with interest @ 15% per annum, to Ram on 30th June, 2018.

Calculate the interest payable on 30th June, 2018 by the average due-date method

Sol:

CALCULATION OF AVERAGE DUE DATE [BASE DATE 1ST APRIL]

Due Date	Amount Rs.	No. of Days from Base Date to Due Date	Products Rs.
April 1	2,000	0	0
April 10	5,000	9	45,000
May 16	10,000	45	4,50,000
June 9	3,000	69	2,07,000
	20,000		7,02,000

Average Due Date = Base Date + Days equal to Total of Products/Total Amount days

Average Due Date = 1st April + 7,02,000/20,000

= 1st April + 35.1 days= 6th May, 2018

Interest therefore has been calculated on Rs. 20,000 from 6th May, 2018 to 30th June, 2018 i.e., for 55 days @ 15% per annum.

Interest = $20{,}000 \times 15/100 \times 55/365$ = Rs. 452.05

Q2> Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the balance on the average due date:

Purchases by Green from Red: Rs.

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

Sales by Green to Red: Rs.

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

You are asked to ascertain the average due date.

Sol: Let the base date be 6.1.2016

Purchases by Green

Due Date	Amount Rs.	No. of Days from Base Date to Due Date	Products Rs.
06.01.2016	6,000	0	0
02.02.2016	2,800	27	75,600
31.03.2016	2,000	84	1,68,000
	10,800		2,43,600

Sales by Green

Due Date	Amount Rs.	No. of Days from Base Date to Due Date	Products Rs.
06.01.2016	6,600	0	0
09.03.2016	2,400	62	1,48,800
20.03.2016	500	73	36,500
	9,500		1,85,300

No. of days from the Base date = 2,43,600 — 1,85,300/10,800 - 9,500 = 58 300/1,300 = 44.85 i.e. 45

days after6 January, 2016 on 20 Feb., 2016.

On 20 Feb., 2016 Green has to pay Rs. 1,300 to clear the account.

Q3> E owes to F the following amounts:

(i) Rs. 5,000 due on 10th March, 2018

(ii) Rs. 18,000 due on 2nd April, 2018

(iii) Rs. 60,000 due on 30th April, 2018

(iv) Rs. 2,000 due on 10th June, 2018

He desires to make full payment on 30th June, 2018 with interest at 10% per annum from the average due date. Find out the average due date and the amount of interest

Sol

CALCULATION OF AVERAGE DUE DATE [BASE DATE = 10TH MARCH]

Due Date	Amount Rs.	No. of Days from Base Date to Due Date	Products Rs.
March 10	5,000	0	0
April 2	18,000	21 + 2 = 23	4,14,000
April 30	60,000	21 +30 = 51	30,60,000
June 10	2,000	21 +30 + 31+10 = 92	1,84,000
Total	85,000		Total 36,58,000

Average due date = Base date + Total of Products/Total Amount

= 10th March + 36,58,000/85,000

= 10th **March** + 43.04 **day** = 10th March + 43 days (app.)

Average due date = 22nd April 2018

Interest = 85,000 x 10/100 x 69/365 = Rs. 1606.85 or Rs. 1,607

Q4> Calculate Average due date from the following information:

Date of Bill	Term	Amount (Rs.)
1st March, 2018	2 months	4,000
10th March, 2018	3 months	3,000
5th April, 2018	2 months	2,000
20th April, 2018	1 month	3,750
10th May, 2018	2 months	5,000

Sol:

CALCULATION OF AVERAGE DUE DATE

(Taking 4th May, 2018 as the base date)

Date of bill 2018	Term	Due Date 2018	Amount	No. of Days from Base Date to Due Date	Products
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
20th April	1 month	23rd May	3,750	19	71,250
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,11,250

Average due date = Base date + Days equal to Sum of Products/Sumol Amounts

= 4th May, 2018 + Rs. 6,11,250/17,750 i.e. 34 days (approx)= 7th June, 2018

Q5> Calculate average due date from the following informations:

Date of Bill	Term	Amount Rs.
16 August, 2015	3 months	3,000
20 October, 2015	60 days	2,500
14 December, 2015	2 months	2,000
24 January, 2016	60 days	1,000
06 March, 2016	2 months	1,500

Sol:

CALCULATION OF AVERAGE DUE DATE

(Taking November 19, 2015 as the base date)

Date of Bill	Term	Due Date (including 3 grace days)	Amount	No. of days from the base date i.e., Nov. 19, 2015	Product (No. of days x Amount)

August 16, 2015	3 months	Nov. 19, 2015	3,000	0	0
October 20,2015	60 days	Dec. 22,2015	2,500	33	82,500
December 14, 2015	2 months	Feb. 17, 2016	2,000	90	1,80,000
January 24, 2016	60 days	March 27,2016	1,000	129	1,29,000
March 06, 2016	2 months	May 09, 2016	1,500	172	2,58,000
			10,000		6,49,500

Average due date = Base date + Days equal to Sum of Products/Sum of amounts

= November 19, 2015 + 6,49,500/10,000

= November 19, 2015 + 65 days (approx.)= January 23, 2016

Q6> From the following calculate the average due date and interest @ 10% p.a. if Mr. X lent 125,000 to Mr. Y on 1st Jan. 2018 which is repayable in 5 half yearly installments commencing from 1st Jan. 2019.

Sol: A.D.D.= Rate of Lending + Sum of months from 1.1.2000 to date of each installment/No ofInstallments

= 1.1.2018 + 12 +18 + 24 + 30 + 36 months/5

= 1.1.2018 + 24 months = 1.1.2020

Interest = Rs. 25,000 x 10/100 x 2 years = Rs. 5,000

Q7> Mr. Alok owes Mr. Chirag Rs. 650 on 1st January 2018. From January to March, the following further transactions took place between Alok and Chirag

January 15	Alok buys goods	₹ 1,200
February 10	Alok buys goods	₹ 850
March 7	Alok received Cash loan	₹ 1,500

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method

Sol

Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date	Amount	No. of days from Jan. 1	Product
2018	₹		
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	1,500	65	97,500
	4,200		1,48,300

Average due date = Base date + days equal to Sum of Products/Sum of the Amount

= Jan. 1 + 1,48,300/4,200

= Jan. 1 + 35.31*days

= Feb. 6

Interest therefore has been calculated on Rs. 4,200 from 6thFeb. to 31st March, i.e., for 54 days.

= 4,200 x 6% x 54/365= Rs. 37.28

Q8> Mr. A owed Rs. 4,000 on 1st January, 2016 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @10% p.a. is to be calculated on all transactions.

15 January, 2016	Mr. X sold goods to Mr. A	2,230
29 January, 2016	Mr. X bought goods from Mr. A	1,200
10 February, 2016	Mr. A paid cash to Mr. X	1,000
13 March 2016	Mr. A accepted a bill drawn by Mr. X for one Month	2,000

They agree to settle their complete accounts by one single payment on 15th March 2016. Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

Sol:

MR. A IN ACCOUNT CURRENT WITH MR. X

Dr. (INTEREST UPTO 15TH MARCH, 2016 @10% P.A.) Cr.

Date 2016	Particulars	Rs.	Days	Product	Date 2016	Particulars	Rs.	Days	Product

Jan.01	To Balance b/d	4,000	75	2,00,000	Jan29	By PurchasesA/c	1,200	46	56,200
Jan15	To Sales A/c	2,230	60	1,33,800	Feb10	By Cash A/c	1,000	34,	34,000
Mar.13	To Red ink				Mar13	By Bills			
	product					Receivable A/c	2,000		
	(Rs. 2,000 x 29)			58,000	Mar15	By Balance of			
Mar	To Interest A/c	110				product			4,02,000
	(Rs 4.02,600 x 10 x 1) 100 × 366)								
		6,340		4,91,800			6,340		4,91,800

Q9> From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn by Avinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

Sol

Bhuvaneshin Account Current with Avinash for the period ending on 31st March 2018

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2018		₹			2018		₹		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24							
					March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

Calculation of interest

Interest = (1,75,050 x 5%)/365= Rs. 24

*Opening day considered in calculation of no. of days.

Q10> Two Traders Yogesh and Yusuf buy goods from one another, each allowing the others, one month'scredit.

At the end of 3 months the accounts rendered are as follows:

	Goods sold by Yogesh to Yusuf (₹)		Goods sold by Yusuf to Yogesh (₹)
April,18	12,000	April, 23	10,600
March, 15	14,000	May, 24	10,000
June, 16	16,000		

Calculate the date upon which the balance should be paid so that no interest is due either to Yogesh or Yusuf.

ANS. Taking May 21 as the zero or base date

For Yusuf's payments:

Date of Transactions	Due Date	Amount	No. of days from the base date	Products
(1)	(2)	(3)	(4)	(5)
April 18	May 21	12,000	0	0
May 15	June 18	14,000	28	3,92,000
June 16	July 19	16,000	59	9,44,000
Amount Due to Yogesh		42,000	Sum of products	13,36,000

For Yogesh's payments

Taking same base date i.e. May 21

Date of Transactions	Due Date	Amount	No. of days from the base date	Products
(1)	(2)	(3)	(4)	(5)
April 23	May 26	10,600	5	53,000
May 24	June 27	10,000	37	3,70,000
Amount Due to Y		20,600	Sum of products	4,23,000

Excess of Yusuf's products over Yogesh's = Rs 13,36,000 – Rs 4,23,000 = Rs 9,13,000

Excess amount due to Yogesh Rs 42,000 –Rs 20,600 = Rs 21,400

Number of days from the base date to the date of settlement is

9,13,000/ 21,400= 42.66 days i.e. 43 days

Hence the date of settlement of the balance amount is 43 days after May 21 i.e., on 3rd July. Yusuf has to pay Yogesh, Rs 21,400 to clear the account.

Note: Due date is calculated after considering 3 day of grace period.

Q11> The following amounts are due to X by Y. Y wants B to pay on 10th July,2019. Interest rate of 9% p.a. is taken into consideration

Due dates	₹
10th January	750
26th January (Republic Day)	1,200
23rd March	3,300
18th August (Sunday)	4,100

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date.

ANS. **Taking 10th January as the base date**

Due Date (Normal)	Due Date (Actual)	No. of days from 10th January. . .	Amount ₹	Product
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

$$\text{Average Due Date} = \text{10th Jan.} + \frac{11,53,500}{9,350}$$

= 10th Jan + 124 days (rounded off upward) = 14th May

(b) If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days

$$\text{Interest} = 9{,}350 \times \frac{9}{100} \times \frac{57}{365} = 131.41$$

The amount to be paid on 10th July: Rs9,350+ 131.41 = Rs9481.41

Q12> Ramesh has a Current Account with Partnership firm. He had a debit balance of Rs 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	Amount (Rs)
14-07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (Rs)
29-07-2018	92,000
09-09-2018	11,500

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means ofproduct of balances method.

ANS.

Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	Particulars	Dr. (₹)	Cr. (₹)	Balance (₹)	Dr.or Cr.	Days	Dr. Product (₹)	Cr. Product (₹)
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						
30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation:

OnRs 38,90,000 x 10% x 1/365 = Rs. 1,066

On Rs 5,70,000 x 8% x 1/365 = Rs. 125

Net interest to be debited = Rs. 941

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VALUATION OF INVENTORIES

DANGAL QUESTIONS

ICAI RTP QUESTIONS	ICAI PAST QUESTIONS	TOTAL QUESTIONS
3	22	25

Lets DANGAL with ICAI RTP QUESTIONS

MAY 18

Q1> Closing stock is valued by XYZ Stores on generally accepted accounting principles.

Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, the valuation of which showed a stock figure of Rs. 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs. 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to Rs. 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of Rs. 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs. 1,125 which should be taken at Rs. 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 1,550 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. 1,250 on 31st March, 2017. You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

ANS. **Statement showing the valuation of stock as on 31st March, 2017**

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	*Add*: Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2017	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

MAY 2019

Q2> A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

(iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing Rs. 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018.

ANS. **Statement of Valuation of Stock on 31st March, 2018**

		₹	₹
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

MAY 2020

Q3> Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.

(b) The total of a page had been undercast by Rs. 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices *entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.*

(iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.

v) During the final quarter, credit notes at invoiced value of Rs. 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. Transfer of ownership takes place at the time of delivery of goods.

ANS.

Valuation of Physical Stock as at March 31, 2018

			₹
Stock at cost on 31.12.2017			80,000
Add: (1) Undercasting of a page total		200	
(2) Goods purchased and delivered during January – March, 2018			
₹ (70,000 – 3,000 + 4,000)		71,000	
(3) Cost of sales return ₹ (1,000 – 200)		800	72,000
			1,52,000
Less:(1) Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2) Goods sold and dispatched during January – March, 2018			
₹ (90,000 – 5,000 + 4,000)	89,000		
Less: Profit margin $\left(89{,}000 \times \frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018			79,800

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> A company, started on April 1,2017 purchased raw material during 2017-2018 as stated below:

April 2	800 kg	@ Rs. 62 per kg
May 26	1,200 kg	@ Rs. 57 per kg
July 13	2,500 kg	@ Rs. 59 per kg
Oct. 10	3,000 kg	@ Rs. 56 per kg
Dec. 18	1,500 kg	@ Rs. 60 per kg
Feb. 29	1,000 kg	@ Rs. 65 per kg

While preparing its final accounts on March 31, 2018 the company had 1,300 kg of raw material in its godown.

Calculate the values of closing stock of raw materials according to—

(i) 'First in First Out' basis,(ii) 'Last in First Out' basis, and

(iii) 'Weighted Average' basis.

Sol :

VALUATION OF CLOSING STOCK

Particulars	Rs.
I. On FIFO basis	65,000
1,000 kg @ Rs. 65 per kg	18,000
300 kg @ Rs. 60 per kg	83,000
Value of Closing Stock	
II. On LIFO basis	
800 kg @ Rs. 62 per kg	49,600
500 kg @ Rs. 57 per kg	28,500
Value of Closing Stock	78,100

III. On Weighted Average basis

Weighted Average Cost is computed as under:

Date of Purchase	**Price** Rs.	**Quantity**	**Price × Quantity** Rs.
Apr. 2, 2017	62	800	49,600
May 26, 2017	57	1,200	68,400
July 13, 2017	59	2,500	1,47,500

Oct. 10, 2017	56	3,000	1,68,000
Dec. 18, 2017	60	1,500	90,000
Feb. 29, 2018	65	1,000	65,000
		10,000	5,88,500

Weighted Average Price = 5,88,500/10,000 = Rs. 58.85 Kg

Value of Closing Stock, viz., 1,300 Kg = 1,300 x Rs. 58.85 = Rs. 76,505

Q2> A firm dealing in cloth has 30,000 meters of cloths on 1st April, 2017 valued at Rs. 3,00,000 on LIFO method. It purchased 40,000 metre during the period ending 31st March, 2018 at the rate of Rs. 12 per metre and sold during the same period 60,000 meters @ Rs. 25 per metre. Ascertain the profit of the firm during the period ending on 31st March, 2018, the closing stock to be value on LIFO method. Give workings.

Sol: DR. TRADING ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To Opening Stock (30000 x ?10)	3,00,000	By Sales (60000 x ?25)	15,00,000
To Purchases (40000 x ?12)	4,80,000	By Closing Stock (10000 x Rs.10)	1,00,000
To Gross Profit	8,20,000	[30000 + 40000 – 60000]	
	16,00,000		16,00,000

Q3> In pricing the petrol sold, service station X follows FIFO while service station Y follows LIFO. On April 1st 2018 both had the same quantity of petrol in stock, viz. 8,000 litres at Rs. 25 per litre. During April each station purchased additional supplies of 3,000 litres at Rs. 26 per litre. Sales for each of these stations during the month were 10,000 liters at Rs. 27 per litre. Calculate for each service station the profit earned during the month and the value of petrol in stock at the end of the month.

Sol :

SERVICE STATION X (USING FIFO METHOD)

Particulars		Rs.
A.	Opening Stock 8,000 litres @ Rs. 25	2,00,000
B.	Purchases 3,000 litres @ Rs. 26	78,000
C.	Less: Value of Closing Stock: [1,000 litres @ Rs. 26]	(26,000)
D.	Cost of Sales [A + B – C]	2,52,000
E.	Sales 10,000 litres @ Rs. 27	2,70,000
F.	Profit during April [E – D]	18,000

SERVICE STATION Y (USING LIFO METHOD)

Particulars	Rs.
A. Opening Stock 8,000 litres @ Rs. 25	2,00,000
B. Purchases 3,000 litres @ Rs. 26	78,000
C. Less: Value of Closing Stock: [1,000 litres @ Rs. 25]	(25,000)
D. Cost of Sales [A + B – C]	2,53,000
E. Sales: 10,000 litres @ Rs. 27	2,70,000
F. Profit during April [E – D]	17,000

Q4> Calculate Cost of Goods Sold, Value of Closing Stock and Profit under LIFO method of stock valuation from the following information:

December 30, 2017	Stock 200 units at Rs. 6 each
January 16, 2018	Bought 240 units at Rs. 8 each
February 3, 2018	Bought 220 units at Rs. 10 each
February 21,2018	Bought 280 units at Rs. 12 each

During March, 2018, 800 units were sold at Rs. 16 each

Sol:

STORES LEDGER (ACCORDING TO LIFO METHOD)

	Reciepts			Sales			Balance		
Date	Unit	Cost	Amount	Unit	Cost	Amount	Unit	Cost	Amount
2017									
Dec 30					—		200	6	1,200
2018							200	6	1,200

Jan 16	240	8	1,920		—		240	8	1,920
							200	6	1,200
Feb 3	220	10	2,200				240	8	1,920
							220	10	2,200
Feb 21	280	12	3,360				200	6	1,200
							240	8	1,920
							220	10	2,200
							280	12	3,360
March				280	12	3,360			
				220	10	2,200			
				240	8	1,920			
				60	6	360	140	6	840
			7,480			7,840			

1. Cost of Goods Sold = Rs. 7,840 (i.e. Rs. 3,360 + 2,200 + 1,920 + 360)

2. Stock at the end = Rs. 840

3. Profit = Sales – Cost of Goods Sold

= (800 x Rs. 16) – (Rs. 3,360 + Rs. 2,200 + Rs. 1,920 + Rs. 360) = Rs. 12,800 – Rs. 7,840

= Rs. 4,960

Q5> The following are the details of a spare part of Sriram Mills:

01.01.2018	Opening stock	Nil
01.01.2018	Purchases	100 units @ Rs. 30 per unit
15.01.2018	Issued for consumption	50 units
01.02.2018	Purchases	200 units @ Rs. 40 per unit
15.02.2018	Issued for consumption	100 units
20.02.2018	Issued for consumption	100 units
01.03.2018	Purchases	150 units @ Rs. 50 per unit
15.03.2018	Issued for consumption	100 units

Required: Find out the Value of Stock as on 31.03.2018 if the company follows: (a) First in First Out basis; (b) Last in First Out basis; (c) Weighted Average basis.

Sol:

(I) STOCK LEDGER (ON FIFO BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50	30	1,500
							200	40	8,000
15.02.2018				50	30	1,500			
				50	40	2,000	150	40	6,000
20.02.2018				100	40	4,0 00	50	40	2,000
01.03.2018	150	50	7,500				50	40	2,000
							150	50	7,500
15.03.2018				50	40	2,000			
				50	50	2,500	100	50	5,000

Therefore, the Value of Stock as on 31.3.2018: 100 units @ Rs. 50 = Rs. 5,000.

(B) STOCK LEDGER (ON LIFO BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50	30	1,500
							200	40	8,000
15.02.2018				100	40	4,000	50	30	1,500
							100	40	4,000
20.02.2018				100	40	4,000	50	30	1,500
01.03.2018	150	50	7,500				50	30	1,500
							150	50	7,500
15.03.2018				100	50	5,000	50	30	1,500
							50	50	2,500

Therefore, the Value of Stock as on 31.3.2018

= [50 units @ Rs. 30 + 50 units @ Rs. 50] = Rs. 4,000

© STOCK LEDGER (ON WEIGHTED AVERAGE BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate Rs.	Amount Rs.	Quantity	Rate Rs.	Amount Rs.	Quantity	Rate Rs.	Amount Rs.
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				250	38	9,500
15.02.2018				100	38	3,800	150	38	5,700
20.02.2018				100	38	3,800	50	38	1,900
01.03.2018	150	50	7,500				200	47	9,400
15.03.2018				100	47	4,700	100	47	4,700

Therefore, the Value of Stock as on 31.3.2018

= 100 units @ Rs. 47 = Rs. 4,700.

Q6> Navkar Ltd. Was following LIFO method of valuation of stock. Due to promulgation of revised accounting standard, they want to switch over to FIFO method. From the following information:

(i) Draw up stock ledgers under FIFO and LIFO methods of valuation of stocks.

(ii) Find out the closing stock and cost of materials consumed under each of the above two methods:

Opening Stock:	5,000 MT @ Rs. 22 per MT Rs. 1,10,000
Purchases:	
1.6.2018	1,000 MT @ Rs. 30 per MT
5.6.2018	2,000 MT @ Rs. 35 per MT
10.6.2018	1,500 MT @ Rs. 38 per MT
15.6.2018	1,500 MT @ Rs. 35 per MT
20.6.2018	2,000 MT @ Rs. 32 per MT
25.6.2018	2,000 MT @ Rs. 35 per MT

30.6.2018	1,500 MT @ Rs. 30 per MT
Issues:	
1-5.6.2018	2,000 MT
6-10.6.2018	3,000 MT
11-20.6.2018	4,000 MT
21-25.6.2018	3,000 MT
26-30.6.2018	3,000 MT

Sol:

STOCK LEDGER (ON FIFO BASIS)

	Purchases			Sales			Balance		
Date	**Quantity**	**Rate**	**Amount**	**Quantity**	**Rate**	**Amount**	**Quantity**	**Rate**	**Amount**
		Rs.	**Rs.**	Rs.	**Rs.**	**Rs.**	Rs.	**Rs.**	**Rs.**
2018	**Op.** Bal.					5,000	22	1,10,000	
June 1	1,000	30	30,000				5,000	22	1,10,000
							1,000	30	30,000
June 1-5				2,000	22	44,000	3,000	22	66,000
							1,000	30	30,000
June 5	2,000	35	70,000				3,000	22	66,000
							1,000	30	30,000
							2,000	35	70,000
June 6-10				3,000	22	66,000	1,000	30	30,000
							2,000	35	70,000
June 10	1,500	38	57,000				1,000	30	30,000
							2,000	35	70,000
							1,500	38	57,000
June 15	1,500	35	52,500				1,000	30	30,000
							2,000	35	70,000
							1,500	38	57,000
							1,500	35	52,500
June 11-20				1,000	30	30,000			
				2,000	35	70,000			
				1,000	38	38,000	500	38	19,000
							1,500	35	52,500
June 20	2000	32	64,000				500	38	19,000
							1,500	35	52,500
							2,000	32	64,000

June 21-25				500	38	19,000			
				1,500	35	52,500			
				1,000	32	32,000	1,000	32	32,000
June 25	2,000	35	70,000				1,000	32	32,000
							2,000	35	70,000
June 26-30				1,000	32	32,000			
				2,000	35	70,000	—	—	—
June 30	1500	30	45,000				1,500	30	45,000
Total			3,88,500			4,53,500			

Particulars	**FIFO**	**LIFO**
Closing Stock	Rs. 45,000	Rs. 45,000
Cost of Materials Consumed	Rs. 4,53,500	Rs. 4,53,500

Assumption: In case of purchases and issues of goods on the same day, it has been assumed that the issues were made before making purchases.

Q7> From the following data, find out value of inventory as on 30th April using (a) LIFO method, and (b) Weighted Average Method:

1. 1st April Purchased	10 units @ Rs.70 per unit
2. 6th April Sold	5 units @ Rs.90 per unit
3. 9th April Purchased	20 units @ Rs.75 per unit
4. 18th April Sold	14 units @Rs.100 per unit

Sol: **(A) VALUATION OF CLOSING INVENTORY BY LIFO METHOD**

Date	**Receipts**			**Issue**			**Balance**		
	Unit	**Cost/unit**	**Amount**	**Unit**	**Cost/unit**	**Amount**	**Unit**	**Cost/unit**	**Amount**
Apr. 1	10	70	700				10	70	700
Apr. 6				5	70	350	5	70	350
Apr. 9	20	75	1500				5	70	350
							20	75	1500
Apr. 18				14	75	1,050	5	70	350
							6	75	450

Value of Closing Inventory as per LIFO Method = (4 units x Rs. 70) + (6 units x Rs. 75) = Rs. 730

(B) VALUATION OF CLOSING INVENTORY BY WEIGHTED AVERAGE METHOD

Date	Receipts			Issue			Balance		
	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount
Apr. 1	10	70	700				10	70	700
Apr. 6				5	70	350	5	70	350
Apr. 9	20	75	1500				25	74	1850
Apr. 18				14	74	1,036	11	74	814

Value of Closing Inventory as per WEIGHTED AVERAGE Method: = Rs. 814

Q8> HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available:

Sales: Rs. 47,25,000

General overheads cost Rs. 1,25,000

Inventory at beginning 1,00,000 litres @ Rs. 15 per litre

Purchases:

June 1 two lakh litres @ Rs. 14.25June 30 one lakh litres @ Rs. 15.15

Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS 2:

(i) Value of Inventory on June, 30.(ii) Amount of cost of goods sold for June.

(iii) Profit/Loss for the month of June

Sol:

(i)	Cost of closing inventory for 1,30,000 litres as on 30th June	Rs.
	1,00,000 litres @ Rs. 15.15 30,000 litres @ Rs. 14.25	15,15,000 4,27,500
	Total	19,42,500
(ii)	Calculation of Cost of Goods Sold	Rs.
	Opening inventories (1,00,000 litres@ Rs. 15)	15,00,000
	Purchases: June-1 (2,00,000 litres @ Rs. 14.25)	28,50,000
	June-30 (1,00,000 litres @ Rs. 15.15)	15,15,000 58,65,000

	Less: Closing inventories	19,42,500
	Cost of goods sold	39,22,000
(iii)	Profit = Rs. 47,25,000 –(Rs. 39,22,500 + Rs. 1,25,000) = Rs. 6,77,500	

Q9>

Unsold units with Agent	1,000
Cost per unit	Rs. 10
Estimated Selling Price per unit as at Balance Sheet Date	Rs. 8
Agent's Commission on Sales What should be the Value of Closing Stock?	5%

SOLUTION:

I. Cost of Closing Stock (1,000 x Rs. 10)	Rs. 10,000
II. Net Realizable Value	
A. Total Realizable Value (1,000 x Rs. 8)	Rs. 8,000
B. Less: Realizable Expenses (here agent's commission is realizable expense) (Rs. 8,000 x 5/100)	Rs. 400
C. Net Realizable Value (A – B)	Rs. 7,600
III. Valuation since out of cost (which is Rs. 10,000 as calculated above) and NRV (which is Rs. 7,600), NRV is lower, the said unsold stock should be valued at Rs. 7,600.	

Q10> Best Ltd. Deals in five products, P, Q, R, S, and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31st March 2018, the historical cost and net realizablevalue of the items of the dosing stock are determined as follows:

Items	Historical Cost	Net Realizable Value
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock as at 31st March 2018 as per AS 2 "Valuation of Inventories"?

Sol: As per para 5 of AS 2 "Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value.Inventories should be written down to net realizable value on an item-by-item basis.

VALUATION OF INVENTORY (ITEM WISE) AS AT 31 ST MARCH 2018

Item	Historical Cost	Net realizable value	Valuation of closing stock
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	1,60,000
			23,29,000

The value of inventory as at 31st March 2018 = Rs. 23,29,000.

Q11> X who was closing his books on 31.3.2018 failed to take the actual Stock which he did only on 9th April, when it was ascertained by him to be worth Rs. 25,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases daybook once the invoices are received.

It was found that sales between 31st March and 9th April as per the sales day book are Rs. 1,720.

Purchases between 31st March and 9th April as per purchases day book are Rs. 120, out of these goods amounting to Rs. 50 were not received until after the stock was taken.

Goods invoiced during the month of March, but goods received only on 4th April, amounted to Rs. 100.

Rate of gross profit is 33-1/3% on cost.

Required: Ascertain the value of physical stock as on 31.3.2018

Sol:

STATEMENT OF VALUATION OF PHYSICAL STOCK AS ON 31ST MARCH, 2018

Particulars		Rs.
A	Value of Stock as on 9th April	25,000
B	**Add:**Cost of Sales during the intervening period [Rs. 1,720 x 25%]	1,290
C	**Less:**Purchases actually received during the interveningperiod [Rs. 120 – Rs. 50]	70
D	**Less:**Purchases during March received on 4th April	100
E	Value of Physical Stock as on 31st March (A + B – C – D)	26,120

Q12> Mr Vijay's financial year ends on 31st March 2018, but actual stock is not taken until the following 8th April when it is ascertained at Rs. 7,425.

You find that:

(a) Sales are entered in the sales book on the same day as dispatched and returns inward in the return inward book the day the goods are received back.

(b) Purchases are entered in the purchases day book as the invoices are received.

(c) Sales between 31st March and 8th April as per the sales day book and cash book are Rs. 8,600.

(d) Purchases between 31st March and 8th April as per the purchases day book are Rs. 660 but, of these goods amounting to Rs. 60 are not received until after the stock was taken.

(e) Goods invoiced during the March (before 30th March) but not received until after 30th March amounted to Rs. 500 of which Rs. 350 worth are received between 31st March and 8th April.

(f) Rate of Gross Profit is 33.33% on cost. Ascertain the value of Stock on 31st March, 2018

Sol:

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31st MARCH, 2018

Particulars		**Rs.**
A	Stock as on 8th **April**	7,425
B	**Add:** Cost of goods sold after 31, March [75% of Rs. 8,600]	6,450
C	**Less:** Cost of goods purchased & received after 31st March [Rs. 660 – Rs. 60]	600
D	**Add:** Purchases invoiced before 31st March, not received	
	upto 8th **April** (Rs. 500 – Rs. 350)	150
E	Stock as on 31st March	13,425

Q14> Determine the value of stock to be taken for Balance Sheet as on 31 st March, 2018 from the following information:

(a) Purchases Rs. 50,000, of this, goods worth Rs. 20,000 were delivered on 5th April.

The stock was physically verified on 23rd March, and was valued at Rs. 6,00,000. Between 23rd March, and 31st March, the following transactions had taken place:

(b) Out of goods sent on consignment, goods worth Rs. 30,000 (at cost) were unsold.

(c) Sales were Rs. 1,70,000. These includes goods worth Rs. 40,000 sent on approval. Half of these were returned before 31st March, as regards remaining, no information is received. Option period is 2 weeks.

(d)Normally firm sells goods on cost + 25%. However, one lot of goods costing Rs. 30,000 was sold for Rs. 15,000.

Sol: **STATEMENT SHOWING THE VALUATION OF STOCK AS ON 31 ST MARCH, 2018**

Particulars			Rs.
A	Physical Stock as on 23rd March		6,00,000
B	Add: (a) Cost of Goods purchased after stock taking till 31st March		
	Goods received	30,000	
	Goods in transit	20,000	
	(b) Cost of Stock on Consignment	30,000	80,000
C	Less: Cost of Goods sold after stock taking till 31st March		
	(a) Cost of Normal Sales (80% of Rs. 1,15,000)	92,000	
	(b) Cost of Abnormal Sales	30,000	(1,22,000)
D	Stock as on 31st March (A + B – C)		5,58,000

Working Note: Calculation of Normal Sales	Rs.
A Actual Sales (given)	1,70,000
B Less (a) Sale of Abnormal Items	15,000
(b) Goods sent on approval basis	40,000
C Normal Sales (A – B)	1,15,000

Note: Since the stock given on 23rd March already includes the cost of goods sent on approval basis, no adjustment is required in this respect. It is assumed that Goods are being sold after 23rd March

Q15> Following information are available from the books of accounts of AB and Co. for the year 2017-2018:

	Rs.
Purchases during the year	28,200

Stock on 1-4-2017	5,960
Sales during the year	31,610

At the time of valuation of stock for 2016-2017, a part of the stock costing Rs. 1,800 was recorded in the books for Rs. 1,560; one-third of these goods were sold during the year for Rs. 610.

Required: Find out the value of the stock as on 31st March 2018 assuming that firm makes 25% profit on cost.

Sol:

STATEMENT SHOWING THE VALUE OF STOCK AS ON 31st MARCH 2018

Particulars	Normal Item Rs.	Abnormal Item Rs.	Total Rs.
A Opening Stock	4,400	1,560	5,960
B Purchases	28,200	—	28,200
C Cost of goods available for sale (A + B)	32,600	1,560	34,160
D **Less:** Cost of goods sold: Normal [80% of Rs. 31,610 – Rs. 610] Abnormal [1/3 of Rs. 1,560]	24,800	520	25,320
E Value of Closing Stock	7,800	1,040	8,840

Thus, Book value of Closing Stock Rs. 8,840.

Q16>

From the following information, ascertain the value of stock as on 31.3.2018:	Rs.
Value of Stock on 1.4.2017	70,000
Purchases during the period from 1.4.2017 to 31.3.2018	3,46,000
Manufacturing expenses during the above period	70,000
Sales during the same period	5,22,000

At the time of valuing stock on 31.3.2017, a sum of Rs. 6,000 was written off a particular item which was originally purchased for Rs. 20,000 and was sold for Rs. 16,000. But for the other transactions the gross profit earned during the year was 25% on cost.

Sol:

STATEMENT SHOWING THE VALUATION OF CLOSING STOCK AS AT 31ST MARCH, 2018

Particulars		Rs.	Rs.
A	Normal Sales [Rs. 5,22,000 - Rs. 16,000]		5,06,000
B	**Less:**Gross Profit @ 20% on Sales		1,01,200
C	Cost of Goods sold		4,04,800
D	**Less:**Opening Stock of Normal Goods [Rs. 70,000 - Rs. 14,000]	56,000	
	Purchases	3,46,000	
	Manufacturing Expenses	70,000	4,72,000
E	Value of Stock as on 31.3.2018		67,200

Q17> From the following information ascertain the value of stock as on 31st March, 2018 and also the profit for the year:

Stock as on 1.4.2017	Rs. 14,250	Administrative Expenses	Rs. 3,000
Purchases	Rs. 76,250	Financial Charges	Rs. 2,150
Manufacturing Expenses	Rs. 15,000	Sales	Rs. 1,24,500
Selling Expenses	Rs. 6,050		

At the time of valuing stock as on 31st March, 2017, a sum of Rs. 1,750 was written off on a particular item, which was originally purchased for Rs. 5,000 and was sold during the year at Rs. 4,500. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

Sol:

STATEMENT OF VALUATION OF STOCK AS ON 31 ST MARCH, 2018

Particulars		Rs.	Rs.
A..	Stock as on 1st April, 2017	14,250	
B.	Less: Book value of abnormal stock (Rs. 5,000 – 1,750)	3,250	11,000
C.	Add: Purchases		76,250
	Manufacturing Expenses		15,000
			1,02,250
D	Less: Cost of Normal Sales:[80% (1,24,500 – 4,500)]		96,000
E	Stock as on 31st March, 2018		6,250

STATEMENT SHOWING NET PROFIT FOR THE YEAR

Particulars		Rs.	Rs.
A.	Gross Profit on Normal Sales		24,000
B.	**Add:**Profit on abnormal item] 4,500 – 3,250]		1,250
C.	**Less:**Overhead Expenses:		
	Selling Expenses	6,050	
	Administrative Expenses	3,000	
	Financial Charges	2,150	11,200
D.	Net Profit		14,050

Q18> The Profit and Loss Account of Hanuman showed a net profit of Rs. 60,000, after considering the closing stock of Rs. 37,500 on 31st March, 2018. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 1,500 paid for new electric fittings for the shop.

(ii) Hanuman gave away goods valued at Rs. 4,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 25,000 have been entered on 27th March, but the goods were not included in stock.

(iv) In March, goods of Rs. 20,000 sold and delivered were taken in the Sales for April, 2018.

(v) Goods costing Rs. 7,500 were sent on sale or return in March, 2018 at a margin of profit of 33.33 % on cost. Though approval was given in April, these were taken as sales for March.

Required: Calculate the value of stock on 31st March, 2018 and the Adjusted Net Profit for the year ended on that date.

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH, 2018

Particulars	Rs.
A Stock as already stated	37,500

B Add: Purchases not included	25,000
C Add: Cost of Goods sent on approval	7,500
D Stock as on 31 st March 2018	70,000

DR. PROFIT & LOSS ADJUSTMENT ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To Customer's A/c	10,000	By Profit as per P & L A/c	60,000
(Selling Price of Goods sent		By Fixtures & Fittings A/c	1,500
on approval)		By Closing Stock (in transit) A/c	25,000
To Net Profit for the year	1,04,000	By Customer's A/c	20,000
		By Closing Stock with customer	
		(on approval)	7,500
	1,14,000		1,14,000

Note: Since the rectifying entry in case of free samples involves both the revenue accounts (i.e. Advertisement A/c and Purchases Ale). Profit & Loss Adjustment A/c is to be debited as well as Credited and hence not shown in the above account.

Q19> The Profit and Loss Account of Cardamom for the year ended 31st March, 2018 showed a net profit of Rs. 2,800 after taking into account the closing stock of Rs. 4,720.

On a scrutiny of the books the following information could be obtained:

(a) Cardamom has taken goods valued Rs. 1,500 for his personal use without making entry in the books.

(b) Purchases of the year included Rs. 600 spent on acquisition of a ceiling fan for his shop.

(c) Invoices for goods amounting to Rs. 4,000 have been entered on 29th March, but such goods were Not included in stock.

(d) Rs. 500 have been included in closing stock in respect of goods purchased and invoiced on 28th March, but included in purchase for April 2018.

(e) Sale of goods amounting to Rs. 610 sold and delivered in March, had been entered in April sales.

Required: Ascertain the correct amount of closing stock as on 31st March, 2018 and the adjusted net profit for the year ended on that date

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH 2018

Particulars		Rs.
A.	Stock as already stated	Rs. 4,720
B.	Add: Purchases not included	Rs. 4,000
C.	Stock as on 31st March	Rs. 8,720

DR. **PROFIT AND LOSS ADJUSTMENT ACCOUNT** CR.

Particulars	Rs.	Particulars	Rs.
To Suppliers A/c	500	By Profit as per P&L A/c	2,800
To Net Profit for the year	9,010	By Drawings A/c (Goods taken for domestic use)	1,500
		By Fixture and Fittings A/c (Ceiling fan) (b)	600
		By Closing Stock A/c (In transit)	4,000
		By Customer's A/c (e)	610
	9,510		9,510

Q20> FY Ltd. Conducts physical stock taking every year at the end of the accounting year. Due to certain difficulties, it was not possible for it to conduct physical stock taking at the end of the accounting year ending on 31 March, 2018. Physical stock was taken on 7th April when it was valued at Rs. 34,500. The following transactions took place during 1st April to 7th April.

(a) Sales during the period were Rs. 9,340. These goods were sold at the usual rate of gross profit 25% on cost except goods which realized Rs. 840 on the basis of 20% profit on cost.

(b) Purchases during the period were Rs. 7,500, of which Rs. 800 worth of goods were delivered to the company on 10th April.

(c) Sales returns during the period were 11,500, of which 50% were out of the sales at 20% gross profit mentioned above.

(d) On 5th April, goods worth Rs. 4,000 were received, which were to be sold on consignment basis.

Required: Prepare a statement showing clearly the value of the stock to be taken into account in FY Ltd.'s final accounts for the year ended 31st March, 2018

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH 2018

Particulars		Rs.
A.	Physical Stock as at 7th April	34,500
B.	Add: Cost of Sales after 31st March (Rs. 6,800 + Rs. 700)	7,500
C.	Less: Cost of goods purchased & received after 31 st March (Rs. 7,500 – Rs. 800)	(6,700)
D.	Less: Cost of Sales returns after 31st March (Rs. 600 + Rs. 625)	(1,225)
E.	**Less:**Consignment Stock	(4,000)
F.	Value of Stock as at 31st March	30,075

Q21> SG Ltd. closes its books on 31st March each year. In the beginning of March 2018 because of a proposal for sale of business (which later fell through), the firm carried out stock taking on 10th March. The figure of stock was established as Rs. 62,500 (cost) as on that date. The firm decided not to carry out any stock taking on 31st March, 2018. From the information given below, arrive at the stock as on that date:

(a) Sales from 11th March to 31st March totalled Rs. 43,200 including Rs. 3,000 sale of goods which had cost Rs. 3,600. The firm's mark up on cost is 25%.

(b) Purchases during the same period totalled Rs. 29,200.

(c) Sales returns and purchase returns were respectively Rs. 2,200 and Rs. 1,200 in this period.

(d) Goods with customers on sale or return basis were Rs. 10,000 (proforma invoice value). The goods Had been sent on 9th March the customers had the right of returning the goods within four weeks but it was known that one customer who had goods worth Rs. 4,000 had pledged them with a bank.

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31st MARCH 2018

Particulars		Rs.
A.	Physical Stock as at 10th March	62,500
B.	Less: Cost of Sales (Rs. 32,160 +13,600)	(35,600)
C.	Add: Cost of Purchases	29,200
D.	Add: Cost of Sales Returns (80% of Rs. 2,200)	1,760
E.	Less: Cost of Purchase Returns	(1,200)
F.	Add: Cost of goods sent on approval [(80% of (10,000 - 4,000)]	4,800
		61,300

Note: Pledge of goods amounts to acceptance of goods.

Q22> Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable Circumstances actual stock has been taken on 10th April 2019, when it was ascertained at Rs 1,25,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April 2019 to 9th April 2019 amounting to Rs 20,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to Rs 4,000 at cost.

(v) Purchases during 1st April 2019 to 9th April 2019 amounting to Rs 10,000 but goods amounts to Rs 2,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to Rs 20,000 were entered on 28th March 2019 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost.

Ascertain the value of Stock as on 31st March 2019. (May 2019)

SOL:

Statement of Valuation of Physical Stock as on 31st March,2019

	₹	₹
Value of stock as on 10th April, 2019		1,25,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2019 and 9.4.2019	20,000	
Less: Gross profit @20% on sales	(4,000)	16,000
Free sample		4,000
		1,45,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2019 to 9.4.2019	10,000	
Less: Goods not received upto 9.4.2019	(2,000)	(8,000)
		1,37,000
Add: Purchases during March, 2019 but not recorded in stock		20,000
Value of physical stock as on 31.3.2019		1,57,000

CH - 9

NOT FOR PROFIT ORGANISATION

DANGAL QUESTIONS

ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
5	14	19

BASIC CONCEPTS

FORMAT

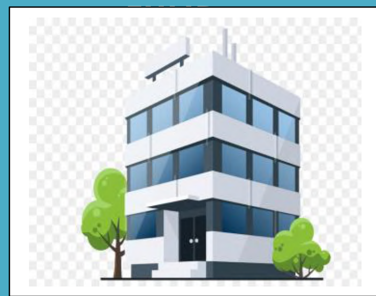
RECEIPT & PAYMENT A/C

Receipts		Rs.	Payments		Rs.
To Balance b/f:			By Balance b./d (Bank overdraft)		XXX
Cash	XXX		By Annual Sports Expenses		XXX
Bank	XXX	XXX	By Salaries & Wages		XXX
To Subscription:			By Rent, Rates & Taxes		XXX
for previous year	XXX		By Insurance		XXX
for current year	XXX		By Furniture		XXX
for next year	XXX	XXX	By Sports Equipments		XXX
To Entrance Fees		XXX	By Books & Periodicals		XXX
To Donation for Building		XXX	By Audit Fees		XXX
To General Donations		XXX	By Printing & Stationery		XXX
To Life Membership Fees		XXX	By Honorarium		XXX
To Legacy		XXX	By Bank Charges		XXX
To Grant from Govt.		XXX	By Postage & Telegrams		XXX
To Contribution for Annual Dinner		XXX	By Water & Electricity		XXX
To Dividend		XXX	By Conveyance & Travelling		XXX
To Interest		XXX	By Repairs & Maintenance		XXX
To Rent		XXX	By Sundry Expenses		XXX
To Receipt on Annual Sports		XXX	By Annual Dinner Expenses		XXX
To Sale of Old Sports Materials		XXX	By 12% Investments		XXX
To Sale of Old Magazines		XXX	By Balance c/f:		XXX
To Sundry Receipts		XXX	Cash	XXX	
To Balance c/d (Bank overdraft)(Rs.)		XXX	Bank	XXX	XXX
		XXX			XXX

INCOME & EXPENDITURE A/C

Expenditure		Rs.	Income		Rs.
To Salaries and Wages paid	XXX		By Subscription Received	XXX	
Add: Outstanding at the end	XXX		Add: Outstanding at the end	XXX	
Less: Prepaid at the end	XXX		Less: Advance at the end	XXX	
Add: Prepaid in the beginning	XXX		Add: Advance in the beginning	XXX	
Less: Outstanding in the beg.	XXX	XXX	Less: Outstanding in the		
To Rent, Rates and Taxes		XXX	beginning	XXX	XXX
To Insurance Premium		XXX	By Entrance Fees (only that portion		
To Depreciation on Furniture and		XXX	which is to be treated as revenue)		XXX
Sports equipments		XXX	By General Donations		XXX
To Books and Periodicals		XXX	By Life membership Fees (only that		
To Audit fees		XXX	portion which is to be treated as		
To Printing & Stationery		XXX	revenue)		XXX
To Honorarium		XXX	By Profit from Annual Dinner		
To Bank Charges		XXX	Contribution	XXX	
To Postage & Telegram		XXX	Less: Expenses	XXX	XXX
To Electricity & Water		XXX	By Profit on Annual sports		
To Conveyance & Travelling		XXX	(Receipts - expenses)		XXX
To Sundry Expenses		XXX	By Profit on sale of provisions		
To* Surplus i.e., excess of Income			(Sale + Closing Stock -		
over Expenditure		XXX	Purchases - Opening Stock)		XXX
			By Rent of Club Hall		XXX
			By Dividend & Interest		XXX
			By Sundry Receipts		XXX
			By* Deficit i.e. Excess of		
			Expenditure over Income		XXX
		XXX			XXX

ADJUSTMENT NO 1 : FUND BASED ACCOUNTING

S. NO.	PARTICULARS	DONATION FOR ASSET 	DONATION FOR SPECIFIC EXP. 
1.	Donation Received		
2.	Amount Invested		
3.	Interest Received from Investment		
4.	Sale of Investment		
5.	Asset Purchased / Amount Distributed as Prizes		
6.	Amount Transferred to Capital Fund / General Fund		

ADJUSTMENT NO 2 : SUBSCRIPTION

LEDGER FORMAT

SUBSCRIPTION ACCOUNT

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Outstanding Subscription A/c (Outstanding Subscription in the beginning)	XXX	By Advance Subscription A/c (Advance Subscription in the beginning)	XXX
To Income & Expenditure A/c (balancing figure)	XXX	By Bank A/c (Total Subscription received during the current year)	XXX
To Advance Subscription A/c		By Outstanding Subscription A/c	XXX
(Advance Subscription at the end)	XXX	(Outstanding subscription at the end)	
	XXX		XXX

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 MAY 2018

Smith Library Society showed the following position on 31st March, 2017.

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

	₹		₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:
Membership subscription included Rs. 10,000 received in advance.
Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.
Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate. 75% of the entrance fees is to be capitalized.
Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for Rs. 40,000.

Sol:

Smith Library Society
Income and Expenditure Account
for the year ended 31st March, 2018

Expenditure	Rs.	Rs.	Income	Rs.

To	Electric charges		7,200	By	Entrance fee (25% of Rs. 30,000)		7,500
To	Postage and stationary		5,000				
To	Telephone charges		5,000	By	Membership	2,00,000	
To	Rent	88,000			subscription	10,000	1,90,000
	Add: Outstanding	4,000	92,000		Less: Received in advance		
To	Salaries	66,000		By	Sale proceeds of old papers		1,500
	Add: Outstanding	3,000	69,000				
To	Depreciation (W.N.1)			By	Hire of lecture hall		20,000
	Electrical fittings	15,000			Interest on securities (W.N.2)	8,000	
	Furniture	5,000			Add: Receivable	500	8,500
	Books	46,000	66,000	By	Deficit- excess of expenditure over income		16,700
			2,44,200				2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2018

Liabilities	Rs.	Rs.	Asset	Rs.	Rs.
Capital fund Add: Entrance fees Less: Excess of expenditure over income	7,93,000 22,500 8,15,500 (16,700)	7,98,800	Electrical fittings Less: Depreciation	1,50,000 (15,000)	1,35,000
			Furniture Less: Depreciation	50,000 (5,000)	45,000
			Books Less Depreciation	4,60,000 (46,000)	4,14,000
Outstanding Expenses: Rent Salaries	 4,000 3,000	7,000	Investment:	1,90,000	

Membership subscription in advance		10,000	Securities Accrued interest	500	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

QUESTION 2 NOV 2018

The following information of M/s. TT Club are related for the year ended 31st March, 2018:
(1)

Balances	As on 01-04-2017 (₹)	As on 31-3-2018 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year Rs. 3,75,000
(3) Payments for Sports Material during the year Rs. 2,25,000
You are required to:
(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and
(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

SOL :

Subscription for the year ended 31.3.2018

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000

Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	Rs.	Assets	Rs.
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

QUESTION 3 MAY 2019

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		450	By	Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To	Annual Income from Subscription	4,590				
	Add: Outstanding of last year received this year	180		By	Loss on Sale of Furniture (cost price ₹ 450)	180
				By	Balance c/d	90,450
		4,770				
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:
Trustwell club had balances as on 1.4.2017: -
Furniture Rs. 1,800; Investment at 5% Rs. 27,000; Sports material Rs. 6,660;
Balance as on 31.3.2018:
Subscription Receivable Rs. 270; Subscription received in advance Rs. 90;
Stock of sports material Rs. 1,800.
Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

SOL:

Corrected Receipts and Payments Account of Trust well Club
for the year ended 31st March, 2018

	Receipts		Amount		Payments	Amount
To	Balance b/d		450	By	Expenses (Rs. 6,300 – Rs.2,700)	3,600
To	Subscription **Annual Income**	4,590		By	Sports Material	2,700
	Less: Receivable as on 31.3.2018	270		By	Balance c/d	90,720
	Add: Advance received for the year 2018–2019	90			(Cash in Hand and at Bank)	
	Add: Receivable as on 31.3.2017	180				
	Less: Advance received as on 31.3.2017	90	4,500			
To	Other Fees		1,800			
To	Donation for Building		90,000			
To	Sale of Furniture		270			
			97,020			**97,020**

Income and Expenditure Account of Trustwell club
for the year ended 31st March, 2018

Expenditure			Amount	Income		Amount
			Rs.			Rs.
To	Sundry Expenses		3,600	By	Subscription	4,590
To	Sports Material			By	Other fees	1,800
	Balance as on 1.4.2017	6,660		By	Interest on investment	1,350
	Add: Purchases	2,700			(5% on Rs. 27,000)	
	Less: Balance as on 31.3.2018	1,800	7,560	By	Deficit: Excess of Expenditure over Income	3,600
To	Loss on sale of Furniture		180			
			11,340			**11,340**

QUESTION 4 **NOV 2019**

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the year ended 31 December, 2019

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	800			(₹ 7,200 for 2018)		31,200

	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2018		5,100	By	Additions to Building		50,000
	For 2019		24,500	By	Printing and Stationery		2,400
	For 2020		2,400				
To	Government Grant			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information:	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500
Investments in 8% Govt. securities were made on 1st July, 2019.	

SOL:

JeevanHospital

Income &Expenditure Account fortheyearended31December,2019

Expenditure		**(Rs.)**	**Income**		**(Rs)**
To	Salaries	24,000	By	Subscriptions	24,500
To	Diet expenses	15,600	By	Govt. Grants (Maintenance)	20,000
To	Rent & Rates	1,700	By	Fees, Sundry Patients	4,800
To	Printing & Stationery	2,400	By	Donations	8,000
To	Electricity & Water-charges	2,400	By	Benefit shows (net collections)	6,000
To	Office expenses	2,000	By	Interest on Investments	800
To	Excess of Income over				
	expenditure transferred to Capital Fund	16,000			
		64,100			64,100

Balance Sheet as at 31st Dec., 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess ofIncome			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add :Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			**2,27,700**

QUESTION 5 MAY 2020

Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with Rs. 1,00,000 of his own and Rs. 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and Rs. 15,000 of salaries are in respect of domestic servants.
The stock of medicines in hand on 31st March, 2019 was valued at Rs. 47,500.
You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.
Sol :

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

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹ 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account
for the year ended 31st March, 2019

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice (derived from income and expenditure a/c)	2,42,000
Marriage expenses	1,07,500		
To Salary of domestic servants	15,000		
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	*Assets*	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> The following is the Receipts and Payments Account of Apollo Club in respect of the year to 31st March ,2018.

Receipts		Rs.	Payments	Rs.
To Balance b/d (Cash in hand)		2,000	By Salaries	3,000
To Subscriptions:			By Stationery	1,000
2016-2017	3,000		By Rates and Taxes	300
2017-2018	4,000		By Telephone Charges	1,500
2018-2019	1,000	8,000	By 12% Securities at par	5,000
To Profit on sports		3,000	By Sundry Expenses	200
To Interest on 12% Securities		1,000	By Balance c/d (Cash in hand)	3,000
		14,000		14,000

The following additional facts are ascertained:

(a) There are 500 members, each paying an annual subscription of Rs. 10; Rs. 3,500 being in arrears for 2016-2017 at the beginning of 2017-2018. During 2016-2017, subscriptions were paid in advance by 30 members for 2017-2018.

(b) Stock of stationery at March 31, 2017 was Rs. 400 and at March 31, 2018, Rs. 500.

(c) At March 31, 2018, the rates and taxes were prepaid to the following 31st January, the yearly charge being Rs. 300.

(d) A quarter's charge for telephone is outstanding, the amount accrued being Rs.300. The charge for each quarter is same for both 2016-2017 and 2017-2018.

(e) Sundry Expenses accruing at March 31,2017 were Rs. 50 and at March 31,2018 Rs. 60.

(f) At March 31, 2017 Building stood in the books at Rs. 30,000 and it is required to write off depreciation at 10% p.a.

(g) Face Value of 12% Securities at March 31, 2017 was Rs. 10,000 which were purchased at that date for Rs. 15,000. Additional Securities worth Rs. 5,000 are purchased at par on 31 March, 2018.

You are required to prepare:

(i) An Income and Expenditure Account for the year ended March 31,2018, and

(ii)A Balance Sheet at that date.

Sol:

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ending 31st March, 2018 Cr.

Expenditure		Rs.	Income		Rs.
To Salaries		3,000	By Subscriptions	4,000	
To Stationery:	1,000		Add: Adv in the beg	300	
Add: Opening stock	400		Add: O/s at end	700	5,000
Less: Closing Stock	500	900	By Profits on Sports		3,000
To Rates and Taxes	300		By Interest on Securities	1,000	
Less: Prepaid at end	250		Add: Accrued	200	1,200
Add: Prepaid in the beg	250	300	[(12% on Rs. 10,000 – Rs. 1,000]		
To Telephone charges	1,500				
Less: O/s in the beg	600				
Add: O/s at the end	300	1,200			
To Sundry Expenses	200				
Less: O/s in the beg	50				
Add: O/s at the end	60	210			
To Depreciation on Building		3,000			
To Surplus transferred to Capital Fund		590			
		9,200			9,200

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities	Rs.	Assets		Rs.
Outstanding Expenses	60	Cash in Hand		3,000
Outstanding Telephone charge	300	Subscriptions Receivable:		
Subscriptions received in advance	1,000	tor 2016-2017	500	
Capital fund:		for 2017-2018	700	1,200
Opening Balance 50,200		Accrued Interest on 12% Securities		200
Add: Surplus 590	50,790	12% Securities (Rs. 15,000 + Rs. 5,000)		20,000

		[Face Value Rs. 15,000]		
		Prepaid Rates and Taxes (300 x 10/12)		250
		Building	30,000	
		Less: Depreciation	3,000	27,000
		Stock of Stationery		500
	52,150			52,150

Working Note:

BALANCE SHEET AS AT 31ST MARCH, 2017

Liabilities	Rs.	Assets	Rs.
Outstanding Expenses	50	Cash in Hand	2,000
Telephone Charges due		Subscriptions Receivable	3,500
[Rs. 1,500 -(Rs. 1,200 - 300)]	600	Investments in 10% Securities	15,000
Subscriptions Received in Advance	300	[Face Value Rs. 10,000]	
(30x10)		Building	30,000
Capital Fund (Balancing figure)	50,200	Stock of Stationery	400
		Prepaid Rates and Taxes	
		(10/12 of Rs. 300)	250
	51,150		51,150

Q2> The following is the Receipts and Payments Account of the Social Club in respect of the year ended 31st March, 2018:

Receipts		Rs.	Payments	Rs.
To Balance b/d To Subscriptions:		10,250	By Salaries By Stationery	20,800 4,000
2016-2017	450		By Rates	6,000
2017-2018	21,100		By Telephone	1,000
2018-2019	750	22,300	By Investment	12,500
To Profit on sports meet		15,500	By Sundry expenses	9,250
To Income from investments		10,000	By Balance c/d	4,500
		58,050		58,050

The following additional information is provided to you:

(i) There are 450 members each paying an annual subscription of Rs. 50; Rs. 500 were in arrears for 2016-2017 as on 1st April, 2017.

(ii)On 31st March, 2018, the rates were prepaid to 30th June, 2018; the charge paid every year being Rs.6,000.

(iii) There was an outstanding telephone bill for Rs. 350 on 31st March, 2018.

(iv) Outstanding sundry expenses as on 31st March, 2017 totalled Rs. 700.

(v) Stock of stationery on 31st March, 2017 was Rs. 500; on 31st March, 2018 it was Rs. 900.

(vi) On 31st March, 2017, building stood in the books at Rs. 1,00,000 and it was subject to depreciation at 5% per annum.

(vii) Investments on 31st March, 2017 stood at Rs. 2,00,000.

(viii) On 31st March, 2018 income accrued on investments purchased during the year amounted Rs. 375.

Required: Prepare an Income and Expenditure Account for the year ended 31st March, 2018 and the Balance Sheet as at that date.

Sol :

INCOME AND EXPENDITURE ACCOUNT

Dr. **for the year ending on 31st March, 2018** Cr.

Expenditure		Rs.	Income		Rs.
To Salaries		20,800	By Subscriptions		22,500
To Stationery-Stock	500		By Profit on sports meet		15,500
Add: Purchases	4,000	4500	By Income on investments	10,000	
Less: Closing stock	900	3,600	Add: Income accrued	375	10,375
To Rates	6,000				
Less: Prepaid at the end	1,500	4,500			
Add: Prepaid in the beg.	1,500	6,000			
To Telephone	1,000				
Add: Outstanding at the end	350	1,350			
To Sundry Expenses	9,250				
Less: Outstanding in the beg.	700	8,550			
To Depreciation on Building		5,000			

To Surplus		3,075			
		48,375			48,375

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Fund Add: Surplus	3,12,050 3,075	3,15,125	Outstanding Subscriptions Investments (2,00,000 + 12,500)		1,450 2,12,500
Advance Subscription in Outstanding telephone bill		750 350	Building Less: Depreciation	1,00,000 5,000	95,000
			Prepaid rates Stock ot stationery Cash Income on investments accrued		1,500 900 4,500 375
		3,16,225			3,16,225

Working Notes:

Dr. **(I) SUBSCRIPTION ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Outstanding Subscription A/c Beg.	500	By Cash A/c	22,300
To Income and Expenditure A/c	22,500	By Outstanding Subscription A/c End.	1,450
(Rs. 50 x 450)		(balancing figure)	
To Advance Subscription A/c	750		
	23,750		23,750

(II) BALANCE SHEET AS AT 31ST MARCH, 2017

Liabilities	Rs.	Assets	Rs.
Outstanding sundry expenses Capital Fund (Balancing figure)	700 3,12,050	Building Investments Stock of stationery Cash Prepaid rates Outstanding Subscriptions	1,00,000 2,00,000 500 10,250 1,500 500
	3,12,750		3,12,750

Q3> From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.2018 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2018 and Balance Sheet as on 31.3.2018:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Secretary's Salary	12,000
Cash in hand and at bank	3,180	Salaries to Staff	25,000
Subscription	18,000	Charities	1,000
Sale of Old Newspapers	2,500	Printing and Stationery	600
Legacies	4,000	Postage Expenses	120
Interest on Investments	2,000	Rates and Taxes	1,500
Endowment Fund Receipts	20,000	Upkeep of the Land	2,000
Proceeds of Sport and Concerts	4,020	Purchase of Sports Materials	10,000
Advertisement in the Year Book	5,000	Telephone Expenses	3,480
		Closing Balance:	
		Cash in hand and at bank	3,000
	58,700		58,700

Assets and Liabilities were as follows:

Particulars	Opening Rs.	Closing Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalised. Investments were made in Securities, the rate of interest being 12% p.a., the date of investment was 1.6.2016 and the amount of investments was Rs. 20,000. Due date of interest 31 st March every year. Stock of sports materials on 31.3.2018 were useless and valued at NIL price

Sol:

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ending on 31st March, 2018 Cr.

Expenditure	Rs.	Income		Rs.
To Secretary's salary	12,000	By Subscription		17,100

To Salaries to staff	25,000	By Sale of old newspapers		2,500
To Charities	1,000	By Interest on securities	2,000	
To Printing and stationary	600	**Add:** Amount due	400	2,400
To Postage expenses	120	By Proceeds of sport and concerts		4,020
To Rates & Taxes	1,500	By Advertisement in the Year Book		5,000
To Upkeep of Land	2,000	By Deficit, Excess of		
To Sports materials written off	10,000	Expenditure over Income		24,880
To Telephone expenses	3,480			
To Depreciation on furniture	200			
	55,900			55,900

BALANCE SHEET OF EXCELLENT RECREATION CLUB AS AT 31 ST MARCH, 2018

Liabilities		Rs.	**Assets**		Rs.
Capital Fund:			Land		10,000
Opening balance	36,680		Furniture	2,000	
Less: Deficit.	24,880		**Less:** Depreciation	200	1,800
Add: Legacies	4,000	15,800	Sports Materials	10,000	
Endowment Fund		20,000	**Less:** Written off	10,000	—
Advance Subscription		400	Investment in Securities		20,000
			Outstanding Subscriptions		1,000
			Interest Due		400
			Cash in hand and at Bank		3,000
		36,200			36,200

Working Notes:

(I) BALANCE SHEET OF EXCELLENT RECREATION CLUB AS AT 31 ST MARCH, 2017

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital (Balancing Figure)	36,680	Land	10,000
Advance Subscription	500	Furniture	2,000
		Investments in Securities	20,000
		Outstanding Subscription	2,000
		Cash in hand and at Bank	3,180
	37,180		37,180

Dr.	(II) SUBSCRIPTION ACCOUNT		Cr.
Particulars	Rs.	Particulars	Rs.
To Outstanding Subscription A/c	2,000	By Advance Subscription A/c	500
To Income & Expenditure A/c (b/f)	17,100	By Bank A/c	18,000
To Advance Subscription A/c	400	By Outstanding Subscription A/c	1,000
	19,500		19,500

Q4> The Accountant of Diana Club furnishes you the following Receipts and Payments account for the year ending 31st March, 2018:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Honoraria to Secretary	9,600
Cash and Bank	16,760	Misc. Expenses	3,060
Subscriptions	21,420	Rates and Taxes	2,520
Sale of Old Newspapers	4,800	Groundman's Wages	1,680
Entertainment Fees	8,540	Printing and Stationery	940
Bank Interest	460	Telephone Expenses	4,780
Bar Receipts	14,900	Payment for Bar Purchases	11,540
		Repairs	640
		New car (Less-sale Proceeds of Old Car Rs. 6,000)	25,200
		Closing Balance:	
		Cash and Bank	6,920
	66,880		66,880

Additional Informations:

Particulars	Opening Rs.	Closing Rs.
(i) Subscription due (not received)	2,400	1,960
(ii) Cheques issued, but not presented for payment of printing	180	60
(iii) Club premises at cost	58,000	—
(iv) Depreciation on club premises provided so far	37,600	—
(v) Car at cost	24,380	—
(vi) Depreciation on car	20,580	—
(vii) Value of Bar stock	1,420	1,740
(viii) Amount unpaid for bar purchases	1,180	860

(ix) Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

Required: Prepare an Income and Expenditure account of Diana Club for the year ending 31st March, 2018 and Balance Sheet as on that date.

Sol:

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Expenditure		Rs.	Income	Rs.
To Honoraria to Secretary		9,600	By Subscriptions	20,980
To Misc. Expenses		3,060	By Sale of Old Newspapers	4,800
To Rates and Taxes		2,520	By Entertainment Fees	8,540
To Groundman's Wages		1,680	By Bank Interest	460
To Printing and Stationary		940	By Bar Receipts	14,900
To Telephone Expenses		4,780	By Profit on Sale of Car	2,200
To Bar Expenses Opening Bar Stock	1,420			
Add: Purchases	11,220			
Less: Closing Bar Stock	1,740	10,900		
To Repairs		640		
To Depreciation:				
Club Premises	**1,020**			
Car	**4,680**	5,700		
To Surplus t/f to Capital Fund		12,060		
		51,880		51,880

BALANCE SHEET AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets	Rs.
Capital Fund			Club Premises	19,380
Opening Balance	43,600		Car	26,520
Add: Excess of Income			Bar Stock	1,740
over Expenditure	12,060	55,660	Outstanding Subscription	1,960
Outstanding Liabilities for			Cash and Bank	6,920
Bar Purchases		860		
		56,520		56,520

Working Note:

(I) BALANCE SHEET OF DIANA CLUB

As at 31st March, 2017

Liabilities	Rs.	Assets		Rs.
Amount Due for Bar Purchases	1,180	Club Premises	58,000	
Capital Fund on 1.10.2002 **(Balancing Figure)**	43,600	**Less:** Depreciation	37,600	20,400
		Car	24,380	
		Less: Depreciation Bar Stock	20,580	3,800
		Outstanding		1,420
		Subscription		2,400
		Cash and Bank		16,760
	44,780			44,780

(II) CALCULATION OF BAR PURCHASES FOR THE YEAR

Particulars		Rs.
A.	Bar payments as per receipts and payments account	11,540
B.	**Add:** Amount due at the end	860
C.	**Less:** Amount due in the beginning	(1,180)
		11,220

(III) CALCULATION OF SUBSCRIPTIONS ACCRUED DURING THE YEAR

Particulars	Rs.
A. Subscriptions received	21,420
B. **Add:** Outstanding at the end	1,960
C. **Less:** Outstanding at the beginning	(2,400)
	20,980

(IV) DEPRECIATION ON CLUB PREMISES AND W.D.V

Particulars	Rs.
A. Written down value on 1 st April (58,000 - 37,600)	20,400
B. **Less:** Depreciation for the year @ 5% p.a.	(1,020)
	19,380

(V) CALCULATION OF PROFIT ON SALE OF CAR

Particulars			Rs.
A.	Sale Proceeds of old car		6,000
B.	**Less:** Written down value of old car:		

	Cost of car	24,380	
	Less: Depreciation	20,580	3,800
			2,200

(VI) DEPRECIATION ON CAR AND WRITTEN DOWN VALUE

Particulars	Rs.
A. Cost of new car purchased (25,200 + 6,000)	31,200
B. Less: Depreciation for the year @ 15% p.a.	4,680
C. Written down value	26,520

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

Q5> The following is the Receipts and Payments Account of Sydney Club for the year ended on 31st March, 2018:

Receipts	Rs.	Payments	Rs.
Opening Balances:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and Stationery	70,000
Subscription Received	2,02,750	Postage	40,000
Entrance Donation	1,00,000	Telephones and Telex	52,000
Interest Received	58,000	Repairs and Maintenance	48,000
Sale of Assets	8,000	Glass and Table Linen	12,000
Miscellaneous Income	9,000	Crockery and Cutlery	14,000
Receipts at:		Garden Upkeep	8,000
Coffee Room	10,70,000	Membership Fees	4,000
Wines and Spirits	5,10,000	Insurance	5,000
Swimming Pool	80,000	Electricity	28,000
Tennis Court	1,02,000	Closing Balances:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The Assets and Liabilities as on 1.4.2017 were as follows:

Fixed Assets (net): Rs. 5,00,000; Stock: Rs. 3,80,000; Investment in 12% Tax free Government Securities: Rs. 5,00,000; Outstanding Subscription; Rs. 12,000; Prepaid Insurance: Rs. 1,000; Sundry Creditors: Rs. 1,12,000; Subscription received in advance: Rs. 15,000, Entrance Donation Received pending membership: Rs. 1,00,000; Gratuity Fund: Rs. 1,50,000.

The following adjustments are to be made while drawing up the Accounts:

(a) Subscription received in advance as on 31st March, 2018 was Rs. 18,000.

(b) Outstanding Subscription as on 31st March, 2018 was Rs. 7,000.

(c) Outstanding Expenses are: Salaries: Rs. 8,000 and Electricity: Rs. 15,000.

(d)50% of the Entrance Donation was to be capitalised. There was no pending membership as on 31st March, 2018.

(e) The cost of assets sold net as on 1.4.2017 was Rs. 10,000.

(f) Depreciation is to be provided at the rate of 10% on assets.

(g)A sum of Rs. 20,000 received in October 2017 as Entrance Donation from an applicant was to be refunded as he had not fulfilled the requisite membership qualifications. The refund was made on 30.6.2018.

(h) Purchases made during the year amounted to Rs. 15,00,000.

(i) The value of closing stock was Rs. 2,10,000.

(j) The club as a matter of policy charges off to Income and Expenditure Account all purchases made on Account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended on 31st March, 2018 and the Balance Sheet as on 31st March, 2018 alongwith necessary workings

Sol:

INCOME AND EXPENDITURE ACCOUNT OF SYDNEY CLUB

Dr. FOR THE YEAR ENDING ON 31ST MARCH, 2018 **Cr.**

Expenditure	Rs.	Income	Rs.
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and Stationery	70,000	By Entrance Donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and Telex	52,000	By Miscellaneous Income	9,000
To Repairs and Maintenance	48,000	By Profit from Operations	92,000
To Glass and Table Linen	12,000	By Deficit t/f to Capital Fund	30,250
To Crockery and Cutlery	14,000		
To Garden Upkeep	8,000		
To Membership Fees	4,000		
To Insurance	6,000		
To Electricity Charges	43,000		
To Loss on Sale of Assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

BALANCE SHEET OF SYDNEY CLUB AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Fund:			Fixed Assets:		
Opening Balance	10,29,850		Opening Balance	5,00,000	
Add: Donation	90,000		Less: Sale	10,000	
Less: Deficit	30,250	10,89,600	Less: Depreciation	49,000	4,41,000
Gratuity Fund Sundry Creditors		1,50,000	Stock		2,10,000
Subscription Received in Advance		92,000	Investments		5,00,000
Entrance Donation refundable		18,000	Outstanding		7,000
Outstanding Salaries		20,000	Subscription		2,000
Outstanding		8,000	Interest Accrued		2,24,600
Electricity Charges		15,000	Bank Cash		8,000
		13,92,600			13,92,600

Working Notes:

1. BALANCE SHEET OF SYDNEY CLUB AS AT 1ST APRIL, 2017

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	1,12,000	Fixed Assets	5,00,000
Subscription Received in Advance	15,000	Stock	3,80,000

Entrance Donation Received		Investments	5,00,000
in Advance	1,00,000	Outstanding Subscription	12,000
Gratuity Fund	1,50,000	Prepaid Expenses	1,000
Capital Fund (Balancing figure)	10,29,850	Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

2. SUBSCRIPTION ACCOUNT

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Outstanding Subscription A/c	12,000	By Advance Subscription A/c	15,000
(Beginning)		(Beginning)	
To Income and Expenditure A/c	1,94,750	By Bank A/c	2,02,750
To Advance Subscription A/c	18,000	By Outstanding Subscription A/c	7,000
(End)		(End)	
	2,24,750		2,24,750

3. Entrance Donation

A	Entrance Donation received during the year	1,00,000
B	Add: Received in Advance as on 1.4.2017	1,00,000
C	Less: Entrance Donation refundable in respect of In-eligible Member	20,000
		1,80,000
D	Less: 50% Capitalised	90,000
E	Taken to Income and Expenditure Account	90,000

4. Loss on Sale of Assets = Cost - Sale Proceeds = Rs. 10,000 - Rs. 8,000 = Rs. 2,000.

5. Depreciation = On unsold Fixed Assets = 10% of (Rs. 5,00,000 - Rs. 10,000) = Rs. 49,000.

6. Interest Accrued = Rs. 60,000 - Rs. 58,000 = Rs. 2,000

Dr. **7. TRADING ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	3,80,000	By Receipts from Coffee Room	10,70,000
To Purchases	15,00,000	By Receipts from Wines and Spirits	5,10,000
To Profit from Operations	92,000	By Receipts from Swimming Pool	80,000
		By Receipts from Tennis Court	1,02,000
		By Closing Stock	2,10,000
	19,72,000		19,72,000

Dr. **8. SUNDRY CREDITORS ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	15,20,000	By Balance b/d	1,12,000
To Balance c/d	92,000	By Purchases	15,00,000
	16,12,000		16,12,000

Q6> The accountant of City Club gave the following information about the receipts and payments of the Club for the year ended on 31st March, 2018:

Receipts: Subscriptions: Rs.62,130; Fair Receipts: Rs. 7,200; Variety Show Receipts (net): Rs. 12,810; Interest: Rs. 690; Bar Collections: Rs. 22,350.

Payments: Premises: Rs. 30,000; Rent: Rs. 2,400; Rates and Taxes: Rs. 3,780; Printing and Stationery: Rs. 1,410; Sundry Expenses: Rs. 5,350; Wages: Rs. 2,520; Bar Purchases (Payments): Rs. 17,310; Repairs: Rs.960; New Car (less proceeds of old car Rs. 9,000): Rs. 37,800, Fair Expenses Rs. 7,170, Honorarirum to Secretary Rs. 11,000.

Information:

Particulars	Opening Rs.	Closing Rs.
Cash in Hand	450	Nil
Bank Balance as per Cash-book	24,420	10,350
Cheque issued for Sundry Expenses not presented to the bank		
(entry has been duly made in the cash-book)	270	90
Subscriptions Due	3,600	2,940
Premises (at cost)	87,000	1,17,000
Provision for Depreciation on Premises	56,400	
Car (at cost)	36,570	46,800
Accumulated Depreciation on Car	30,870	
Bar Stock	2,130	2,610
Creditors for Bar Purchases	1,770	1,290

Annual Honorarium to Secretary is Rs. 12,000. Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new Car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended on 31.3.2018.

Sol:

RECEIPTS AND PAYMENTS ACCOUNT

Dr. for the year ending on 31st March, 2018 Cr.

Receipts	Rs.	Payments	Rs.
To Opening Balances:		By Premises	30,000
Cash in Hand	450	By Rent	2,400
Bank Balance	24,420	By Rates and Taxes	3,780
To Subscriptions	62,130	By Printing and Stationery	1,410
To Fair Receipts	7,200	By Sundry Expenses	5,350
To Variety Show Receipts (Net)	12,810	By Wages	2,520
To Interest	690	By Fair Expenses	7,170
To Bar Collections	22,350	By Honorarium to Secretary	11,000
To Sale Proceeds of old car	9,000	By Bar Purchases (Payments)	17,310
		By Repairs	960
		By New Car	46,800
		By Closing Balances:	
		Cash on hand	Nil
		Bank balance	10,350
	1,39,050		1,39,050

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ending on 31st March, 2018 Cr.

Expenditure		Rs.	Income		Rs.
To Rent		2,400	By Subscriptions	62,130	
To Rent and Taxes		3,780	Add: O/s at the end	2,940	
To Printing and Stationery		1,410	**Less:** O/s in the beg.	3,600	61,470
To Wages		2,520	By Surplus from Fair:		
To Honorarium to Secretary		12,000	Fair receipts	7,200	
To Sundry Expenses		5,350	**Less:** Fair expenses	7,170	30
To Repairs		960	By Surplus from variety show		12,810
To Depreciation on:			By Interest		690

Premises @ 5%	3,030		By Profit from Bar		6,000
Car @ 20%	9,360	12,390	By Profit on sale of car		3,300
To Excess of Income over					
Expenditure transferred to Capital Fund		43,490			
		84,300			84,300

Working Notes:

Dr. (I) BAR CREDITORS ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Bar Purchases (Balancing figure)	16,830
	18,600		18,600

(ii) Profit on sale of car = Sale Proceeds - WDV = Rs. 9,000 - Rs. 5,700 = Rs. 3,300

(iii) Bar Stock Consumed = Opening Stock + Purchases - Closing Stock

= Rs. 2,130 + Rs. 16,830 - Rs. 2,610

= Rs. 16,350

(iv) Profit from Bar = Bar Collection - Bar Stock Consumed

= Rs. 22,350 - Rs. 16,350 = Rs. 6,000

Q7> The following information were obtained from the books of Delhi Club as on 31.3.2018 at the end of the first year of the Club. You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.2018 and a Balance Sheet as at 31.3.2018 on mercantile basis:

(i) Donations received for Building and Library Room Rs. 2,00,000

(ii) Other revenue income and actual receipts:

Particulars	Revenue Income	Actual Receipts
Entrance Fees	17,000	17,000

Subscription	20,000	19,000
Locker Rents	600	600
Sundry Income	1,600	1,060
Refreshment Account	—	16,000

(iii) Other revenue expenditure and actual payments:

Particulars	Revenue Income Rs.	Actual Payments Rs.
Land (cost Rs. 10,000)	—	10,000
Furniture (cost Rs. 1,46,000)	—	1,30,000
Salaries	5,000	4,800
Maintenance of Playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment Account	—	8,000

Donations to the extent of Rs. 25,000 were utilised for the purchase of Library Books, balance was still unutilised. In order to keep it safe, 9% Govt. Bonds of Rs. 1,60,000 were purchased on 31.3.2018. Remaining amount was put in the Bank on 31.3.2018 under the term deposit. Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library Books.

Sol:

RECEIPTS AND PAYMENTS ACCOUNT

Dr. for the year ending on 31st March, 2018 Cr.

Receipts	Rs.	Payments	Rs.
To Donation for Building		By Purchase of Land	10,000
& Library Room	2,00,000	By Purchase of Furniture	1,30,000
To Entrance Fees	17,000	By Salaries	4,800
To Subscription	19,000	By Maintenance of Play grounds	1,000
To Locker Rents	600	By Rent	8,000
To Sundry Income	1,060	By Refreshment Payments	8,000
To Refreshment Receipts	16,000	By Library Books	25,000
To Balance c/d [Bank overdraft]	1,08,140	By 9% Govt Bonds	1,60,000
		By Term Deposit with Bank	15,000
	3,61,800		3,61,800

INCOME & EXPENDITURE ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Expenditure	Rs.	Income		Rs.
To Salaries [Rs. 4,800 + 1 200]	5,000	By Entrance Fees		17,000
To Maintenance of playgrounds	2,000	By Subscription [Rs. 19,000 + Rs. 1,000]		20,000
To Rent	8,000	By Locker Rents		600
To Depreciation on Furniture	14,600	By Sundry Income [Rs. 1,060 + Rs. 540]		1,600
To Depreciation on Library Books	2,500	By Profit on Refreshment A/c		
To Surplus t/f to Capital fund	15,100	Receipts	16,000	
		Less: Expenses	8,000	8,000
	47,200			47,200

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital Fund:			Fixed Assets:		
Surplus	15,100		Land		10,000
Add: Trans. from Library F.	25,000	40,100	Furniture Cost	1,46,000	
Building & Library Fund:			**Less:** Depreciation	14,600	1,31,400
Donation Received	2,00,000		Library books cost	25,000	
Less: utilized and			**Less:** Depreciation	2,500	22,500
t/f Capital Fund	25,000	1,75,000	Investments:		
Supplier of Furniture		16,000	9% Govt. Bonds (Face		
Outstanding Salary		200	Value Rs. 1,60,000)		1,60,000
Outstanding Maintenance			Term Deposit with bank		15,000
of Playgrounds		1,000	Current Assets:		
Bank Overdraft		1,08,140	Outstanding Subscription		1,000
			Accused Sundry Income		540
		3,40,440			3,40,440

Q8> Summary of Receipts and Payments of Bombay Medical Aid Society for the year ended 31 st March, 2018 are as follows:

Opening Cash balance in hand Rs. 8,000, Subscription Rs. 50,000, donation Rs. 15,000. Interest on Investments @ 9% p.a. Rs. 9,000, Payments for medicine supply Rs. 30,000, Honorarium to Doctors Rs.

10,000, Salaries Rs. 28,000 sundry Expenses Rs. 1,000, Equipment purchase Rs. 15,000, Charity show expenses Rs. 1,500, Charity show collections. Rs. 12,500.

Additional informations:

Particulars	Opening	Closing
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

Required: Prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2018 and Balance Sheet as on 31st March, 2018.

Sol:

RECEIPTS AND PAYMENTS ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Receipts	Rs.	Payments	Rs.
To Cash in hand (Opening)	8,000	By Medicine supply	30,000
To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000 9,000	By Salaries	28,000
To Interest on investments	12,500	By Sundry expenses	1,000
To Charity show collections		By Purchase of Equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	9,000
	94,500		94,500

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Expenditure		Rs.	Income		Rs.
To Medicine consumed		29,000	By Subscription		51,200
To Honorarium to doctors		10,000	By Donation		15,000
To Salaries		28,000	By Interest on investments		9,000
To Sundry expenses		1,000	By Profit on charity show:		
To Depreciation on:			Show collections	12,500	
Equipment	6,000		Show expenses	1,500	11,000
Building	2,000	8,000			

To Surplus-Excess of Income					
Over Expenditure		10,200			
		86,200			86,200

BALANCE SHEET

as on 31st March, 2018

Liabilities		Rs.	Assets		Rs.
Capital Fund:			Building	50,000	
Opening Balance	1,80,300		**Less:** Depreciation	2,000	48,000
Add: surplus	10,200	1,90,500	Equipment	21,000	
Subscription received in advance		700	**Add:** Purchase	15,000	
Amount due for medicine supply		13,000		36,000	
			Less: Depreciation	6,000	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		9,000
		2,04,200			2,04,200

Working Notes:

Dr. (I) SUBSCRIPTION ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Outstanding Subscription A/c (beg.)	1,500	By Advance Subscription A/c (beg.)	1,200
To Income & Expenditure A/c	51,200	By Bank A/c	50,000
To Advance Subscription A/c	700	By Outstanding Subscription A/c (end)	2,200
	53,400		53,400

Dr. (II) CREDITORS FOR MEDICINES ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	30,000	By Balance b/d	9,000
To Balance c/d	13,000	By Credit Purchases	34,000
	43,000		43,000

Dr. (III) STOCK OF MEDICINES ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Income & Expenditure A/c	29,000
To Purchases	34,000	By Balance c/d	15,000
	44,000		44,000

Dr	(IV) EQUIPMENT ACCOUNT		Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	21,000	By Depreciation A/c	6,000
To Bank A/c (Purchases)	15,000	By Balance c/d	30,000
	36,000		36,000

(V) BALANCE SHEET OF MEDICAL AID SOCIETY
as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Capital fund (balancing figure)	1,80,300	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500

Note: Donation has been credited directly to the income and expenditure account assuming that donation is of revenue nature. Alternatively, donation may be treated as of capital nature and thus, be credited to capital fund

Q9> Following is the Income and Expenditure Account of Victoria Club for the year ending 31st March, 2018:

Expenditure		Rs.	Income	Rs.
To Salaries & Wages		19,000	By Subscription	30,000
To Misc. Expenses			By Entrance Fees received	1,000
(including Insurance)		2,000	By Annual Sports Income	
To Audit fees		1,000	Receipts 6,000	
To Chief Executives' Honorarium		4,000	Less: Expenses 3,000	3,000
To Printing & Stationery		1,800		
To Annual day				
Celebration Exp.	6,000			
Less: Donation	4,000	2,000		
To Interest on Bank loan		600		
To Dep. on Sports Equipment		1,200		

To Excess of Income over Expen.	2,400		
	34,000		34,000

Additional Information:

Particulars	Opening Rs.	Closing Rs.
(i) Subscription outstanding	2,400	3,000
(ii) Subscription received in advance	1,800	1,080
(iii) Salaries outstanding	1,600	1,800
(iv) Sports equipment (after deducting depreciation)	10,400	10,800
(v) Prepaid Insurance	—	240
(vi) Cash in Hand	5,560	6,400

(vi) The Club owned a Sports' ground of Rs. 40,000

(vii) The Club took a loan of Rs. 8,000 from a bank during the year 2016-2017, which was not paid in 2017-2018.

(viii) Audit fee of 2017-2018 was outstanding, but Audit fees of Rs. 800 for 2016-2017 was paid in 2017-2018.

Prepare Receipts and Payments Account for the year ending 31 st March, 2018 and a Balance Sheet on that date.

Sol:

VICTORIA CLUB

RECEIPT AND PAYMENT ACCOUNT

Dr. for the year ended 31st March, 2018 Cr.

Receipts		Rs.	Payments		Rs.
To Balance b/d		5,560	By Salaries & wages		
To Donation for Annual Day		4,000	for current year	19,000	
To Subscription			+ O/s into beg.	1,600	
for current year	30,000		- O/s at the end	1,800	18,800
+ O/s in the beg.	2,400		By Misc. expenses		
- O/s at the end	3,000		for current year	2,000	
+ Advance at the end	1,080		+ Prepaid at the end	240	2,240
- Advance in the beg. 1,800		28,680	By Audit fees for current year	1,000	

To Entrance fees	1,000	+ O/s in the beg.	800	
To Annual sports receipts	6,000	- O/s at the end	1,000	800
		By Chief Executive's Honorarium		4,000
		By Printing & Stationery		1,800
		By Annual Day Expenses		6,000
		By Interest on Bank Loan		600
		By Annual Sport Expenses		3,000
		By Sports Equipment		1,600
		By Balance c/d		6,400
	45,240			45,240

BALANCE SHEET AS AT 31ST MARCH, 2018

Liabilities		Rs.	Assets		Rs.
Capital fund:			Sports Ground		40,000
Opening Balance	46,160		Sports equipment		
Add: Surplus	2,400	48,560	Opening balance	10,400	
Loan from Bank		8,000	Add: Addition	1,600	
Subscription received in advance		1,080	Less: Depreciation	1,200	10,800
Salaries outstanding		1,800	Subscription Outstanding		3,000
Audit fees outstanding		1,000	Prepaid Insurance		240
			Cash		6,400
		60,440			60,440

Working Notes:

Dr. **(I) SPORTS EQUIPMENT ACCOUNT** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,400	By Depreciation A/c	1,200
To Cash A/c (b/f)	1,600	By Balance b/d	10,800
	12,000		12,000

(II) OPENING BALANCE SHEET AS AT 31.3.2017

Liabilities	Rs.	Assets	Rs.
Loan from Bank	8,000	Sports ground	40,000
Subscription received in advance	1,800	Sports equipment	10,400
Salaries outstanding	1,600	Subscription outstanding	2,400
Audit fees o/s	800	Cash	5,560

Capital fund (b/f)	46,160		
	58,360		58,360

Q10> The Income & Expenditure Account of City Sports Club for year ended 31st March, 2018 was as follows:

Expenditure	Rs.	Income	Rs.
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	10,000
To Rent	12,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000
To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Depreciation of Sports equipment	6,000		
To Surplurs	12,000		
	2,10,000		**2,10,000**

The above account had been prepared after the following adjustments:

Particulars	Rs.
Subscriptions outstanding in the beg.	12,000
Subscriptions received in advance in the beg.	9,000
Subscriptions received in advance at the end.	5,400
Subscriptions outstanding at the end.	15,000

Salaries outstanding at the beginning and at the end of the financial year were Rs. 8,000 and Rs. 10,000 respectively. Sundry expenses included prepaid insurance expenses of Rs. 1,200.

The Club owned a freehold ground valued Rs. 2,00,000. The Club has sports equipment on 01.04.2008 valued at Rs. 52,000. At the end of the year, after depreciation, the sports equipment amounted to Rs. 54,000. The Club raised a loan of Rs. 40,000 from a bank on 01.01.2017, which was unpaid till 31.03.2018. On 31.03.2018, cash in hand was Rs. 32,000.

Required: Prepare Receipts and Payments account of the Club for the year ended 31st March, 2018 and Balance Sheet as on that date.

Sol:

RECEIPT AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2018

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d (Bal. Fig.)	27,800	By Salaries:	
To Subscription:		for 2016-2017	8,000
for 2016-2017	12,000	for 2017-2018	1,10,000
for 2017-2018	1,36,000	By Printing & Stationery	6,000
for 2018-2019	5,400	By Rend	12,000
To Entrance Fees	10,000	By Repairs	10,000
To Contribution for Annual Dinner	20,000	By Sundry Expenses (8,000 + 1,200)	9,200
To Profit on Annual Sports Meet	20,000	By Annual Dinner Expenses	30,000
		By Interest to Bank	6,000
		By Sports Equipment	8,000
		By Balance c/d	32,000
	2,31,200		2,31,200

BALANCE SHEET AS AT 31ST MARCH, 2018

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Fund	2,34,800		Freehold Ground		2,00,000
Add: Surplus	12,000	2,46,800	Sports Equipment	52,000	
Bank Loan		40,000	Add: Additions	8,000	
Outstanding Salaries		10,000		60,000	
Subscription in Advance		5,400	Less: Depreciation	(6,000)	54,000
			Subscription in Arrear		15,000
			Prepaid Insurance		1,200
			Cash in Hand		32,000
		3,02,200			3,02,200

Working Notes:

(1) BALANCE SHEET AS AT 31st MARCH, 2017

Liabilities	Rs.	Assets	Rs.
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000
Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000
Subscription in Advance	9,000	Cash in hand	27,800
	2,91,800		2,91,800

Dr.		(II) SPORTS EQUIPMENT ACCOUNT			Cr.
Particulars		Rs.	Particulars		Rs.
To Balance b/d		52,000	By Depreciation A/c		6,000
To Bank A/c		8,000	By Balance c/d		54,000
		60,000			60,000

Dr.		(III) SUBSCRIPTION ACCOUNT			Cr.
Particulars			Particulars		Rs.
To Income & Exp. A/c		1,60,000	By Advance Subscription A/c		9,000
			By Bank A/c		1,36,000
			By O/s Subscription A/c		15,000
		1,60,000			1,60,000

Q11> The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

RECEIPTS AND PAYMENTS ACCOUNT

Receipts		Rs.	Payments	Rs.
To Balance b/d		450	By Expenses (including	
To Annual Income from Subscription			Payment for sports material Rs. 2,700)	6,300
Add: Outstanding of	4,590		By Loss on Sale of Furniture	
last year received this year	180		(cost price Rs. 450)	180
	4,770		By Balance c/d	90,450
Less: Prepaid of last year	90	4,680		
To Other fees		1,800		
To Donation for Building		90,000		
		96,930		96,930

Additional Information:

Trustwell club had balances as on 1.4.2017:

Furniture Rs. 1,800; Investment at 5% Rs. 27,000; Sports material Rs. 6,660; Balance as on 31.3.2018: Subscription Receivable Rs. 270; Subscription received in advance Rs. 90; Stock of sports material Rs. 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

Sol:

CORRECTED RECEIPTS AND PAYMENTS ACCOUNT OF TRUSTWELL CLUB

Dr. for the year ended 31st March, 2018 Cr.

Receipts		Rs.	Payments	Rs.
To Balance b/d		450	By Expenses (Rs. 6,300 - Rs. 2,700)	3,600
To Subscription			By Sports Material	2,700
Annual Income	4,590		By Balance c/d	90,720
Less: Receivable at end	270		(Cash in Hand and at Bank)	
Add: Advance at end	90			
Add: Receivable at the end	180			
Less: Advance received at end	90	4,500		
To Other fees		1,800		
To Donation for Building		90,000		
To Sale of Furniture		270		
		97,020		97,020

INCOME AND EXPENDITURE ACCOUNT OF TRUSTWELL CLUB

Dr for the year ended 31st March, 2018 Cr.

Expenditure		Rs.	Income	Rs.
To Sundry Expenses		3,600	By Subscription	4,590
To Sports Material			By Other fees	1,800
Balance as on 1.4.2018	6,660		By Interest on investment	1,350
Add: Purchases	2,700		(5% on Rs. 27,000)	
Less: Balance as on			By Deficit: Excess of	
31.3.2018	(1,800)	7,560	Expenditure over Income	3,600
To Loss on Sale of Furniture		180		
		11,340		11,340

BALANCE SHEET OF TRUSTWELL CLUB
as on 31st March, 2018

Liabilities		Rs.	Assets		
Capital Fund	36,000		Furniture	1,800	1,350
Less: Excess of Expenditure over			Less: Sold 5% Investment	(450)	27,000
Income	(3,600)	32,400			
Building Fund		90,000	Interest Accrued on		1,350
Subscription Received in Advance		90	Investment		1,800
			Sports Material Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

BALANCE SHEET OF TRUSTWELL CLUB AS ON 1ST APRIL, 2017

Liabilities	Rs.	Assets	Rs.
Subscription Received in Advance Capital Fund	90	Furniture	1,800
(Balancing Figure)	36,000	Investment	27,000
		Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		36,090

Q12> You are provided with the following:

Balance Sheet as on 31st March, 2017

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

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

Receipts		(₹)	Payment		(₹)
To Balance b/d			By Expenses:		
Cash in Hand		20,000	For 2017	12,000	
To Subscriptions:			For 2018	20,000	32,000
For 2017	2000		By Land		40,000

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

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

Sol:

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2018

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

BALANCE SHEET AS ON 31ST MARCH, 2018

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

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

Q13> From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to Rs 3,00,000/-. Salaries paid Rs 60,000. Face value of the Investment was Rs 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs 14,000. Furniture was sold for Rs .8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: Rs 50,000

Rent: Rs 24,000 out of which Rs 2,000 outstanding

Misc. Expenses: Rs 5,000

ANS.

Receipts and Payments Account for the year ended 31-03-2019

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	₹ (20,000-10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid	22,000
		₹ (24,000 -2,000)	
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment		
	78,000		Received	14,000	
Less: Outstanding for 2018	(15,000)	63,000	Accrued (W.N.5)	3,500	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N.3)		6,000			
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. Calculation of Subscription received during the year 2018-19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: Rs 1,75,000 × 50% = Rs 87,500

Sales price: Rs 87,500 × 80% = Rs 70,000

Cost price of investment sold: Rs 1,40,000 × 50% = Rs 70,000

Profit/loss on sale of investment: Rs 70,000 - Rs 70,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. Depreciation

Furniture - ₹14,000 × 10%	=	1,400
Machinery- ₹10,000 × 15%	=	1,500
Sports goods – ₹15,000 × 15%	=	2,250

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

Note: *It is assumed that the sale of investment has taken place at the end of the year.*

Q14> From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2019

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) Upkeep of ground Rs 660 and printing Rs 264 relating to 2017-18 were paid in 2018-19.

(ii) One fourth of entrance fee has been capitalized by transfer to General Fund.

(iii) Subscription outstanding in 2017-18 was Rs 880 and for 2018-19 Rs 770.

(iv) Subscription received in advance in 2017-18 was Rs 220 and in 2018-19 for 2019-20 was Rs 110.

(v) Furniture was purchased during the year.

SOL.:

Receipts and Payments Account
for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	16,126	By Upkeep of Ground (11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund Investments	1,100	By Salaries	11,100
		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		41,514

Note:

Rs660 paid for upkeep of ground for 2017-18 and Rs264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

			₹				₹
2018 April	To	Subscription Outstanding (2017-18)	880	2018 April 1	By	Subscription in Advance (2017-18)	220
	To	Subscription In Advance (2018-19)	110		By	Subscription Outstanding (2018-19)	770
					By	Cash (Balancing figure)	19,052
2019 March	To	Income & Expenditure A/c	19,052				
			20,042				20,042

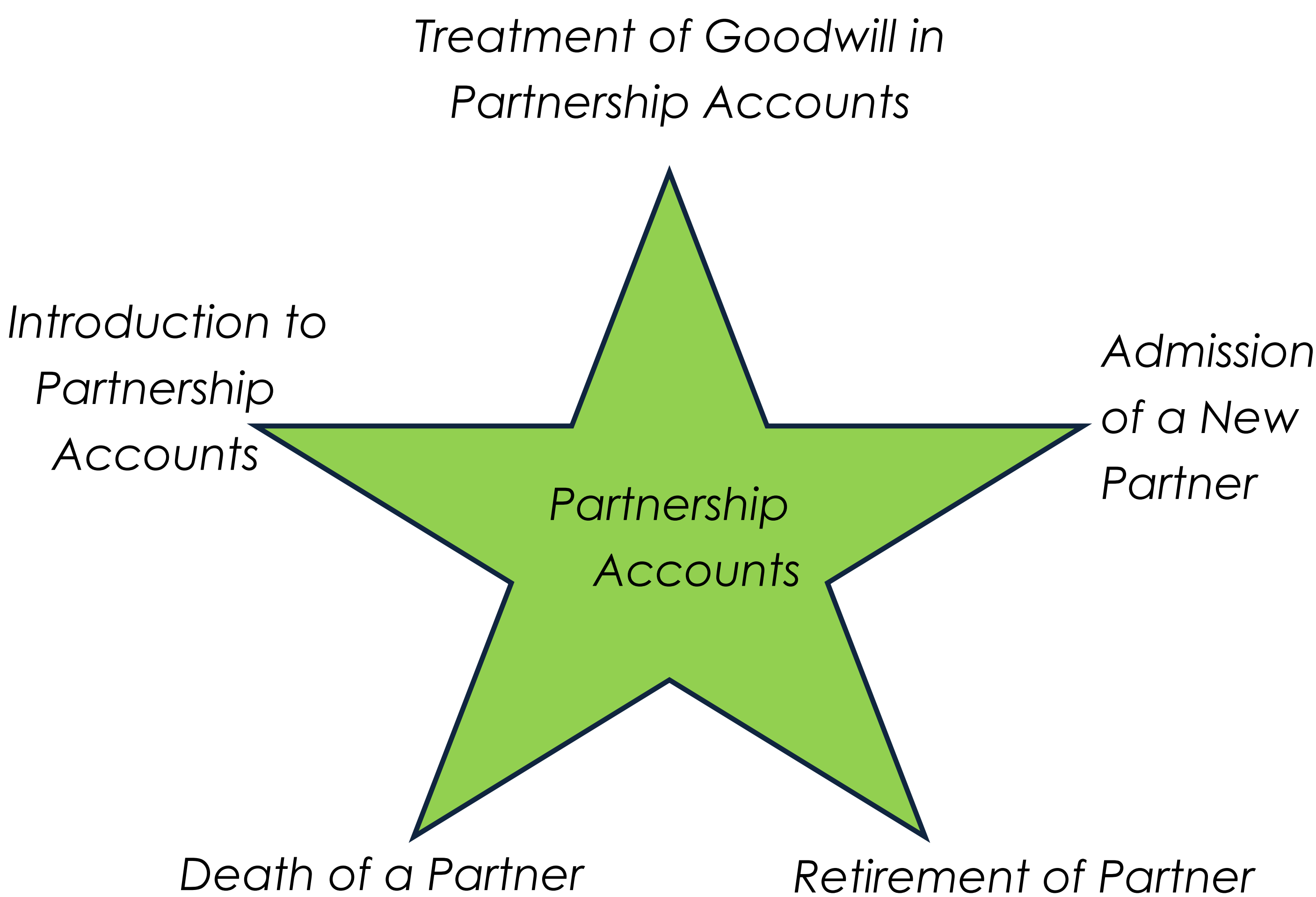
CH- 10

ACCOUNTING FOR PARTNERSHIP

DANGAL QUESTIONS

ICAI RTP Questions	ICAI Past Questions	TOTAL Questions
8	29	37

BASIC CONCEPTS



CONCEPT NO 1 : TREATMENT OF GOODWILL

IF Goodwill is already appearing in Books

Goodwill Adjustment

IF Question ask Goodwill to be raised in the Books

JOURNAL ENTRY

CONCEPT NO 2 : VALUATION OF GOODWILL

Average Profit Method	= Future Expected (maintainable) profits x No. of years of purchase Notes: 1. Average Profit / Future Maintainable Profit = Total Past Adjusted Profits / no. of relevant years. 2. Adjusted past profits Past profits xxx (+)Abnormal losses xxx (–)Abnormal gains (xxx) (–)Interest on non- trading investments (xxx) (+) Any rectification of error xxx XXX
Super profit method	= Super profit x agreed no. of years of purchases Notes: 1. Super profits = Average future maintainable profit – normal profits 2. Normal profits = Average Capital Employed * Normal Rate of Return
Annuity method	= Super profits x annuity factor
Capitalization of super profit method	= [Super profits / normal rate of return] or = [(avg. future maintainable profits/normal rate of return) – Capital Employed]

CONCEPT NO 3 : HIDDEN GOODWILL

Capital of the new firm (On the basis of new Partner)	*XXX*
Less: Adjusted Capital of all partners including new partner	*(XXX)*
Hidden Goodwill	*XXX*

ADJUSTED CAPITAL = Capital of Old Partners + Capital of New Partner + Reserves & Surplus - Miscellaneous Exp. (eg. Advertisement suspense)

CONCEPT NO 4 : RATIO

- Sacrificing Ratio = Old Ratio – New Ratio
- Gaining Ratio = New Ratio – Old Ratio

CONCEPT NO 5 : ADMISSION , RETIREMENT & CHANGE IN PROFIT SHARING RATIO

FOLLOWING STEPS ARE APPLIED

1. Revalue assets and liabilities of the firm.
2. Adjust goodwill as per the concept No.1
3. Any undistributed past profits, profit or loss on revaluation should be distributed amongst old partners
4. Prepare Partner's Capital A/c
5. Prepare Balance Sheet.

CONCEPT NO 6 : CAPITAL ADJUSTMENT / PROPORTIONATE CAPITAL

Note: Following 2 steps are applied in capital adjustment question.

Step 1 : Calculate new capital of the firm.

Step 2 : Distribute new capital in new PSR.

Note: Calculation of new capital of the firm.

(i) New capital is given in question.

(ii) On the basis of new partner.

(iii) On the basis of old partner.

CONCEPT NO 7 : MEMORANDUM REVALUATION A/c

MEMORANDUM REVALUATION A/C is prepared when partner decide not to show the effect of Revaluation of assets and liabilities in the books of Account. In other words, partner may decide not to alter (change) the value of assets and liabilities in the books of the firm, then Memorandum Revaluation A/c is prepared.

Memorandum Revaluation A/c consist of two parts:

Part I:- Profit & Loss on Revaluation - Old Partner Old ratio

Part II:- Reversal of Profit & Loss on revaluation - New partners New ratio

CONCEPT NO 8 : JOINT / INDIVIDUAL LIFE POLICY A/c

CONCEPT NO 9 : RELIEF U/S 37 OF PARTNERSHIP ACT,1932

Whenever outgoing partner (at the time of retirement / death) is not given his share of capital immediately, then he is provided with relief under section 37 of Partnership Act.

Relief is higher of the following:

(i) Interest @ 6% p.a. on outstanding balance of outgoing partner

(ii) $\dfrac{\text{Post retirement/ death profit} * \text{Outstanding Balance of outgoing partners}}{\text{Total Capital Balance of all partners including goodwill}}$

CONCEPT NO 10 : PROVISION IN THE ABSENCE OF PARTNERSHIP DEED

MATTERS	PROVISIONS OF INDIAN PARTNERSHIP ACT. 1932
1. Sharing of profits & losses	It is to be shared equally.
2. Interest on capital	It is not to be paid.
3. Interest on drawings	It is not to be charged.
4. Interest on advances & loans by partner	It is paid @6%p.a. It is payable even if there is loss.
5. Salary / commission to a partner	It is not paid or allowed to any partner.

CONCEPT NO 11 : MISC. TOPICS

STUDENT NOTES

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 MAY 2018 / MAY 2020

A, B and C entered into partnership on 1.1.2017 to share profits and losses in the ratio of 5:3:2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than Rs. 30,000 in any year. Capitals of A, B and C were Rs. 3,20,000, Rs. 2,00,000 and Rs. 1,60,000 respectively. Profits for the year ending 31.12.2017 before providing for interest on partners capital was Rs. 1,59,000.

You are required to prepare the Profit and Loss Appropriation Account.

Sol:

Profit and Loss Appropriation Account
for the year ended 31st December, 2017

		Rs.	Rs.			Rs.
To	Interest on capital			*By*	Net profitb/d	1,59,000
	A (5% of Rs. 3,20,000)	16,000				
	B (5% of Rs. 2,00,000)	10,000				
	C (5% of Rs. 1,60,000)	8,000	*34,000*			
To	Partners capital accounts:					
	[Profit (Rs. 1,59,000 – Rs. 34,000) transferred]					
	A $\left(\frac{5}{10} of\ rs\ 1{,}25{,}000\right)$	62,500				
	Less: Transferred to C	5,000	*57,500*			
	B $\left(\frac{3}{10} of\ rs\ 1{,}25{,}000\right)$		*37,500*			
	C $\left(\frac{2}{10} of\ rs\ 1{,}25{,}000\right)$	25,000				
	Add: Transferred from A	5,000	*30,000*			
			1,59,000			*1,59,000*

QUESTION 2 MAY 2018 / NOV 2019 / MAY 2020

J and K are partners in a firm. Their capital are J RS. 3,00,000 and K RS. 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of RS. 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years purchase of Super Profit.

Sol:

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{Average \times 100}{Return\ of\ Rate\ Normal} = \frac{Rs. 1,50,000 \times 100}{20} = Rs. 7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= Rs. 7,50,000 – Rs. 5,00,000 [i.e., Rs. 3,00,000 (J) + Rs. 2,00,000 (K)]

= Rs. 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = Rs. 1,00,000

Average Profit = Rs. 1,50,000

Super Profit = Average profit – Normal Profit

= Rs. 1,50,000 – Rs. 1,00,000 = Rs. 50,000

Goodwill = Super Profit x Number of years' purchase

= Rs. 50,000 x 2 = Rs. 1,00,000

QUESTION 3 MAY 2018

On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2017, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at Rs.10,000.

(iv) Old credit balances of Sundry creditors, Rs.2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained Rs. 7,550.

(vii) Goodwill of the entire firm is valued at Rs.14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2017.

Sol:

(a) **Revaluation Account**

Date		Particulars	₹	Date		Particulars	₹
2017				2017			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) **Partners' Capital Accounts**

Dr. Cr.

	Particulars	P (₹)	Q (₹)	R (₹)		Particulars	P (₹)	Q (₹)	R (₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) ***Cash and Bank Account***

Particulars		₹	Particulars		₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) ***Balance Sheet of M/s Q & R as on 01.04.2017***

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

QUESTION 4 NOV 2018/ NOV 2019

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan& Agrawal

Liabilities	*Rs.*	Assets	*Rs.*
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit Rs. 2,00,000 in 2017 and the partners. withdrew Rs. 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years purchase of super profit. For this purpose, calculate super profit using average capital employed.

Sol:

QUESTION 5 NOV 2018

Neha & Co. is a partnership firm with partners. Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

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

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

a. *Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.*

b. *Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs. 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.*

c. *In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.*

- *The surplus funds, if any, will be used for repaying bank overdraft.*
- *The amount due to retiring partner shall be transferred to his loan account.*

Required: Prepare

(a) Revaluation account; (b) Partners capital accounts;

(c) Bank account; (d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Sol:

Revaluation Account

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

Capital Accounts of Partners A/c

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

Bank Account

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

Balance Sheet of NEHA Co. (as at 1st April, 2018)

Liabilities	***Rs.***	***Assets***	***Rs.***
Capital Accounts:		Land	*10,000*
P 80,000		Buildings	*1,90,000*
Q 80,000		Plant and Machinery	*1,04,000*
R 40,000	*2,00,000*	Furniture	*43,000*
Long Term Debts	*3,00,000*	Inventories	*1,30,000*
Trade payables	*1,70,000*	Trade receivables 1,39,000	
Q's Loan Account	*22,760*	*Less:* Provision for Doubtful	
		Debts (27,800)	*1,11,200*
		Balance at Bank	*1,04,560*
	6,92,760		*6,92,760*

QUESTION 6 MAY 2019

The profits and losses for the previous years are: 2015 Profit Rs. 10,000, 2016Loss Rs. 17,000, 2017 Profit Rs. 50,000, 2018 Profit Rs. 75,000. The average Capital employed in the business is Rs. 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor Rs. 6,000 p.a. Calculate the value of goodwill on the basis of 2 years. Purchases of Super Profits based on the average of 3years.

Sol :

Total Profit for 3 years. = (Rs. 17,000)+ Rs. 50,000+ Rs. 75,000= Rs. 1,08,000.

Average profits = $\frac{Total\ Profit}{No.of\ years} \times \frac{Rs.1,08,000}{3} = Rs. 36,000$

Average Profits for Goodwill = Rs. 36,000 – Proprietor Remuneration

= Rs. 36,000 – Rs. 6,000 = Rs. 30,000

Normal Profit=Interest on Capital employed

= Rs. 20,000 (i.e. Rs. 2,00,000 x 10/100) = Rs. 20,000

Super Profit = Average Profit-Normal Profit = Rs. 30,000 – Rs. 20,000 = Rs. 10,000

Goodwill = Super Profit x No of years. purchases = Rs. 10,000 x 2 = Rs. 20,000

QUESTION 7 MAY 2019

A and B are partners in a firm, sharing Profits and Losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	12,900	Building		26,000
Bill Payable	4,100	Furniture		5,800
Bank Overdraft	9,000	Stock-in-Trade		21,400
Capital Account:		Debtors	35,000	
A 44,000		Less: Provision	200	34,800
B 36,000	80,000	Investment		2,500
		Cash		15,500
	1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by Rs. 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 1,560. The value of Buildings having appreciated be brought uptoRs. 29,200. The value of investment is increased by Rs. 450.

(v) It is found that the creditors included a sum of Rs. 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account. (ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Sol:

(a) ***Revaluation Account***

		₹			₹
To	Furniture	870	By	Building	3,200
To	Stock	1,070	By	Sundry creditors	1,400
To	Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By	Investment	450
To	Outstanding wages	1,560			
		5,050			5,050

(b) ***Partners' Capital Accounts***

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	Balance c/d	71,000	54,000	25,000	By	Balance b/d	44,000	36,000	–
					By	Cash A/c	–	–	25,000
					By	Goodwill A/c (Working Note)	27,000	18,000	
		71,000	54,000	25,000			71,000	54,000	25,000

(c) **Balance Sheet of New Partnership Firm**
(after admission of C) as on 1.1.18

Liabilities		₹	Assets		₹
Capital Accounts:			Goodwill		45,000
A	71,000		Building (26,000 + 3,200)		29,200
B	54,000		Furniture (5,800 – 870)		4,930
C	25,000	1,50,000	Stock-in-trade (21,400 – 1,070)		20,330
Bills Payable		4,100	Debtors	35,000	
Bank Overdraft		9,000	Less: Provision for bad debts	(1,750)	33,250
Sundry creditors (12,900-1,400)		11,500	Investment (2,500 + 450)		2,950
Outstanding wages		1,560	Cash (15,500 + 25,000)		40,500
		1,76,160			1,76,160

Working Note:
Calculation of goodwill
C's contribution of Rs. 25,000 consists only 1/6th of capital.
Therefore, total capital of firm should be Rs. 25,000 × 6 = Rs. 1,50,000.
But combined capital of A, B and C amounts Rs. 44,000 + 36,000 + 25,000 = Rs. 1,05,000.
Thus Hidden goodwill is Rs. 45,000 (Rs. 1,50,000 – Rs. 1,05,000).

QUESTION 8 *NOV 2019*

The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		*Rs..*	Assets		*Rs..*
Capital	*L*	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	600	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.
(a) Assets were to be revalued: Machinery to Rs. 11,700; Furniture to Rs. 4,600; Inventory to Rs. 1,500.
(b) Goodwill was valued at Rs. 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs 2,000 was to be paid away to the executors. of the dead partner on 5th January, 2018.
(d) After death of N, L and M share profit equally.
You are required to prepare:
(i) Journal Entry for Goodwill adjustment.
(ii) Revaluation Account and Capital Accounts of the partners.
Sol:
(i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr.Rs	Cr. Rs
Jan 3	L's Capital A/c	Dr.	1,000	
2018	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Furniture A/c (Rs. 5,600 – 4,600)	1,000	By Machinery A/c (Rs. 11,700 - 10,000)	1,700
To Inventory A/c (Rs. 1,900 – 1,500)	400		
To Partners' Capital A/cs	300		
(L – Rs. 100, M – Rs. 100, N – Rs. 100)			
	1,700		1,700

(iii) Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	-	By Balance b/d	8,200	8,200	9,000
To Cash A/c	-	-	2,000	By General Reserve A/c	1,000	1,000	1,000
To Exe. A/c	-	-	10,100	By Revaluation A/c (Profit)	100	100	100
To Bal.c/d	8,300	8,300	-	By L (Goodwill)	-	-	100
				By M (Goodwill)	-	-	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	*L*	*M*	*N*
Right of goodwill before death	*1/3*	*1/3*	*1/3*
Right of goodwill after death	½	*1/2*	-
Gain / (Sacrifice)	*(+) 1/6*	*(+) 1/6*	*(-) 1/3*

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> A and B have been carrying on business since 1st April, 2014, and the results of their business have been as follows after allowing interest on capitals @ 10% per annum:

2014-2015	Loss Rs. 16,000	2016-2017	Profit Rs. 82,000
2015-2016	Profit Rs. 72,000	2017-2018	Profit Rs. 1,07,200

Capitals of the two partners have remained unchanged at Rs. 1,50,000 and Rs. 1,00,000, respectively for A and B, who shared profits and losses in the same ratio. On 1st April 2014, C, the Manager, gave a loan of Rs. 25,000 at 16% p.a. interest. The interest has been regularly paid but the loan has not been repaid yet. C was paid a salary of Rs. 2,000 per annum.

It was decided on 31st March, 2018 that C should be treated as a partner with effect from 1st April, 2014 giving him one-fifth share of profits. His loan was to be treated as capital bearing interest @ 10% p.a. as a charge; C's salary was to be Rs. 12,000 p.a. with effect from 1st April, 2014.

Required: What would be the entries to adjust matters? Treat the capitals as fixed and Interest on Capital and Salary to partner as charge against profits.

Sol.

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	Cr. (Rs.)
I. Amount already credited to C:	
Interest on Loan (Rs. 25,000 x 16/100 x 4)	16,000
Salary (Rs. 20,000 x 4)	80,000
	96,000
II. Amount which should have been credited to C:	
Interest on Capital (Rs. 25,000 x 10/100 x 4)	10,000
Salary (Rs. 8,000 x 4)	32,000
Share of Profit 1/5 of (Rs. 2,45,200 + Rs. 96,000 - Rs. 10,000 - Rs. 32,000)	59,840
	1,01,840

III. Difference (credit still to be given I-II)	-30,560

Adjusting Journal Entry:			
A's Capital A/c	Dr.	Rs. 3,504	
B's Capital A/c	Dr.	Rs. 2,336	
To C's Capital A/c			Rs. 5,840
(Being the adjustment made account of admission of C an existing manager, as a partner)			

Q2> X, Y, and Z entered into partnership on 1st April 2015 to share profits and losses in the ratio of 12 : 8 : 5. It was provided that in no case Zs share in profits be less than Rs. 15,000 p.a. The profits and losses for the period ended 31st March were: 2015-2016 Profit Rs. 60,000, 2016-2017 Profit Rs. 90,000, 2017-2018 Loss Rs. 60,000. Pass the necessary journal entries in the books of the firm.

Sol.

Particulars	2015-2016 Rs.	2016-2017 Rs.	2017-2018 Rs.
I. Guaranteed Amount	15,000	15,000	15,000
II. Z's Actual Share as per	12,000	18,000	(12,000)
profit sharing ratio	(60,000 x 5/25)	(90,000 x 5/25)	60,000 x 5/25)
III. Deficiency (I-II)	3,000	—	27,000

Since no specific ratio in which the deficiency is to be borne is given, it means the remaining partners (A & S) shall bear the deficiency in their agreed profit sharing ratio which is 12:8 or 3:2

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Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2015-2016	P&L Adjustment A/c	Dr.		60,000	
	To X's Capital A/c				28,800
	To Y's Capital A/c				19,200
	To Z's Capital A/c				12,000
	(Being the distribution of profits as if there is no guarantee)				
	X's Capital A/c	Dr.		1,800	
	Y's Capital A/c	Dr.		1,200	

	To Zs Capital A/c				3,000
	(Being the deficiency met by guaranteeing partners)				
2016-2017	P&L Adjustment A/c	Dr.		90,000	
	To X's Capital A/c				43,200
	To Ys Capital A/c				28,800
	To Zs Capital A/c				18,000
	(Being the distribution of profits)				
2017-2018	Xs Capital A/c	Dr.		28,800	
	Y's Capital A/c	Dr.		19,200	
	Zs Capital A/c	Dr.		12,000	
	To P&L Adjustment A/c				60,000
	(Being the distribution of losses as if there is no guarantee)				
	Xs Capital A/c	Dr.		16,200	
	Vs Capital A/c	Dr.		10,800	
	To Zs Capital A/c				27,000
	(Being the deficiency borne by guaranteeing partners)				

Q3> A, B and C entered into partnership on 1st Apr., 2017 to share profits and losses in the ratio of 5 : 3: 2 A, however personally guaranteed that C's share of profits after charging interest on capital @ 10% p.a. would not be less than Rs. 15,000 in any year. The capital was provided as follows: A Rs. 80,000, B Rs. 50,000, C Rs. 40,000. The profits for the year ended 31st March., 2018 amounted to Rs. 79,500 before charging any interest. Show the Profit & Loss Appropriation Account.

Sol.

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. for the year ending on 31st Mar., 2018 Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capital:			By Profit & Loss A/c (Net Profit)	79,500
A	8,000			
B	5,000			
C	4,000	17,000		
To Balance c/d		62,500		

		79,500		79,500
To Share of Profit			By Balance b/d	62,500
A: 5/10 of Rs. 62,500	31,250			
Less: Deficiency borne	2,500	28,750		
B: 3/10 of Rs. 62,500		18,750		
C: 2/10 of Rs. 62,500	12,500			
Add: Deficiency received	2,500	15,000		
		62,500		62,500

Q4> A and B were partners sharing profits & losses in the ratio of 5 : 3. C was their manager who was receiving a salary of Rs. 300 p.m. in addition to a commission of 5% on net profits remaining after charging such salary and commission. With effect from 1st April 2017 C is admitted as a partner with 1/5th share but it is agreed that any additional income which comes to C over what he was getting as manager should come out of A'share. The profits for year ended 31st March 2018 were Rs. 49,800 before charging C's salary and commission. Prepare the Profit & Loss Appropriation Account.

Sol.

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. for the year ending on 31st March 2018 Cr.

Particulars		Rs.	Particulars	Rs.
To C			By Profit & Loss A/c	49,800
Salary Commission Deficiency recovered from A	3,600 2,200 4,160	9,960		
To A (5/8 x Rs. 44,000) Less: Deficiency borne	27,500 4,160	23,340		
To B (3/8 x Rs. 4,000)		16,500		
		49,800		49,800

Working Notes:

(i) C's share as partner = Rs. 49,800 x 1/5 = Rs. 9,960

(ii) C's remuneration as manager = (Rs. 300 x 12) + (49,800 - 3,600) x 5/105

= Rs. 3,600 + Rs. 2,200 = Rs. 5,800.

(iii) Deficiency = Rs. 9,960 - Rs. 5,800 = Rs. 4,160

(iv) Profit after C's Salary & Commission Rs. 44,000 [i.e. 49,800 - (3,600 + 2,200)] have been divided among A and 6 in their old profit sharing ratio as if C is manager.

Q5> From the following information, calculate the value of goodwill of a firm of X & Y (a) at 3 years' purchase of Super profit (b) on the basis of capitalization of Super Profits.

(a) Average Capital employed in the business Rs. 7,00,0000

(b) Net Trading results of the firm for the past years—Profit 2015-2016 Rs. 1,47,600. Loss 2016-2017 Rs. 1,48,100. Profit 2017-2018 Rs. 4,48,700.

(c) Rate of interest expected from capital having regard to the risk involved 18%.

(d) Fair remuneration to each partner for his service Rs. 500 p.m.

(e) Sundry Assets (excluding goodwill) of the firm Rs. 7,54,762. Sundry Liabilities Rs. 31,329.

Sol. Total Profit = Rs. 1,47,600 - Rs. 1,48,100 + Rs. 4,48,700 = Rs. 4,48,200

Average Profit = Rs. 4,48,200/3 = Rs. 1,49,400

Normal Profit = Normal return + remuneration

= Rs. 1,26,000 (i.e. 18% of Rs. 7,00,000) + Rs. 12,000 = Rs. 1,38,000 Super Profit = Average Profit - Normal Profit = Rs. 1,49,400 - Rs. 1,38,000 = Rs. 11,400 Goodwill = Super Profit x 3 = Rs. 11,400 x 3

= Rs. 34,200

Q6> Good, Better and Best are in Partnership sharing profits and losses in the ratio 3:2:4. Their Capital Account balances as on 31st March 2018 are as follows: Good Rs. 1,70,000 (Cr), Better Rs. 1,10,000 (Cr), Best Rs. 1,22,000 (Cr). Following further information provided:

1. Rs. 22,240 is to be transferred to General Reserve.
2. Good, Better and Best are paid monthly salary in cash amounting to Rs. 2,400, Rs. 1,600 and Rs. 1,800 respectively.
3. Partners are allowed interest on their Closing Capital Balance at 6% p.a. and are charged interest on drawings at 8% p.a.
4. Good and Best are entitled to Commission at 8% and 10% respectively of the Net Profit before making any appropriation.
5. Better is entitled to Commission at 15% of the Net Profit before charging Interest on Drawings but after making all other appropriations.
6. During the year, Good withdrew Rs. 2,000 at the beginning of every month, Better Rs. 1,750 at the end of every month and Best Rs. 1,250 at the middle of every month
7. The Firm's Accountant is entitled to a Salary of Rs. 2,000 per month and a Commission of 12% of Net Profit after charging such Commission

The Net Profit of the Firm for the year ended 31 st March 2018, before providing for any of the above adjustments was Rs. 2,76,000. You are required to prepare Profit and Loss Appropriation Account for the year ended on 31 st March 2018.

Sol.

Dr. PROFIT AND LOSS ACCOUNT Cr

Particulars	Rs.	Particulars		Rs.
To Accountant's Salary (2,000 x 12)	24,000	By Net Profit b/d		2,76,000
To Accountant's Commission	27,000			
[(2,76,000 - 24,000) x 12/112]				

To Net Profit c/d (bal. fig.)	2,25,000			
	2,76,000			2,76,000

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To General Reserve		22,240	By Net Profit b/d		2,25,000
To Salary:			By Interest on Drawings:		
Good (2,400 x 12)	28,800		Good (24,000 x 8% x 6.5 / 12)	1,040	
Better (1,600 x 12)	19,200		Better (21,000 x 8% x 5.5 / 12)	770	
Best (1,800 x 12)	21,600	69,600	Best (15,000 x 8% x 5.5 / 12)	600	2,410
To Interest on Capital:					
Good (1,70,000 x 6%)	10,200				
Better (1,10,000 x 6%)	6,600				
Best (1,22,000x6%)	7,320	24,120			
To Commission:					
Good (2,25,000 x 8%)	18,000				
Best (2,25,000 x 10%)	22,500				
Better (68,540 x 15%)	10,281	50,781			
To Net Profit tfrd to Capital A/c:					
Good (60,669 x 3/9)	20,223				
Better (60,669 x 2/9)	13,482				
Best (60,669 x 4/9)	26,964	60,669			
		2,27,410			2,27,410

Notes:

1. Salary and Commission to Firm's Accountant are in the nature of charges against Firm's Profits, and not an appropriation out of Profit to Partners. Hence, this amounts have been debited to Profit & Loss Account.

2. Better's Commission = [2,25,000 - 22,240 - 69,600 - 24,120 - 40,500] x 15% = Rs. 10,281

Q7> A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		₹	Assets		₹
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at Rs. 3,27,000.

(ii) Building revalued at Rs. 15,00,000. Furniture is written down by Rs. 40,000 and Stock is reduced to Rs,2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is Rs. 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. (May 2018)

Sol.

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation reserve	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit = (90,000+1,40,000+1,20,000+1,30,000)/4 = Rs. 1,20,000

2. Goodwill at three years' purchase = Rs. 1,20,000 x 3 = Rs. 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Q8> X and Y are partners in a firm sharing profits in the ratio of 2:3. The Balance Sheet of the firm as at March 31,2018 is given below:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	3,00,000
X	4,80,000		Buildings	3,60,000
Y	7,20,000	12,00,000	Plant	4,80,000
Creditors		1,86,000	Furniture	72,000
Outstanding Expenses		42,000	Stock	1,08,000
			Debtors	90,000
			Cash	18,000
		14,28,000		14,28,000

The partners decided to share profits in equal ratio w.e.f. April 1,2018. The following adjustments were agreed upon:

(a) The goodwill of the firm was valued at Rs. 2,40,000 but it was not to appear in books.

(b) Land was valued at Rs. 4,80,000, Plant at 4,32,000 and Furniture at Rs. 60,000 and were to appear at revalued amounts in the balance sheet.

Pass the necessary Journal entries to give effect the above and prepare the Balance Sheet.

Sol: **JOURNAL OF X AND Y**

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
01.04.2018	Xs Capital A/c [Rs. 2,40,000 x 1/10]	Dr.	24,000	
	To V"s Capital A/c (Being the adjustment made for goodwill on change in profit sharing ratio)			24,000
	Revaluation A/c	Dr.	60,000	
	To Plant A/c To Furniture (Being the decrease in value of assets recorded)			48,000 12,000
	Land A/c	Dr.	1,80,000	
	To Revaluation A/c (Being the increase in value of land recorded)			1,80,000
	Revaluation A/c	Dr.	1,20,000	
	To X's Capital A/c To Y's Capital A/c (Being the transfer of profit on revaluation in old profit sharing ratio)			48,000 72,000

BALANCE SHEET OF X & Y AS AT 1.4.2018

Liabilities	Rs.	Assets	Rs.
X's Capital	5,04,000	Land	4,50,000
Y's Capital	8,16,000	Building	3,60,000
Creditors	1,86,000	Plant	4,32,000
Outstanding expenses	42,000	Furniture	60,000
		Stock	1,08,000
		Debtors	90,000
		Cash	18,000
	15,48,000		15,48,000

Working Note: Calculation Gain or Sacrifice	Rs.	Rs.
Their old shares	2/5	3/5
Their new shares	1/2	1/2
Difference	(1/10)	(1/10)
	Gaining Partner	Sacrificing Partner

Q9> B and C are partners in a firm, sharing profit or losses in the ratio of 5:3. Their Balance Sheet on 1.4.2018 was as follows:

Liabilities	Rs.	Assets	Rs.
B's Capital	32,000	Goodwill	8,000
C's Capital	34,000	Machinery	38,000
General Reserve	4,800	Furniture	5,000
Bank Loan	6,000	Debtors	23,000
Creditors	5,000	Stock	7,000
Employees' Provident Fund	1,000	Bank	5,000
Workmen Compensation Reserve	4,000	Advertisement Suspense A/c	800
	86,800		86,800

They decided to change their profit sharing ratio 3:5 and decided that:

(a) Goodwill be valued on the basis of 2 years' purchase of the average profits of the last three years. Average profits of the last three years are Rs. 6,000.

(b) Machinery and stock be revalued at f 45,000 and Rs. 8,000 respectively.

(c) Goodwill not to be shown in the books of the new firm.

Required: Prepare a Revaluation Account and Partners' Capital Accounts and the Balance Sheet of the new firm.

Sol:

Dr. REVALUATION ACCOUNT Cr.

Particulars		Rs.	Particulars	Rs.
To Profit on Revaluation t/f to			By Machinery A/c	7,000
8's Capital A/c	5,000	8,000	By Stock A/c	1,000
C's Capital A/c	3,000			
		8,000		8,000

Dr. CAPITAL ACCOUNTS OF PARTNERS Cr.

Particular	B Rs.	C Rs.	Particular	B Rs.	C Rs.
To Goodwill A/c	5,000	3,000	By Balance b/d	32,000	34,000
To Adv. Suspense A/c	500	300	By General Reserve	3,000	1,800
To B's Capital A/c	—	3,000	By C's Capital A/c	3,000	—

To Balance c/d	40,000	34,000	By Revaluation A/c	5,000	3,000
			By Workmen Compr. Reserve	2,500	1,500
	45,500	40,300		45,500	40,300

BALANCE SHEET TO THE NEW FIRM AS ON 1ST APRIL, 2018

Liabilities	Rs.	Assets	Rs.
B's Capital	40,000	Machinery	45,000
C's Capital	34,000	Furniture	5,000
Bank Loan	6,000	Debtors	23,000
Creditors	5,000	Stock	8,000
Employees' Provident Fund	1,000	Bank	5,000
	86,000		86,000

Notes: Present value of Goodwill (Rs. 6,000 x 2) = Rs. 12,000

Q10> L and M share the profits of a business in the ratio of 5:3. They agreed to change their profit sharing ratio 3:5. On the date of change the Balance Sheet of the firm was as follows:

Liabilities	Rs.	Assets	Rs.
L's Capital	30,000	Machinery	26,000
M's Capital	20,000	Furniture	18,000
Contingency Reserve	2,800	Stock	10,000
Workmen's Compensation Fund	2,000	Debtors	8,000
Bank Loan	12,000	Bank	6,000
Creditors	1,000	Advertisement Suspense A/c	800
Employees' Provident Fund	1,000		
	68,800		68,800

They also decided that:

(a) Goodwill of the firm be value at 4 years' purchase of the average super profit of the last three years. Average profits of the last three years are Rs. 20,000, while the normal profits that can be earned with the capital employed are Rs. 12,000. No Goodwill is to be raised.

(b) Furniture be appreciated by Rs. 6,000 and the value of stock to be reduced by 20%.

Required: Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet 20% of the firm after taking into account the above adjustments.

Sol:

Dr. REVALUATION ACCOUNT Cf.

Particulars		Rs.	Particulars	Rs.
To Stock A/c		2,000	By Furniture A/c	6,000
To Profit on Revaluation t/f to:				
L's Capital A/c	2,500			
M's Capital A/c	1,500	4,000		
		6,000		6,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	L Rs.	M Rs.	Particulars	L Rs.	M Rs.
To Adv. Suspense A/c	500	300	By Balance b/d	30,000	20,000
To Balance c/d	35,000	23,000	By Revolution A/c	2,500	1,500
			By Work. Comp. Fund	1,250	750
			By Contingency Res.	1,750	1,050
			By M's Capital A/c	8,000	—
	35,500	23,300		35,500	23,300

BALANCE SHEET OF RECONSTITUTED FIRM AS AT ...

Liabilities	Rs.	Assets	Rs.
L's Capital A/c	35,000	Machinery	26,000
M's Capital A/c	23,000	Furniture	24,000
Bank Loan	12,000	Stock	8,000
Creditors	1,000	Debtors	8,000
Employees' Provident Fund	1,000	Bank	6,000
	72,000		72,000

Working Notes:

(i) Super Profit = Average Profit - Normal Profits = Rs. 20,000 - Rs. 12,000 = Rs. 8,000

(ii) Goodwill = Super Profit x4 = f 8,000 x 4 = Rs. 32,000.

Q11> A and B are partners of X& Co. sharing profits and losses in 3 : 2 ratio between themselves. On 31st March, 2018, the Balance Sheet of the firm was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and Machinery	20,000
A	37,000	Furniture and Fittings	5,000
B	28,000	Stock	15,000
Sundry Creditors	5,000	Sundry Debtors	20,000
		Cash on Hand	10,000
	70,000		70,000

X agrees to join the business on the following conditions as and from 1.4.2018:

(a) He will introduce Rs. 25,000 as his capital and pay Rs. 15,000 to the partners as premium for Goodwill for 1/3rd share of the future profits of the firm.

(b) A revaluation of assets of the firm will be made by reducing the value of Plant and Machinery to Rs. 15,000, Stock by 10%, Furniture and Fittings by Rs. 1,000 and by making a provision for doubtful debts at Rs. 750 on Sundry debtors.

You are asked to prepare Profit and Loss Adjustment account, Capital accounts of partners including the incoming partner X, Balance Sheet of the firm after admission of X and also find out the new profit sharing ratio assuming the relative ratios of the old partners will be in equal proportion after admission.

Sol: Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Plant and Machinery	5,000	By Loss on Revaluation	
To Stock	1,500	transferred to:	
To Furniture and Fittings	1,000	A (3/5)	4,950
To Provision for doubtful debts	750	6(2/5)	3,300
	8,250		8,250

Dr. CAPITAL ACCOUNTS OF PARTNERS Cr.

Particulars	A Rs.	B Rs.	X Rs.	Particulars	A Rs.	B Rs.	X Rs.
To A's Capital A/c	—	—	12,000	By Balance b/d	37,000	28,000	—

To B's Capital A/c	—	—	3,000	By Cash A/c	—	—	40,000
ToP&L				By X's Capital A/c	12,000	3,000	—
Adjustment A/c	4,950	3,300	—				
To Balance c/d	44,050	27,700	25,000				
	49,000	31,000	40,000		49,000	31,000	40,000

Dr. **CASH ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/f To X's Capital A/c	10,000 40,000	By Balance c/d	50,000
	50,000		50,000

BALANCE SHEET OF X & CO. AS at 1st April, 2018

Liabilities	Rs.	Assets	Rs.
A's Capital	44,050	Plant & Machinery	
B's Capital	27,700	(Rs. 20,000 - Rs. 5,000)	15,000
X's Capital	25,000	Furniture and Fittings	
Sundry Creditors	5,000	(Rs. 5,000- Rs. 1,000)	4,000
		Stock (Rs. 15,000- Rs. 1,500)	13,500
		Sundry debtors (Rs. 20,000 - Rs. 750)	19,250
		Cash in hand	50,000
	1,01,750		1,01,750

Calculation of New Profit Sharing Ratio

Let the total share be 1, Incoming Partner's share = 1/3

Remaining share 2/3 (i.e. 1 - 1/3) is shared by A & B equally

Thus, A's new share = 2/3 x 1/2 = 1/3,

B's new share = 2/3 x 1/2 = 1/3

New Profit sharing Ratio of A : B : C = 1/3 :1/3 :1/3 = 1 :1 :1

Q.12 Hari and Ram were in partnership, sharing profits and losses equally. On 1 st April 2017, Suraj was admitted into partnership on the following terms:

Suraj is to have one-sixth share in the profits/losses, which he has got from Hari, paying him Rs. 40,000 for that share as goodwill. Out of this amount, Hari is to withdraw Rs. 30,000 and the balance amount is to remain in the firm. It was further agreed that the value of investments should be reduced to Rs. 18,000 and plant to be valued at Rs. 29,000. Creditors were to be reduced by Rs. 3,000 as one of the creditors has closed his business and gone.

Suraj is to bring in proportionate capital on his admission. The Balance Sheet as at 31st March, 2017 was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	1,05,000	Cash at Bank	40,000
Capitals:		Book Debts	60,000
Hari	60,000	Stock	50,000
Ram	60,000	Investments	30,000
		Furniture	10,000
		Plant	35,000
	2,25,000		2,25,000

The profits for the year ended 31st March, 2018 were Rs. 60,000 and the drawings were: Hari Rs. 15,000; Ram Rs. 22,500 and Suraj Rs. 7,500.

Journalise the entries on Suraj's admission and give the Capital Accounts and the Balance Sheet as at 31st March, 2018.

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Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
Bank A/c	Dr.		63,000	
To Suraj's Capital A/c				63,000
(Being the amount brought in by Suraj)				
Suraj's Capital A/c	Dr.		40,000	
To Hari's Capital A/c				40,000
(Being the goodwill credited to Hari)				
Hari's Capital A/c	Dr.		30,000	
To Bank A/c				30,000

(Being the goodwill to the extent of Rs. 30,000 withdrawn by Hari)				
Revaluation A/c	Dr.		18,000	
To Investment Fluctuation Reserve A/c				12,000
To Plant A/c				6,000
(Being the fall in the value of assets recorded)				
Sundry Creditors A/c	Dr.		3,000	
To Revaluation A/c				3,000
(Being the decrease in amount of creditors recorded)				
Hari's Capital A/c	Dr.		7,500	
Ram's Capital A/c	Dr.		7,500	
To Revaluation A/c				15,000
(Being the transfer of loss on revaluation)				

Dr. CAPITAL ACCOUNTS OF PARTNERS Cr.

Particulars	Hari Rs.	Ram Rs.	Suraj Rs.	Particulars	Hari Rs.	Ram Rs.	Suraj Rs.
To Bank A/c	30,000	—	—	By Balance b/d	60,000	60,000	—
To Revaluation A/c	7,500	7,500	—	By Bank A/c	—	—	63,000
To Hari's	—	—	40,000	By Suraj's			
To Balance c/d	62,500	52,500	23,000	Capital A/c	40,000	—	—
	1,00,000	60,000	63,000		1,00,000	60,000	63,000
To Drawings	15,000	22,500	7,500	By Balance b/d	62,500	52,500	23,000
To Balance c/d	67,500	60,000	25,500	By P&L A/c	20,000	30,000	10,000
	82,500	82,500	33,000		82,500	82,500	33,000

BALANCE SHEET OF NEW FIRM AS AT 31ST MARCH, 2018

Liabilities	Rs.	Assets		Rs.
Creditors	1,02,000	Cash at Bank		88,000
Hari's Capital	67,500	Debtors		60,000
Ram's Capital	60,000	Stock		50,000
Suraj's Capital	25,500	Investments	Rs. 30,000	
		Less: Reserve	Rs. 12,000	18,000
		Furniture		10,000
		Plant		29,000
	2,55,000			2,55,000

Working Notes:

(i) Calculation of the amount to be brought in by New Partner as capital	Rs.
(a) Aggregate capital (after adjustment) of old partners	Rs. 1,15,000
(b) Total Capital of the New Firm (Rs. 1,15,000 x 6/5)	Rs. 1,38,000
(c) Proportionate Capital of New Partner (Rs. 1,38,000 x 1/6)	Rs. 23,000

(ii) Calculation of Cash as on 31.3.2018

Assuming that the profit earned during the year resulted in the change of cash balance only and no other assets. Cash balance is calculated as under.

(a)	Cash Balance as on 1.4.2017		Rs. 40,000
(b)	Add: Cash inflow during the year:		
	Amount brought in by New Partner	Rs. 63,000	
	Profit for 2017-2018	Rs. 60,000	Rs. 1,23,000
(c)	Less: Cash outflow during the year:		
	Cash withdrawn by Hari	Rs. 30,000	
	Drawings of Partners	Rs. 45,000	Rs. 75,000
(d)	Cash Balance as on 31.3.2018 (a + b - c)		Rs. 88,000

Q13> Gopal and Govind are partners sharing profits and losses in the ratio of 3 : 2. The firm's Balance Sheet as on 31.03.2018 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Fixed Assets	3,00,000
Gopal	1,20,000	Investments	50,000
Govind	80,000	Current Assets	2,00,000
Long Term Loan	2,00,000	Loans and Advances	1,00,000
Current Liabilities	2,50,000		
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as a partner in the firm from 01.04.2018 on the following terms:

(a) Guru will be paid 40% of the profits.

(b) Guru will bring in cash Rs. 1,00,000 as Capital. It is agreed that Goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in his share of Goodwill. It was also decided that partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

(c) The profits of the previous three years were as follows:

Foe the year ended 31.3.2016 Profit Rs. 20,000 (includes insurance claim received of Rs. 40,000)

For the year ended 31.3.2017 Loss Rs. 80,000 (includes voluntary retirement compensation paid **Rs.** 1,10,000)

For the year ended 31.3.2018 Profit Rs. 1,05,000 (includes a profit of Rs. 25,000 on the sale of Assets)

(d) It was decided to revalue the assets on 31.3.2018 as follows:

Fixed Assets (net) Rs. 4,00,000, Investment Nil, Current Assets Rs. 1,80,000, Loans and advances **Rs.** 1,00,000.

(e) The new profit sharing ratio after the admission of Guru was 35 : 25 : 40.

Required: Pass Journal Entries on admission, show goodwill calculation and prepare Revaluation Account, Partners' Capital Accounts and Balance-Sheet as on 01.04.2018 after admission of Guru.

Sol.

Calculation of Sacrificing Ratio

Share sacrificed by Gopal = 60% - 35% = 25%

Share sacrificed by Govind = 40% - 25% = 15%

Sacrificing Ratio = 25% : 15% or 5:3

STATEMENT SHOWING THE CALCULATION OF GOODWILL

	Particulars	For the year ending on		
		31.3.2016	31.3.2017	31.3.2018
A	Profit (loss)	20,000	(80,000)	1,05,000
B	Add: (less) : Abnormal Items	(40,000)	1,10,000	(25,000)

C	Net Profit (loss)	(20,000)	30,000	80,000

D Average Profits = [(Rs. 20,000) + Rs. 30,000 + Rs. 80,000] 13 = Rs. 30,000

E Firm's Goodwill = Rs. 30,000 x 2 = Rs. 60,000

F Share of Goodwill of Guru = Rs. 60,000 x 40% = Rs.24,000

G Gopal's Share in Goodwill brought in by Guru = Rs. 24,000 x 5/8 = Rs. 15,000

H Govind's Share in Goodwill brought in by Guru = Rs. 24,000 x 3/8 = Rs. 9,000

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Particulars		L.F.	Dr.(Rs.)	Cr. (Rs.)
Bank A/c	Dr.		1,24,000	
To Guru's Capital A/c				1,24,000
(Being the amount brought in by Guru in cash)				
Guru's A/c	Dr.		24,000	
To Gopal's Capital A/c To Govind's Capital A/c				15,000 9,000
(Being the goodwill credited to sacrificing partners in their sacrificing ratio i.e. 5:3)				

Dr. REVALUATION ACCOUNT Cr.

Particulars		Rs.	Particulars		Rs.
To Investments		50,000	By Fixed Assets		1,00,000
To Current Assets		20,000			
To Profit on Revaluation transferred to:					
Gopal (60%)		18,000			
Govind (40%)		12,000			
		1,00,000			1,00,000

Dr. **PARTNERS' CAPITAL ACCOUNTS** Cr.

Particulars	Gopal	Govind	Particulars	Gopal	Govind
	Rs.	Rs.		Rs.	Rs.
To Balance c/d	1,53,000	1,01,000	By Balance b/d	1,20,000	80,000
			By Guru's Capital A/c	15,000	9,000
			By Revaluation A/c	18,000	12,000
	1,53,000	1,01,000		1,53,000	1,01,000

BALANCE SHEET OF NEW FIRM AS AT 1ST APRIL, 2018					
Liabilities		Rs.	Assets		Rs.
Gopal's Capital		1,53,000	Fixed Assets		4,00,000
Govind's Capital		1,01,000	Current Assets		3,04,000
Guru's Capital		1,00,000	Loans & Advances		1,00,000
Long term Loan		2,00,000			
Current Liabilities		2,50,000			
		8,04,000			8,04,000

Q14> A and B in partnership sharing profits and losses in the proportion of three-fourth and one fourth respectively. Their Balance Sheet on 31st March, 2018 was as follows:

Cash Rs. 1,000; Sundry Debtors Rs. 25,000; Stock Rs. 22,000; Plant and Machinery Rs. 4,000; Sundry Creditors Rs. 12,000; Bank Overdraft Rs. 15,000; A's Capital Rs. 15,000; B's Capital Rs. 10,000 On 1st April, 2018, they admitted C into partnership on the following terms:

(a)C to purchase one-third of the Goodwill for Rs. 2,000 and provide Rs. 10,000 as Capital. Goodwill not to appear in books.

(b) Future profits and losses are to be shared by A, B and C equally.

(c) Plant and Machinery is to be reduced by 10% and Rs. 5,000 is to be provided for estimated bad debts. Stock is to be taken at a valuation of Rs. 24,940.

(d)By bringing in or withdrawing cash the capitals of A and B are to be made proportionate to that of C on their profit sharing basis.

Required: Set out entries relating to the above arrangement in the firm's journal, give the partners' Capital Accounts in tabular form and submit the opening Balance Sheet of the new firm.

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Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
Cash A/c	Dr.		12,000	

To C's Capital A/c (Being the amount brought in by C as capital and share of goodwill)				12,000
C's Capital A/c	Dr.		2,000	
To A's Capital A/c (Being the goodwill brought in by C credited to sacrificing partner, A)				2,000
B's Capital A/c	Dr.		500	
To A's Capital A/c (Being an adjustment for goodwill made on account of purchase of 1/12th share by B from A)				500
Revaluation A/c	Dr.		900	
To Plant and Machinery To Provision for Doubtful Debts A/c (Being Reduction in value of machinery and provision for doubtful debts adjusted)				400 500
Stock A/c	Dr.		2,940	
To Revaluation A/c (Being increase in value of Stock recorded)				2,940
Revaluation A/c	Dr.		2,040	
To A's Capital A/c To B's Capital A/c (Being the transfer of profit on Revaluation)				1,530 510
A's Capital A/c B's Capital A/c	Dr. Dr.		9,030 10	
To Cash A/c (Being the surplus amount withdrawn by the partners)				9,040

Dr. **PARTNERS' CAPITAL ACCOUNTS** Cr.

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A's Capital A/c		500	2,000	By Balance b/d	15,000	10,000	
To Cash A/c	9,030	10		By Revaluation A/c	1,530	510	
To Balance c/d	10,000	10,000	10,000	By Cash A/c By B's Capital A/c	500		12,000
				By C's Capital A/c	2,000		
	19,030	10,510	12,000		19,030	10,510	12,000

BALANCE SHEET OF A NEW FIRM AS AT 1 APRIL, 2018

Liabilities	Rs.	Assets		Rs.
S. Creditors	12,000	Cash		3,960

Bank Overdraft	15,000	S. Debtors	25,000	
Capital Accounts:		**Less:** Provision	500	24,500
A	10,000	Stock		24,940
B	10,000	Plant & Machinery		3,600
C	10,000			
	57,000			57,000

Working Notes:

1. Calculation of Sacrificing Ratio

A's Sacrifice = 3/4 - 1/3 = 5/12 B's Gain = 1/4-1/3= 1/12

2. **Value of Firm's Goodwill** = Rs. 2,000 x 3/1 = Rs. 6,000

B has to be debited for = Rs. 6,000 x 1/12 = Rs. 500

A has to be credited for = Rs. 6,000 x 5/12 = Rs. 2,500

Dr. 3. CASH ACCOUNT Cr.

Particulars	**Rs.**	Particulars	**Rs.**
To Balance b/d	1,000	By A's Capital A/c	10
To C's Capital A/c	12,000	By B's Capital A/c	9,030
		By Balance c/d	3,960
	13,000		13,000

Q15> A, B and C were in partnership, sharing profits and losses as to A one-half, B one-third and C one-sixth. As from 1st January, 2018 they admitted D into partnership on the following terms:

D to have a one-sixth share which he purchased entirely from A paying A Rs. 8,000 for the share of Goodwill. Of this amount, A had withdrawn Rs. 6,000 and put the balance in the firm as additional capital. As a condition to admission of D as a partner D also brought Rs. 5,000 capital into the firm. It was further agreed that the investments should be valued at its market value of Rs. 3,600 and plant be valued at Rs. 5,800.

The Balance sheet of the old firm on 31.12.2017 was as follows:

Cash at Bank Rs. 8,000; Debtors Rs. 12,000; Stock Rs. 10,000; Investments at Cost Rs. 6,000; Furniture

Rs. 2,000; Plant Rs. 7,000; Creditors Rs. 21,000; Capital: A Rs. 12,000; B Rs. 8,000 and C Rs. 4,000.

The profits for the year 2018 were Rs. 12,000 and the drawings were: A Rs. 6,000, B Rs. 6,000, C Rs. 3,000 and D Rs. 3,000.

Required: Journalise the opening adjustments, prepare the opening Balance Sheet of the new firm as on 1st January, 2018 and give the capital account of each partner as on 31st December, 2018.

Sol.

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Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Cash A/c	Dr.		13,000	
To D's Capital A/c (Being amount brought in by D)				13,000
D's Capital A/c	Dr.		8,000	
To A's Capital A/c (Being goodwill credited to sacrificing partner 'A')				8,000
A's Capital A/c	Dr.		6,000	
To Cash A/c (Being Cash withdrawn by A)				6,000
Revaluation A/c	Dr.		3,600	
To Investments A/c To Plant A/c (Being Revaluation of investments and plant recorded)				2,400 1,200
A's Capital A/c B's Capital A/c C's Capital A/c	Dr. Dr. Dr.		1,800 1,200 600	
To Revaluation A/c (Being Loss on Revaluation transferred to old partners in 3 : 2 :1 ratio)				3,600

OPENING BALANCE SHEET OF NEW FIRM AS ON 1 JAN., 2018

Liabilities	Rs.	Assets	Rs.
Creditors	21,000	Cash at Bank	15,000
Capital Accounts:		Investments	3,600
A	12,200	Debtors	12,000
B	6,800	Stock	10,000
C	3,400	Furniture	2,000

D	5,000	Plant	5,800
	48,400		48,400

Dr. CAPITAL ACCOUNTS OF PARTNERS AS ON 31ST DEC., 2018 Cr.

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To Drawings	6,000	6,000	3,000	3,000	By Balance b/d	12,200	6,800	3,400	—
To Balance c/d	10,200	4,800	2,400	4,000	By Cash A/c	—	—	—	5,000
					By P & L A/c	4,000	4,000	2,000	2,000
	16,200	10,800	5,400	7,000		16,200	10,800	5,400	7,000

Q16> Amit and Sumit are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31st March 2018 is given below:

Liabilities	Rs.	Assets		Rs.
Capital Accounts:		Land & building		3,20,000
Amit	1,76,000	Investments (Market value Rs. 55,000)		50,000
Sumit	2,54,000	Debtors	3,00,000	
Loan from Puneet	3,00,000	**Less:** Provision	10,000	2,90,000
General Reserve	30,000	Stock		1,10,000
Employer's provident fund	10,000	Cash at bank		50,000
Creditors	50,000			
	8,20,000			8,20,000

They decided to admit Puneet as a new partner from 1st April, 2018 on the following terms:

(1) Amit will give 1/3rd of his share and Sumit will give 1/4th of his share to Puneet.

(2) Puneet's loan account will be converted into his capital.

(3) The Goodwill of the firm is valued at Rs. 3,00,000. Puneet will bring his share of goodwill in cash and the same was immediately withdrawn by the partners.

(4) Land and building was found undervalued by Rs. 1,00,000.

(5) Stock was found overvalued by Rs. 60,000.

(6) Provision for doubtful debts will be made equal to 5% of debtors.

(7) Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be Rs. 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash.

Required: Prepare (a) Revaluation A/c (b) Partners' capital A/cs

(c) Balance Sheet of the firm after admission of a new partner

Sol :

Dr. REVALUATION ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	60,000	By Land & building	1,00,000
To Provision for doubtful debts	5,000	By Investments	5,000
To Profit transferred to:			
Amit's capital A/c	24,000		
Sumit's capital A/c	16,000		
	1,05,000		1,05,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Amit Rs.	Sumit Rs.	Puneet Rs.	Particulars	Amit Rs.	Sumit Rs.	Puneet Rs.
To Amit's				By Balance b/d	1,76,000	2,54,000	—
Capital A/c	—	—	60,000	By Puneets'			
To Puneet's	—	—	30,000	Loan A/'c	—	—	3,00,000
Capital A/c				By Puneet's			
To Bank A/c	60,000	30,000	—	capital A/c	60,000	30,000	—
To Balance c/d	4,00,000	3,00,000	3,00,000	By Bank A/c	—	—	90,000
				By Revaluation A/c	24,000	16,000	
				By General reserve	18,000	12,000	—
				By Bank	1,82,000	18,000	—
	4,60,000	3,30,000	3,90,000		4,60,000	3,30,000	3.90,000

BALANCE SHEET AS AT 1ST APRIL, 2018

Liabilities	Rs.	Assets		Rs.
Capital accounts:		Land & Building		
Amit	4,00,000	(3,20,000 + 1,00,000)		4,20,000
Sumit	3,00,000	Investments		55,000
Puneet	3,00,000	Debtors	3,00,000	
Creditors	50,000	Less: Provision for		
Employers' Provident Fund	10,000	doubtful debts	(15,000)	2,85,000
		Stock (1,10,000 - 60,000)		50,000
		Cash at bank		2,50,000
	10,60,000			10,60,000

Working Notes:

(I) CALCULATION OF INCOMING PARTNER'S SHARE, NEW PROFIT SHARING & SACRIFICING RATIO

Particulars	Amit	Sumit
Old profit sharing ratio	3/5	2/5
Surrendered by old partners	3/5 x 1 /3 = 1/5	2/5x1/4 = 1/10
Remaining share	3/5 -1/5 = 2/5	2/5-1/10 = 3/10

Puneet's total share in profits = 1/5 + 1/10 = 3/10

New profit sharing ratio of Amit: Sumit: Puneet = 2/5:3/10: 3/10 = 4:3:3

Sacrificing ratio of Amit: Sumit is 1/5 :1/10 : or2:1

(ii) Share of Puneet in goodwill = Rs. 3,00,000 x 3/10 = Rs. 90,000

Goodwill will be distributed among the old partners in their sacrificing ratio of 2:1 i.e. Rs. 60,000 by Amit and Rs. 30,000 by Sumit.

Dr. (III) BANK ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Amit's Capital A/c	60,000
To Puneefs Capital A/c	90,000	By Sumit's Capital A/c	30,000
To Sumit's Capital A/c To Amit's Capita] A/c	18,000 1,82,000	By Balance c/d	2,50,000
	3,40,000		3,40,000

Q17> A, B and C are partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. S decides to retire from the firm. Calculate the new profit sharing ratio of A and C in the following circumstances:

(i) If B gives his share to A and C in the original ratios of A and C.

(ii) If B gives his share to A and C in equal proportion.

(iii) If B gives his share to A and C in the ratio of 3 : 1.

(iv) If B gives his share to A only

Sol. (i) If B gives his share to A and C in the original ratios of A and C. i.e. 4 : 2, then

Out of 1/3: A will get lx 1/3 × 2/3 = 2/9 = and C will get ixi. = 1/3 × 1/3 = 1/9.

Thus, New share: A = 4/9 + 2/9 = 6/9, and C = 2/9 + 1/9 = 3/9

Hence, new profit sharing ratio is 6 : 3 or 2 : 1.

(ii)If B gives his share to A and C in equal proportion, then Out of 1/3, 1/6th each will be given to A and C. Thus, New share: A = 4/9 + 1/6 = 11/18 , and C = 2/9 + 1/6 = 7/18

Hence, new profit sharing ratio will be 11 : 7.

(iii) If B gives his share to A and C in the ratio of 3 :1, then

A will get 1/3 × 3/4 = 3/12, and C will get 1/3 x 1/4 = 1/12

Thus, New share: A = 4/9 +3/12 = 25/36 and B= 2/9 + 1/12 = 11/36

Hence, new profit sharing ratio will be 25 :11.

(iv) If 6 gives his share to A only, then

New share: A = 4/9 + 1/3 = 7/9, and C = 2/9.

Hence, new profit sharing ratio will be 7 : 2.

Q18> A, B, C were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet of the firm as on 31-3-2018 was as under:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Goodwill	40,000
A	1,50,000	3,00,000	Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000		Sundry Debtors	90,000
Sundry Creditors		40,000	Cash	10,000
		3,40,000		3,40,000

A on account of ill health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered into as on 31.3.2018, the terms of which were as follows:

(a) The Profit and Loss Account for the year ended 31.3.2018, which showed a net profit of Rs. 42,000 was to be re-opened. B was to be credited with Rs. 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio to be 2 : 3: 1 as and from 1st April, 2017.

(b) Goodwill was to be valued at two years' purchase of the average profits of five years. Profits for these five years ending on 31 st March were as under:

	Rs.
1st Year	15,000
2nd Year	23,000
3rd Year	25,000
4th Year	35,000
5th Year	42,000

(c) Fixtures are to be valued at Rs. 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3 : 1 and decided to eliminate goodwill from Balance Sheet, to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6%. Total capital of the firm will be f 3 lakh as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare Capital Account of Partners, Cash Account and Balance Sheet of B and C after giving effect to the above arrangements on the retirement of A.

Sol:

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Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
(i)	A's Capital A/c	Dr.	21,000	
	B's Capital A/c	Dr.	14,000	
	C's Capital A/c	Dr.	7,000	
	To Profit & Loss Adjustment A/c			42,000
	(Being the profit written back for making adjustments)			
(ii)	Profit and Loss Adjustment A/c	Dr.	6,000	
	To B's Capital A/c			6,000
	(Being the bonus credited to B's Capital Account)			
(iii)	Profit & Loss Adjustment A/c	Dr.	36,000	
	To A's Capital A/c To S's Capital A/c To C's Capital A/c (Being the distribution of profits in the new ratio)			12,000 18,000 6,000
(iv)	Goodwill A/c (56,000 - 40,000)	Dr.	16,000	
	Fixtures A/c	Dr.	9,800	
	To Provision for Doubtful debts A/c			1,800
	To A's Capital A/c			8,000
	To S's Capital A/c			12,000
	To C's Capital A/c			4,000
	(Being the revaluation of assets on A's retirement)			
(v)	B's Capital A/c	Dr.	44,700	
	C's Capital A/c	Dr.	14,900	
	To Goodwill A/c			56,000
	To Provision for Doubtful debts A/c			3,600
	(Being the written off goodwill and raising provision for bad debts)			
(Vi)	A's Capital A/c	Dr.	1,49,000	
	To B's Capital A/c			1,49,000
	(Being the amount payable to A paid by B)			

Dr. PARTNER'S CAPITAL ACCOUNTS Cr.

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To P&L	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
Adjustment A/c				By P&L	—	6,000	—
To Goodwill	—	44,700	14,900	Adjustment A/c			
and Provision				By P&L	12,000	18,000	6,000
for Doubtful debts				Adjustment A/c			
To B's Capital A/c	1,49,000	—	—	By Goodwill and	8,000	12,000	4,000
To Cash A/c	—	1,300	—	Fixtures			
To Balance c/d	—	2,25,000	75,000	By A's Capital A/c	—	1,49,000	—
				By Cash A/c	—	—	36,900
	1,70,000	2,85,000	96,900		1,70,000	2,85,000	96,900

Dr. CASH ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By B's Capital A/c	1,300
To C's Capital A/c	36,900	By Balance c/d	45,600
	46,900		46,900

BALANCE SHEET OF B AND C

As on 31st March, 2018 (after retirement of A)

Liabilities	Rs.	Assets		Rs.
B	2,25,000	Fixtures		39,800
C	75,000	Stock		1,70,000
Sundry Creditors	40,000	Sundry Debtors	90,000	
		Less: Provision	5,400	84,600
		Cash		45,600
	3,40,000			3,40,000

Working Note: Calculation of goodwill

A. Average pft =[Rs. 15,000 + Rs. 23,000 + Rs. 25,000 + Rs. 35,000 + Rs. 42,000]/5 = Rs. 28,000

B. Goodwill at two year's purchase = Rs. 28,000 x 2 = Rs. 56,000

Q19> On 31st March, 2018 the Balance Sheet of M/s Ram, Hari & Mohan sharing profits and losses in the ratio of 2 : 3 : 2, stood as follows:

Liabilities	Rs.		Rs.
Capital Accounts:		Goodwill	7,00,000
Ram	10,00,000	Land and Buildings	10,00,000
Hari	15,00,000	Machinery	17,00,000
Mohan	10,00,000	Closing Stock	5,00,000
Workmen Compensation Reserve	10,50,000	Sundry Debtors	6,00,000
Sundry Creditors	5,00,000	Cash and Bank Balances	5,50,000
	55,50,000		55,50,000

On same date Hari desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on that date on the following basis:

(a) Land & Buildings be appreciated by 30%.

(b) Machinery be depreciated by 20%.

(c) Closing Stock to be valued at Rs. 4,50,000.

(d) Provision for doubtful debts be made at 5%.

(e) Old credit balances of Sundry Creditors Rs. 50,000 be written back.

(f) Goodwill of the entire firm be valued at Rs. 6,30,000. Ram and Mohan decided to share the future profits & losses in the ratio of 3 : 2.

(g) The total capital of the firm is to be the same as before retirement. Individual capitals be in their profit sharing ratio.

(h) Amount due to Hari is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Required: Prepare Revaluation Account, Capital Accounts of Partners, Cash Account and Balance Sheet of New Firm.

Sol.

Dr. **REVALUATION ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Machinery	3,40,000	By Land & Building	3,00,000
To Closing Stock	50,000	By Creditors written back	50,000
To Provision for doubtful debts	30,000	By Loss on Revaluation t/f to:	
		Ram's Capital A/c	20,000
		Hari's Capital A/c	30,000
		Mohan's Capital A/c	20,000
	4,20,000		4,20,000

Dr. **PARTNERS' CAPITAL ACCOUNTS** Cr.

Particulars	Ram Rs.	Hari Rs.	Mohan Rs.	Particulars	Ram Rs.	Hari Rs.	Mohan Rs.
To Goodwill A/c	2,00,000	3,00,000	2,00,000				
To Revaluation A/c	20,000	30,000	20,000	By Balance b/d	10,00,000	15,00,000	10,00,000
To Hari (Goodwill)	1,98,000	-	72,000	By Work.Comp. Res.	3,00,000	4,50,000	3,00,000
To Cash A/c	-	9,45,000	-	By Ram(Goodwill)	-	1,98,000	—
To Hari's Loan A/c	-	9,45,000	-	By Mohan(Goodwill)	-	72,000	-
To Balance c/d	21,00,000		14,00,000	By Cash A/c	12,18,000		3,92,000
	25,18,000	22,20,000	16,92,000		25,18,000	22,20,000	16,92,000

Dr. **CASH AND BANK ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,50,000	By Hari's Capital A/c	9,45,000
To Ram's Capital A/c	12,18,000	By Balance c/d	12,15,000
To Mohan's Capital A/c	3,92,000		
	21,60,000		21,60,000

BALANCE SHEET OF M/S RAM & MOHAN AS AT 1ST APRIL, 2018

Liabilities	Rs.	Assets		Rs.
Capital Accounts:		Land & Building		13,00,000
Ram	21,00,000	Machinery		13,60,000
Mohan	14,00,000	Closing Stock		4,50,000
Sundry Creditors	4,50,000	Sundry Debtors:		
Hari's Loan A/c	9,45,000	Balance	6,00,000	
		Less: Provision	30,000	5,70,000
		Cash and Bank Balances		12,15,000
	48,95,000			48,95,000

Working Notes:

1. **Calculation of Gaining Ratio:** Ram's Gain = 3/5 - 2/7 = 11/35,

Mohan's Gain = 2/5 - 2/7 = 4/35 Thus, Gaining Ratio of Ram and Mohan = 11:4

2. **Hari's Share of Goodwill =** Rs. 6,30,000 x 3/7 = Rs. 2,70,000 which is to be contributed by Ram and Mohan in their Gaining Ratio of 11 : 4 as under:

Ram: Rs. 2,70,000 x 11/15 = Rs. 1,98,000, Mohan Rs. 2,70,000 x 4/15 = Rs. 72,000

Q20> On 31st March, 2018, the Balance Sheet of M/s A, B & C sharing profits and losses in proportionate to their capitals stood as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Land and Buildings	2,00,000
A	2,00,000	Machinery	3,00,000
B	3,00,000	Closing Stock	1,00,000
C	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 31st March, 2018, A 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 & 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 A's share of the Goodwill be adjusted in the accounts of B and C 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 A is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Required: Prepare Revaluation Account, Capital Accounts of Partners, Cash Account and Balance Sheet as at 31st March, 2018 of M/s B & C.

Sol:

Dr. REVALUATION ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Machinery	60,000	By Land and Building	60,000
To Stock	25,000	By Creditors	20,000
To Provision for doubtful debts	5,000	By Loss on Revaluation t/f to:	
		A's Capital A/c	2,857
		B's Capital A/c	4,286
		C's Capital A/c	2,857
	90,000		90,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	A(Rs.)	B(Rs.)	C (Rs.)	Particulars	A(Rs.)	B (Rs.)	C (Rs.)
To Revaluation A/c	2,857	4,286	2,857	By Balance c/d	2,00,000	3,00,000	2,00,000
To A (Goodwill)	—	10,000	30,000	By Insurance Co. A/c	22,857	34,286	22,857
To Cash A/c	1,30,000	—	-	By B (Goodwill)	10,000	-	—
To A's Loan A/c	1,30,000	-	—	By C (Goodwill)	30,000	—	-
To Balance c/d	—	3,50,000	3,50,000	By Cash A/c	—	30,000	1,60,000
	2,62,857	3,64,286	3,82,857		2,62,857	3,64,286	3,82,857

Dr. CASH AND BANK ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By A's Capital A/c	1,30,000
To Insurance Co (Joint Life Policy)	80,000	By Balance c/d	2,40,000
To B's Capital A/c	30,000		
To C's Capital A/c	1,60,000		
	3,70,000		3,70,000

BALANCE SHEET OF B AND C AS ON 31ST MARCH, 2018

Liabilities	Rs.	Assets		Rs.
B's Capital	3,50,000	Land & Buildings		2,60,000
C's Capital	3,50,000	Machinery		2,40,000
A's Loan	1,30,000	Stock		75,000

Creditors	80,000	Debtors	1,00,000	
		Less: Provision	5,000	95,000
		Cash & Bank Balance		2,40,000
	9,10,000			9,10,000

Q21> Atul, Balbir and Chatur were carrying on a business in partnership sharing profits in the ratio of 5 : 3: 2 respectively. On 31st March, 2018 their Balance Sheet stood as follows:

Liabilities	Rs.	Assets		Rs.
Atul's Capital	6,25,000	Goodwill		80,000
BalbiTs Capital	3,75,000	Land & Buildings		7,00,000
ChatuTs Capital	2,50,000	Furniture		1,65,000
General Reserve	1,00,000	Stock		2,86,000
Trade Creditors	2,10,000	Trade Debtors	1,80,000	
		Less: Provision	3,600	1,76,400
		Cash at Bank		1,52,600
	15,60,000			15,60,000

Atul retired on the above mentioned date and partners agreed that:

(i) The current value of goodwill be taken to be equal to the book value of the asset.

(ii) Land and Buildings be considered worth Rs. 9,00,000.

(iii) The provision for bad debts on trade debtors be raised to 5%.

(iv) Provision be made for compensation of Rs. 5,000 to an ex-employee.

(v) Half of the amount due to Atul be paid immediately in cash and tghe balance be treated as 10% loan, repayable within 3 years.

In order to facilitate cash payment to Atul, Balbir and Chatur brought in Rs. 3,00,000 in the ratio of 3 : 2 respectively.

Prepare Revaluation Account, the Capital of all the partners and Bank Account. Also draw the initial. Balance Sheet of Balbir and Chatur, immediately after Atul's retirement

Sol.

Dr. REVALUATION ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts	5,400	By Building	2,00,000
To Provision for compensation	5,000		
To Profit on Revaluation t/f to:			
Atul	94,800		
Balbir	56,880		
Chatur	37,920		
	2,00,000		2,00,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr

Particulars	**Atul Rs.**	**Balbir Rs.**	**Chatur Rs.**	**Particulars**	**Atul Rs.**	**Balbir Rs.**	**Chatur Rs.**
To Goodwill A/c	40,000	24,000	16,000	By Balance b/d	6,25,000	3,75,000	2,50,000
To Cash A/c	3,84,900			By General Reserve	50,000	30,000	20,000
To 10% Loan	3,84,900			By Revaluation A/c	94,800	56,880	37,920
To Atul Capital A/c	-	24,000	16,000	By Balbir & Chatur's A/c	40,000		
To Balance c/d		5,93,880	3,95,920	By Cash A/c		1,80,000	1,20,000
	8,09,800	6,41,880	4,27,920		8,09,800	6,41,880	4,27,920

BANK ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Balance b/s	1,52,600	By Atul's Capital A/c	3,84,900
To Balbir's capital A/c	1,80,000	By Balance c/d	67,700
To Chatur's capital A/c	1,20,000		
	4,52,000		4,52,600

BALANCE SHEET OF AS AT 31.03.2018 (ATUL'S RETIREMENT)

Liabilities	Rs.	Assets		
Balbir's Capital	5,93,880	Land and Building		9,00,000
Chatur's Capital	3,95,920	Furniture		1,65,000
10% Loan from Atul	3,84,900	Stock		2,86,000
Trade Creditors	2,10,000	Trade Debtors	1,80,000	
Provision for Compensation	5,000	**Less:** Provision Cash at Bank	9,000	1,71,000 67,700
	15,89,700			15,89,700

Q22> The following was the Balance Sheet of OM and Co. in which X, Y and Z were partners sharing profits and losses in the ratio of 1 : 2 : 2 as on 31st March 2018. Mr Z died on 31st Dec. 2018. His account has to be settled under the following terms:

BALANCE SHEET OF OM & CO. AS ON 31.3.2018

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	20,000	Goodwill	30,000
Bank Loan	50,000	Building	1,20,000
General Reserve	30,000	Computers	80,000
Capital Accounts:		Stock	20,000
X	40,000	Sundry Debtors	20,000
Y	80,000	Cash at Bank	20,000
Z	80,000	Investments	10,000
	3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years' purchase on the basis of average of last three years' profits and losses. The profits and losses for the three years were as detailed below:

Year ending on	Profit/Loss(In Rs.)
31-3-2018	30,000
31-3-2017	20,000
31-3-2016	(10,000) Loss

No Goodwill is to appear in the books.

Profit for the period from 1 -4-2018 to 31 -12-2018 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31 -3-2018 a car costing Rs. 40,000 was purchased on 1 -4-2017 and debited to travelling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Stock at Rs. 16,000; Building at Rs. 1,40,000; Computers at Rs. 50,000; Investments at Rs. 6,000.

Sundry Debtors were considered good. You are asked to prepare partners' Capital Accounts and Balance Sheet of the firm Om & Co. as on 31-12-2018 assuming that other items of assets and liabilities remained the same.

Sol. Dr. **PARTNERS' CAPITAL ACCOUNTS** Cr.

Particulars	Hari Rs.	Ram Rs.	Suraj Rs.	Particulars	Hari Rs.	Ram Rs.	Suraj Rs.
To Goodwill A/c	6,000	12,000	12,000	By Balance b/d	40,000	80,000	80,000
To Z's Executors' A/c			1,10,080	By General Reserve	6,000	12,000	12,000
				By X's Capital A/c	—	—	6,400
To Z's Capital A/c	6,400	12,800		By Y's Capital A/c	—	—	12,800
To Balance c/d	35,440	70,880		By P & L Suspense A/c	—	—	7,200
				By Revaluation A/c	1,840	3,680	3,680
	47,840	95,680	1,22,080		47,840	95,680	1,22,080

BALANCE SHEET AS AT 31 ST DEC. 2018

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	20,000	Building (1,20,000 + 20,000)	1,40,000
Bank Loan	50,000	Computers (80,000 - 30,000)	50,000
Z's Executors' A/c	1,10,080	Stock (20,000 - 4,000)	16,000
X's Capital	35,440	Car (40,000 - 8,000 - 4,800)	27,200
V's Capital	70,880	Sundry Debtors	20,000
		Cash at Bank	20,000
		Investments (10,000 - 4,000)	6,000
		Profit & Loss Suspense A/c	7,200
	2,86,400		2,86,400

Working Notes:		
(i)	Calculation of Book Value of Car as on 1.4.2018 and 31.12.2018	Rs.
	A Original cost of car as on 1.4. 2017	Rs. 40,000
	B Less: Depreciation @ 20% for 2017-2018	Rs. 8,000
	C Book Value as on 31.3. 2018 [A-B]	Rs. 32,000
	D Less: Depreciation @ 20% for 9 months [32,000 x 20% x 9/12]	Rs. 4,800
	E Book Value as on 31.12. 2018 [C-D]	Rs. 27,200

(ii)	Calculation of Profit/Loss on Revaluation	

Dr. REVALUATION ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	4,000	By Building	20,000
To Computer	30,000	By Car	27,200
To Investments	4,000		
To Profit on Revaluation t/f to:			
X's Capital A/c	1,840		
Y's Capital A/c	3,680		
Z's Capital A/c	3,680		
	47,200		47,200

(iii) Average Profit = [Rs. 30,000 + Rs. 32,000) + Rs. 20,000 - Rs. 10,000]/3 = Rs. 72,000/3 = Rs. 24,000

(iv) Z's share of Goodwill = Rs. 24,000 * 2 * 2/5 = Rs. 19,200

(v) Z's share of Profit = Rs. 24,000 x 9/72 x 2/5 = Rs. 7,200

Q23> Peter, Paul and Prince were partners sharing profits and losses in the ratio of 2 :1 :1. It was provided in the partnership deed that in the event of retirement/death of a partner, he/his legal representatives would be paid:

(a) The balance in the Capital Account.

(b) His share of Goodwill of the firm valued at two years' purchase of normal average profits (after charging interest on fixed capital) for the last three years up to 31 st of December preceding his retirement or death.

(c) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous years as increased by 25%.

(d) Interest on Fixed Capital @ 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(e) All the assets are to be revalued on the date of retirement or death and the profit or loss to be debited/credited to Partners in the profit sharing ratio.

Peter died on 30th Sep., 2018. The books of Account are closed on calendar year basis from 1st January to 31st December. The balance in the Fixed Capital Accounts as on 1 st January, 2018 were: Peter 10,000, Paul Rs. 5,000 and Prince Rs. 5,000. The balance in the Current Accounts as on 1st January, 2018 were: Peter Rs. 20,000, Paul Rs. 10,000 and Prince Rs. 7,000. Drawings of Peter till 30th Sep. 2018 Rs. 10,000. The Profits of the firm before charging interest on capital for the calendar years 2015, 2016 and 2017 were Rs. 1,00,000, Rs. 1,20,000 and Rs. 1,50,000 respectively. The profits include the following abnormal items of credit:—

Particulars	2015	2016	2017
Profit on sale of Assets	5,000	7,000	10,000
Insurance claim received	3,000		12,000

The firm has taken out a Joint Life Policy for Rs. 1,00,000. Besides, the partners had severally insured their lives for Rs. 50,000 each, the premium, in respect thereof being charged to the Profit and Loss Account. The surrender value of the Policies were 30% of the face value. On 30th June, 2018, the firm received notice from the insurance company that the insurance premium in respect of a fire policy had been undercharged to the extent of Rs. 6,000 in the year 2017 and the firm has to pay immediately. The revaluation of the assets indicate an upward revision in value of assets to the extent of Rs. 20,000. Prepare an account showing the amount due to Peter's legal representatives as on 30th September, 2018 Along with necessary workings.

Sol:

Dr. PETER'S CURRENT ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Drawings	10,000.00	By Balance b/d	20,000.00
To Profit & Loss Adjustment A/c	3,000.00	By Paul A/c (Goodwill)	53,500
(Share in Pre. undercharged)		By Prince A/c (Goodwill)	53,500
To Peter's Executor's A/c	2,81,031.25	By Insurance Co.	
		(Share of Matured Policies)	75,000.00
		By Paul's Current A/c	7,500.00
		By Prince's Current A/c (Share of Unmatured Policies)	7,500.00
		By Revaluation A/c	10,000.00
		By P & L Suspense A/c (Share of Profit)	67,031.25
	2,94,031.25		2,94,031.25

Dr. PETER'S EXECUTOR'S ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Balance c/d	2,91,031.25	By Peter's Capital A/c	10,000.00
		By Peter's Current A/c	2,81,031.25
	2,91,031.25		2,91,031.25

Working Notes:

1. CALCULATION OF PETER'S SHARE OF GOODWILL

Particulars	2015 Rs.	2016 Rs.	2017 Rs.
A Profit as per Profit & Loss A/c	1,00,000	1,20,000	1,50,000
B Less: Interest on Capital	2,000	2,000	2,000
C Less: Insurance Premium	—	—	6,000
D Less: Abnormal Items:			
Profit on Sale of Assets	5,000	7,000	10,000
Insurance Claim received	3,000	—	12,000
E Adjusted Past Profits	90,000	1,11,000	1,20,000
F Average Profits (Rs. 90,000 + 71,11,000 + Rs. 1,20,000)/3 = Rs. 1,07,000			
G Goodwill at 2 years' Purchases = (1,07,000 x 2) = Rs. 2,14,000			
H Peter's Share (Rs. 2,14,000 x 2/4) = Rs. 1,07,000			

2. CALCULATION OF PETER'S SHARE OF INSURANCE POLICIES

Sum Assured of Joint Life Policy of all Partners	Rs. 1,00,000
Sum Assured of Individual Life Policy of Peter	Rs. 50,000

Total Sum Assured of Matured Policies	Rs. 1,50,000
Peter's Share (Rs. 1,50,000 x 2/4)	Rs. 75,000
Surrender Value of Policies of Paul & Prince: 30% of (Rs. 50,000 + Rs. 50,000)	Rs. 30,000
Peter's Share (Rs. 30,000 x 2/4)	Rs. 15,000

3. Calculation of Peter's Share of Profits

(a) Correct Profit for the year 2017 = Rs. 1,50,000 - Rs. 6,000 - Rs. 1,000 (being Interest payable to other partners) = Rs. 1,43,000

(b) Estimated Profit for 2018 = 125% of Rs. 1,43,000 = Rs. 1,78,750

(c) Proportionate till 30.9.2018 (Rs. 1,78,750 x 9/12) = Rs. 1,34,062.50

(d) Peter's Share (Rs. 1,34,062.50 x 2/4) = Rs. 67,031.25

4. Peter's Share of Profit on Revaluation of Assets = Rs. 20,000 x 2/4 = Rs. 10,000

5. Peter's share of Insurance Premium undercharged for the year 2013 = Rs. 6,000 x 2/4 = Rs. 3,000

Q24> K, L and M are partners sharing Profits and Losses in the ratio of 5 : 3 : 2. Due to illness, L wanted to retire from the firm on 31.3.2017 and admit his son N in his place.

BALANCE SHEET OF K, L AND M AS AT 31.3.2018

Liabilities	Rs.	Assets	Rs.
Capitals:		Goodwill	30,000
K	40,000	Furnitures	20,000
L	60,000	Sundry Debtors	50,000
M	30,000	Stock in Trade	50,000
Reserve	50,000	Cash and Bank Balances	50,000
Sundry Creditors	20,000		
	2,00,000		2,00,000

On retirement of 'L' assets were revalued:

Goodwill Rs. 50,000, Furniture Rs. 10,000, Stock in Trade Rs. 30,000. No Goodwill is to appear in the books. 50% of the amount due to 'L' was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill has been written off.

M is paid off his extra balance to make capital proportionate.

Required: Pass necessary Journal Entries and prepare Balance Sheet of M/s K, M, N as on 01.04.2018

Sol:

JOURNAL

Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
K's Capital A/c	Dr.		15,000	
L's Capital A/c	Dr.		9,000	
M's Capital A/c	Dr.		6,000	
To Goowill A/c				30,000
(Being the existing goodwill w/o)				
N's Capital A/c	Dr.		15,000	
To L's Capital A/c				15,000
(Being the adjustment for goodwill made)				
Reserve A/c	Dr.		50,000	
To K's Capital A/c				25,000
To L's Capital A/c				15,000
To M's Capital A/c				10,000
(Being the reserve distributed among the partners)				
Revaluation A/c	Dr.		30,000	
To Furniture A/c				10,000
To Stock-in-trade				20,000
(Being the decrease in value of assets recorded)				
K's Capital A/c	Dr.		15,000	
L's Capital A/c	Dr.		9,000	
·M's Capital A/c	Dr.		6,000	
To Revaluation A/c				30,000
(Being the loss on revaluation t/f to partners' capital accounts)				
L's Capital A/c	Dr.		72,000	
To Al's Capital A/c				36,000
To Bank A/c				36,000
(Being the 50% of the amount due was paid off and the balance retained as Al's Capital)				
M's Capital A/c	Dr.		14,000	
To Bank A/c				14,000
(Being the surplus balance paid to M)				

BALANCE SHEET (AFTER ATS ADMISSION) AS AT 31 ST MARCH, 2018

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Furniture (20,000 -10,000)	10,000
K	35,000	Sundry Debtors	50,000
M	14,000	Stock in trade (50,000 — 20,000)	30,000
N	21,000	Cash and Bank Balances	
Sundry Creditors	20,000	[50,000 — 36,000 —14,000]	
	90,000		90,000

Working Note: Calculation of Balances of Capital Accounts

Dr. CAPITAL ACCOUNT OF PARTNERS Cr.

Particulars	K Rs.	L Rs.	M Rs.	N Rs.	Particulars	K Rs.	L Rs.	M Rs.	N Rs.
To Revaluation A/c	15,000	9,000	6,000	-	By Balance b/d	40,000	60,000	30,000	—
To L's Capital A/c	—	—	—	15,000	By A/'s Capital A/c	-	15,000	-	—
To A/'s Capital A/c		36,000			By Reserve A/c	25,000	15,000	10,000	
To Bank A/c		36,000			By L's Capital A/c	-	-	-	36,000
To Goodwill A/c	15,000	9,000	6,000	—					
To Bank A/c (b/f)		—	14,000	—					
To Balance c/d	35,000	—	14,000	21,000					
	65,000	90,000	40,000	36,000		65,000	90,000	40,000	36,000

Q25> M/s X and Co. is a partnership firm with the partners A, B and C sharing Profits and Losses in the ratio of 3: 2: 5. The Balance Sheet of the firm as on 31st March, 2018 is given below.

BALANCE SHEET OF X AND CO. AS AT 31 ST MARCH, 2018

Liabilities	Rs.	Assets	Rs.
A's Capital A/c	1,04,000	Land	1,00,000
S's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long term Loan	4,00,000	Investments	22,000
Bank overdraft A/c	44,000	Stock	1,16,000
Trade Creditors	1,93,000	Sundry Debtors	1,39,000
	9,57,000		9,57,000

It was mutually agreed that B will retire from Partnership and in his place D will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to be valued at Rs. 2 lakh due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and Plant and Machinery are to be valued at 90% and 85% of the respective Balance Sheet values. Investments are to be taken over by the retiring partner at Rs. 25,000. Sundry Debtors are considered good only 90% of Balance Sheet figure. Balance to be considered Bad.

(c) In the reconstituted firm, the total Capital will be Rs. 3 lakh, which will be contributed by A, C and D in their new profit sharing ratio, which is 3: 4: 3.

(d) The surplus funds, if any, will be used for repaying bank overdraft.

(e) The amount due to retiring partner shall be transferred to his Loan Account. You are required to prepare (1) Revaluation Account (2) Partner's Capital Account (3) Bank Account and (4) Balance Sheet of the reconstituted firm as on 1st April, 2018..

SOL: Dr. **REVALUATION ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To Building A/c	2,000	By Investments A/c	3,000
To Plant & Machinery	57,000	By A's Capital A/c	26,370
To Debtors	13,900	By B's Capital A/c	17,580
		By C's Capital A/c	43,950
	90,900		90,900

Dr. **CAPITAL ACCOUNTS OF PARTNERS** Cr.

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	c Rs.	D Rs.
To Revaluation A/c	26,370	17,580	43,950	—	By Balance b/d	1,04,000	76,000	1,40,000	—
To Investments	—	25,000	—	-	By D's Capital A/c	-	40,000	20,000	-
To B's Captial A/c	-	—	-	40,000	By Bank A/c	12,370	-	3,950	1,50,000
To C's Capital A/c	—	-	—	20,000					
To B's Loan A/c		73,420							

To Balance c/d	90,000	—	1,20,000	90,000					
	1,16,370	1,16,000	1,63,950	1,50,000		1,16,370	1,16,000	1,63,950	1,50,000

Dr. **BANK ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To D's Capital A/c	1,50,000	By Balance b/d (Overdraft)	44,000
To C's Capital A/c	3,950		
To A's Capital A/c	12,370	By Balance c/d	1,22,320
	1,66,320		1,66,320

BALANCE SHEET AS AT 31 ST MARCH, 2018

Liabilities	Rs.	Assets	Rs.
Creditors	1,93,000	Bank	1,22,320
Long term loan	4,00,000	Debtors	1,25,100
B's Loan A/c	73,420	Stock	1,16,000
A's Capital A/c	90,000	Plant & Machinery	3,23,000
C's Capital A/c	1,20,000	Building	1,80,000
D's Capital A/c	90,000	Land	1,00,000
	9,66,420		9,66,420

Q26> A, B and C are partners of the firm ABC & Co., sharing profits and losses in the ratio of 5:3:2.

Following is the Balance Sheet of the firm as at 31.3.2018

Liabilities	Rs.	Assets	Rs.
Partners' capital accounts:		Goodwill	1,00,000
A	4,50,000	Building	10,50,000
B	1,30,000	Machinery	6,50,000
C	1,70,000	Furniture	2,15,000
Investment fluctuation reserve	1,00,000		
Contingency reserve	75,000	Investments (market) value Rs. 75,000	60,000
Long-term loan	15,00,000	Stock	6,50,000
Bank overdraft	2,20,000	Sundry debtors	6,95,000
Sundry creditors	8,00,000	Advertisement suspense	25,000
	34,45,000		34,45,000

It was decided that B would retire from the partnership on 1.4.2018 & D would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/ admission:

(i) Goodwill is to be valued at Rs. 5,00,000, but the same will not appear as an asset in the books of the firm.

(ii) Building and machinery are to be revalued at Rs. 10,00,000 and Rs. 5,20,000 respectively.

(iii) Investments are to be taken over by B at the market value.

(iv) Provision for doubtful debts is to be maintained at 20% on sundry debtors.

(v) The capital of the reconstituted firm will be Rs. 10,00,000 to be contributed by the partners A, C and D in their new profit sharing ratio of 2 :2 :1.

(vi) Surplus funds, if any will be used to pay the bank overdraft.

(vii) Amount due to retiring partner B will be transferred to his loan account.

Prepare:

(i) Revaluation Account; (ii) Capital Accounts of the partners; and

(iii) Balance Sheet of the firm after reconstitution.

Sol :

Dr. **(I) REVALUATION ACCOUNT** Cr.

Particulars	Rs.	Particulars		Rs.
To Building	50,000	By Investments		15,000
To Machinery (Loss on revaluation)	1,30,000	By Partners' capital A/cs		
To Provision for doubtful debts	1,39,000	A	1,52,000	
		B	91,200	
		C	60,800	3,04,000
	3,19,000			3,19,000

Dr. **(II) PARTNERS' CAPITAL ACCOUNTS** Cr.

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To Revaluation A/c	1,52,000	91,200	60,800	-	By Balance b/d	4,50,000	1,30,000	1,70,000	~
To Goodwill	50,000	30,000	20,000	-	By Contingency				

To A and B	-	-	1,00,000	1,00,000	Reserve	37,500	22,500	15,000	~
To Investments	-	75,000	-	-	By Investment	50,000	30,000	20,000	-
To Advertisement suspense	12,500	7,500	5,000	-	Fluctuation Reserve				
To B's Loan A/c(b.f.)	-	1,28,800	-	-	By C and D	50,000	1,50,000	-	-
To Balance c/d	4,00,000	-	4,00,000	2,00,000	By Bank (b.f.)	27,000	-	3,80,800	3,00,000
	6,14,500	3,32,500	5,85,800	3,00,000		6,14,500	3,32,500	5,85,800	3,00,000

(III) BALANCE SHEET AS AT 01.04.2018 (AFTER RETIREMENT OF B AND ADMISSION OF D)

Liabilities	Rs.	Assets		Rs.
Partners' Capital Accounts :		Building		10,00,000
A	4,00,000	Machinery		5,20,000
C	4,00,000	Furniture		2,15,000
D	2,00,000	Stock		6,50,000
Long term loan	15,00,000	Debtors	6,95,000	
B's loan	1,28,800	**Less:** Provision for		
Sundry creditors	8,00,000	doubtful debts	1,39,000	5,56,000
		Cash at bank		4,87,800
	34,28,800			34,28,800

Working Notes:

Dr. **(I) BANK ACCOUNT** Cr.

Particulars	Rs.	Particulars	Rs.
To A's capital A/c	27,000	By Balance b/d (Overdraft)	2,20,000
To C's capital A/c	3,80,800	By Balance c/d (Bal. fig.)	4,87,800
To D's capital A/c	3,00,000		
	7,07,800		7,07,800

(ii)Calculation of sacrificing and gaining ratio

Partners	New share	Old share	Share Sacrificed	Share Gained
A	2/5	5/10	2/5-5/10 = 1/10	
B		3/10		3/10
C	2/5	2/10	2/5-2/10 = 1/5	
D	1/5			1/5

ADJUSTING ENTRY TO ADJUST GOODWILL

Particulars		Dr. (Rs.)	Cr. (Rs.)
C's Capital A/c (Rs. 5,00,000 x 1/5)	Dr.	1,00,000	
D's Capital A/c (Rs. 5,00,000 x 1/5)	Dr.	1,00,000	
To A's Capital A/c (Rs. 5,00,000 x 1/10)			50,000
To B's Capital A/c (Rs. 5,00,000 x 3/10)			1,50,000

(III) CAPITALS OF A, C AND D AS PER NEW RATIO

Particulars	Rs.
Total Capital of the firm after admission	10,00,000
A's share [10,00,000 x 2/5]	4,00,000
C's share [10,00,000 x 2/5]	4,00,000
D's share [10,00,000 x 1/5]	2,00,000

Q27> A, B and C are in partnership sharing profits and losses in the ratio of 2 : 3 : 5. A retires on 31st March 2018 and D is admitted to partnership on the same date, the new profit sharing ratio between B, C and D being 2:3:1. Following is the Balance Sheet of A, B and C on 31st March, 2018.

Liabilities	Rs.	Assets	Rs.
A's Capital	10,000	Land & Building	10,000
B's Capital	15,000	Machinery	30,000
C's Capital	20,000	Stock	20,000
General Reserve	40,000	Debtors	30,000
Loan from D	50,000	Cash in hand	2,000
Sundry Creditors	50,000	Cash at Bank	93,000
	1,85,000		1,85,000

D 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 the 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 years' purchase profits for the last three financial years. The figures are: For 2014-2015 Profit

Rs. 20,000, for 2015-2016 Loss Rs. 15,000, 2016-2017 Profit Rs. 40,000. (g) The amount due to A is to be retained in the business as loan, (h) D's Capital contribution should be 1/5th of the combined capital of B and C after making the above adjustments. D's share of capital will be transferred from his Loan A/c. Required: Pass the necessary journal entries to give effect to the above.

Sol :

JOURNAL

Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Revaluation A/c	Dr.		9,500	
To Machinery A/c				3,000
To Stock A/c				5,000
To Provision for Doubtful Debts A/c				1,500
(Being the fall in value of assets recorded)				
Land & Building A/c	Dr.		20,000	
To Revaluation A/c				20,000
(Being an increase in value of assets recorded)				
Revaluation A/c	Dr.		10,500	
To A's Capital A/c				2,100
To B's Capital A/c				3,150
To C's Capital A/c				5,250
(Being the transfer of profit on revaluation)				
General Reserve A/c	Dr.		40,000	
To A's Capital A/c				8,000
To B's Capital A/c				12,000
To C's Capital A/c				20,000
(Being the transfer of general reserve)				
B's Capital A/c	Dr.		1,000	
D's Capital A/c	Dr.		5,000	
To A's Capital A/c				6,000
(Being the Goodwill Credited to A & debited to sacrificing partners)				
A's Capital A/c	Dr.		26,100	
To A's Loan A/c				26,100
(Being the transfer of A's capital A/c to his loan A/c)				
D's Loan A/c	Dr.		14,880	
To D's Capital A/c				14,880

(Being the transfer of D's Capital contribution on his admission, from his Loan Account)				

Working Notes:

1. CALCULATION OF VALUE OF GOODWILL

(a) Total Profit for previous three years	Rs. 45,000
(b) Average Profit (45,000/3)	Rs. 15,000
(c) Goodwill (Rs. 15,000 x 2)	Rs. 30,000

2. CALCULATION OF CAPITAL OF D

(a) Aggregate capital (after all other adjustments) of B and C	Rs. 74,400
(b) D's Capital (74,400 x 1/5)	Rs. 14,880

Q28> Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below: (Nov 2018)

Liabilities		(₹)	Assets	(₹)
Trade payables		22,500	Land & Buildings	37,000
Outstanding Liabilities		2,200	Furniture & Fixtures	7,200
General Reserve		7,800	Closing stock	12,600
Capital Accounts:			Trade Receivables	10,700
Dinesh	15,000			
Ramesh	15,000			
Naresh	10,000	40,000		
			Cash in hand	2,800
			Cash at Bank	2,200
		72,500		72,500

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

(i) Suresh shall bring Rs. 8,000 towards his capital.

(ii) The value of stock to be increased to Rs. 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

(iv) The value of Land & Buildings to be increased by Rs.5,600 & the value of goodwill be fixed at Rs. 18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include Rs. 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books. Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Sol:

Revaluation Account

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

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

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

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

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

Q28> *Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as* *(May 2019)*

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Provision for doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at Rs 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at Rs 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account (2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2018

SOL.:

(a) Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners:		By Provision for doubtful debt	2,000
(Revaluation Profit)			
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs 26,250 x 1 = Rs 26,250

Zoya's Share of Goodwill = Rs 26,250X 1/3 = Rs 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs 8750X1/2 =Rs 4375 & Yedhant =Rs 8750X1/2 = Rs 4375

Q29> Arup and Swarup were partners. The partnership deed provides inter alia: (Nov 2019)

(i)That the annual accounts be balanced on 31st December each year;

(ii)That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and -Carried to reserve account: One sixth;

(iii)That in the event of death of a partner, his executor will be entitled to the following:

(1)The capital to his credit at the date of death;

(2)His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3)His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years

Trial Balance as on 31st December, 2018

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: Rs 51,000; 2017: Rs 39,000 and 2018: Rs 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

SOL.:

(i)	Ascertainment of Swarup's Share of Profit		(ii)	Ascertainment of Value of Goodwill	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 months' Profit	15,000		Goodwill - 3 years	
	Swarup's Share in Profit (2/5th of ₹15,000)	6,000		Purchase of Average Profit	1,35,000
				Swarup's Share of goodwill (2/5 of ₹1,35,000)	54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2,

Therefore Swarup's share of Profit = 2/5

Swarup's Executors Account

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of ₹45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000
			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

CH- 11

ACCOUNTING FOR SHARE CAPITAL

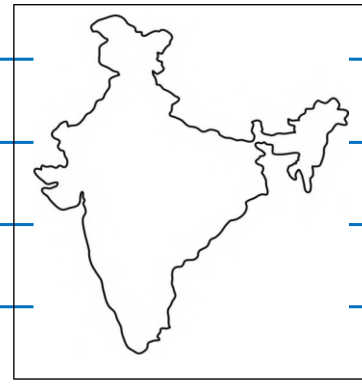
DANGAL QUESTIONS

ICAI RTP QUESTIONS	ICAI PAST QUESTIONS	TOTAL QUESTIONS
10	6	16

BASIC CONCEPTS

CONCEPT NO 1 : ACCOUNTING ENTRIES

IN LUMPSUM



IN INSTALMENT

JOURNAL ENTRY

Bank A/c	Dr	xxx	
To Share Application A/c			xxx
Share Application A/c	Dr	xxx	
To Share Capital A/c			xxx
Share Allotment A/c	Dr	xxx	
To Share Capital A/c			xxx
Bank A/c	Dr	xxx	
To Share Allotment A/c			xxx
Share Calls A/c	Dr	xxx	
To Share Capital A/c			xxx
Bank A/c	Dr	xxx	
To Share Calls A/c			xxx

CONCEPT NO 2 : FORFEITURE OF SHARES

CONCEPT NO 3 : RESISSUES OF SHARES

CONCEPT NO 4 : PRO-RATA ALLOTMENT OF SHARES

CONCEPT NO 4 : INTEREST ON CALLS IN ARREARS

CONCEPT NO 6 : INTEREST ON CALLS IN ADVANCES

CONCEPT NO 7 : ISSUES OF SHARES FOR CONSIDERATION OTHER THAN CASH

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 1 MAY 2018

Pihu Limited issued at par 2,00,000 Equity shares of Rs. 10 each payable Rs. 2.50 on application; Rs. 3 on allotment; Rs. 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal.

You are required to prepare journal entries to record these transactions.

SOL:

Book of Pihu Limited

Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for 2,00,000 shares @₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				
	Bank A/c	Dr.		4,50,000	
	To Equity Share First Call A/c				4,00,000
	To Calls in Advance A/c				50,000
	(Being first call money received along with calls in advance on 20,000 shares at ₹2.50 per share)				
	Equity Share Final Call A/c	Dr.		5,00,000	
	To Equity Share capital A/c				5,00,000
	(Being final call made due on 2,00,000 shares at ₹2.50 each)				

	Bank A/c Calls in Advance /C Calls in Arrears A/c (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.		4,45,000 50,000 5,000	5,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)	Dr.		1,500	1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,500	1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		83.34	83.34
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		5,083.34	5,000 83.34

QUESTION 2 MAY 2018 \ NOV 2018 \ MAY 2019

Mr. Hello who was the holder of 4,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share.
The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at Rs. 65 per share paid-up as Rs. 75 per share.
You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

SOL: In the books of Company

Journal

Particulars		*Dr.* Rs.	*Cr.* Rs.
Preference Share Capital A/c (4,000 x Rs.75) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 4,000 preference shares Rs. 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)	Dr.	3,00,000	 1,00,000 1,00,000 1,00,000
Bank A/c (3,000 x Rs. 65) Forfeited Shares A/c (3,000 x Rs.10) To Preference Share Capital A/c	Dr. Dr.	1,95,000 30,000	 2,25,000

(Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	45,000	45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

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

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

Surplus persharere-issued = Rs. 15

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

QUESTION 3 NOV 2018 / NOV 2019

On 1st April, 2017, Pehal Ltd. issued 64,500 shares of Rs. 100 each payable as follows:

Rs. 30 on application, Rs. 30 on allotment,

Rs. 20 on 1st October, 2017; and Rs. 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

SOL: **Journal**

2017			Dr. ₹	Cr. ₹
May 20	Bank Account To Share Application A/c (Application money on 60,000 shares at ₹ 30 per share received.)	Dr.	18,00,000	18,00,000
June 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)	Dr.	18,00,000	18,00,000
	Share Allotment A/c To Share Capital A/c (Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)	Dr.	18,00,000	18,00,000
July 15	Bank Account To Share Application and Allotment A/c (The sums due on allotment received.)	Dr.	18,00,000	18,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)	Dr.	12,00,000	12,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	12,00,000	12,00,000
2018 Feb. 1	Share Second and Final Call A/c To Share Capital A/c	Dr.	12,00,000	12,00,000

	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

QUESTION 4 **MAY 2019**

Konica Limited registered with an authorised equity capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, issued for subscription of 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

SOL: **JOURNAL ENTRIES**

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	
Calls-in-Arrears A/c	Dr.	2,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)			

QUESTION 5 **MAY 2020**

Piyush Limited is a company with an authorized share capital of Rs. 2,00,00,000 in equity shares of Rs. 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of Rs. 10 each at a price of Rs. 12 each, the arrangements for payment being:
(i) Rs. 2 per share payable on application, to be received by 1st July, 2018;
(ii) Allotment to be made on 10th July, 2018 and a further Rs. 5 per share (including the premium) to be payable;
(iii) The final call for the balance to be made, and the money received by 30th April, 2019.
Applications were received for 4,20,000 shares and were dealt with as follows:
(1) Applicants for 20,000 shares received allotment in full;
(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
(4) The money due on final call was received on the due date.
You are required to record these transactions (including cash items) in the journal of Piyush limited.
Sol :

Journal of Piyush Limited

Date 2018	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	

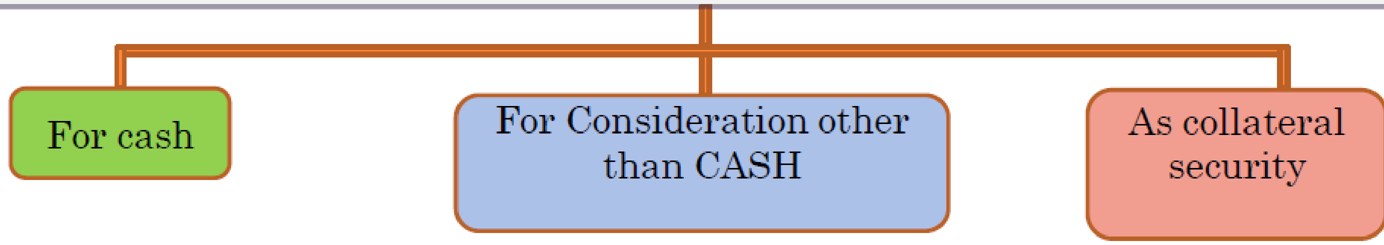
	To Equity Share Capital A/c (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			6,50,000
2019 April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)			6,50,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

CONCEPT NO 8 : ISSUE OF DEBENTURES



CONCEPT NO 9 : LOSS ON ISSUES OF DEBENTURES

CONCEPT NO 10 : INTEREST ACCRUED ON DEBENTURES

Lets DANGAL with ICAI RTP QUESTIONS

QUESTION 6 MAY 2018

Riya Limited issued 20,000 14% Debentures of the nominal value of Rs. 1,00,00,000 as follows:
(a) To sundry persons for cash at 90% of nominal value of Rs. 50,00,000.
(b) To a vendor for purchase of fixed assets worth Rs. 20,00,000 – Rs. 25,00,000 nominal value.
(c) To the banker as collateral security for a loan of Rs. 20,00,000 – Rs. 25,00,000 nominal value.
You are required to prepare necessary journal entries Journal Entries.

SOL: **In the books of Riya Company Ltd.**

JournalEntries

Date	***Particulars***		***Dr.* Rs.**	***Cr.* Rs.**
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ Rs. 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs. 25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

QUESTION 7 NOV 2018

A Ltd. issued 3,50,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

SOL: **In the books of A Limited**

Date	Particulars		Rs. '000	Rs. '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of Rs. 100 each at par, as per Board's Resolution No....dated...)			

QUESTION 8 MAY 2019

Suvidha Ltd. purchased machinery worth Rs 1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of Rs.100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium.

SOL: **Books of Suvidha Ltd.**

Journal Entries

MachineryA/c	Dr.	1,98,000	
To Hemant Ltd.			1,98,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
HemantLtd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
Case(ii) When debentures are issued at 10% discount:			
HemantLtd.	Dr.	1,98,000	
Discount on IssueofDebenturesA/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount)			
Case(iii) When debentures are issued at 10% premium:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium)			

Workings:

(a) Number of debentures issued in case of 10% discount:

	Rs.
Face value	100
Less: Discount 10%	10
Value at which issued	90
Rs 1,98,000/90	= 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	Rs.
Face value	100
Add: Premium 10%	10
Value at which issued	110

Rs. 1,98,000/ 110 = 1,800 Debentures

QUESTION 9 NOV 2019

Pihu Ltd. issued 50,00,000, 9% debentures of Rs 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:

Rs 40 on application & Rs 50 on allotment

You are required to give necessary journal entries regarding issue of debenture.

SOL: **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (rs)	Credit (Rs.rs)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	
To 9% Debentures A/c			30,00,00,000
(Amount due on allotment)			
Bank A/c	Dr.	25,00,00,000	
To Debenture Allotment A/c			25,00,00,000
(Money received consequent upon allotment)			

QUESTION 10 MAY 2020

Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years.

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

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> Piyush Limited is a company with an authorized share capital of Rs. 2,00,00,000 in equity shares of Rs. 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of Rs. 10 each at a price of Rs. 12 each, the arrangements for payment being:

(i) Rs. 2 per share payable on application, to be received by 1st July, 2017;

(ii) Allotment to be made on 10th July, 2017 and a further Rs. 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2018.

Applications were received for 4,20,000 shares and were dealt with as follows:

(1) Applicants for 20,000 shares received allotment in full;

(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited

(May 2018)

Sol: **Journal of Piyush Limited**

Date 2017	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

Q2> Give necessary journal entries for the forfeiture and re-issue of shares:

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

(ii) X Ltd. forfeited 200 shares of Rs. 10 each (Rs. 7 called up) on which Naresh had paid application and allotment money of Rs. 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for Rs. 6 per share.

(iii) X Ltd. forfeited 100 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to Dimple on which she paid Rs. 2 per share. Out of these, 80 shares were re-issued to Simple at Rs. 8 per share and called up for Rs. 6 share. (Nov 2018)

(Teacher Note : Company cannot issue shares at discount except in case of sweat equity shares)

Sol: **(i) Journal Entries in the books of X Ltd.**

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

(ii)

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

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	Rs.750
Less: Forfeiture of 150 shares	(Rs.600)
Profit on re-issue of shares	Rs.150

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	
	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No…………dated…….)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 x ₹ 1)	Dr.	80	
	To Equity Share Capital Account (80 x ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No………dated……….)			
(c)	Forfeited Shares Account		80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2)	Rs. 200.00
Forfeited shares balance for 80 shares	Rs. 160
Less: Forfeiture of 80 shares	(Rs. 80.00)
Profit on re-issue of shares	Rs. 80.00

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

Q3> Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years. (Nov 2018)

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

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

Q4> Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of Rs 10 each. (May 2019)

The amounts were payable as follows:

On application - Rs 3 per share

On allotment - Rs 5 per share

On first and final call - Rs 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

Sol: **In the books of Bhagwati Ltd. Journal Entries**

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6)	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10)			25,000
(Being re-issue of 2,500 shares @6)			
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c Rs

Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 x 2,500		Rs 10,000

Q5> On 1st January 2018 Ankit Ltd. issued 10% debentures of the face value of Rs 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass necessary journal entries for the accounting year 2018. (May 2019)

Sol:

Journal Entries

			Dr. (₹)	Cr. (₹)
1-1-2018	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000

	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)	Dr.	60,000	60,000

Q6> B Limited issued 50,000 equity shares of Rs 10 each payable as Rs 3 per share on application, Rs 5 per share (including Rs 2 as premium) on allotment and Rs 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of Rs 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company. (Nov 2019)

Sol.:

In the books of B Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
	Bank A/c To Equity Share Application A/c (Application money on 50,000 shares @ ₹ 3 per	Dr.	1,50,000	1,50,000

	share received.)			
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)	Dr.	1,50,000	 1,50,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)	Dr.	2,50,000	 1,50,000 1,00,000
	Bank A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share. X, holding 1,000 shares failed to pay allotment money.)	Dr. Dr. Dr.	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
	Equity Share Call A/c To Equity Share Capital A/c (Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.) **'OR'** Bank A/c	Dr. Dr.	1,88,000 1,88,000	 1,88,000

	Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr.	12,000	 2,00,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No.....dated ....) **'OR'** Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Calls in Arrear A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No... dated...)	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No.....dated....)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000

*(5,83,000 +20,000)

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

Transferred to Capital Reserve: X share (1,000 x ₹ 1)	₹ 1,000
Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	1,00,000
less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

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IMPORTANT DISTINCTION & TRUE & FALSE

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

1. **DISTINGUISH BETWEEN ACCRUAL BASIS OF ACCOUNTING AND CASH BASIS OF ACCOUNTING**
[JUNE 1993, MAY 2003, NOV. 2005]

Sol: Accrual basis of accounting differs from Cash basis of accounting in the following respects:

Basis of Distinction	Accrual Basis of Accounting	Cash Basis of Accounting
1. Prepaid/Outstanding Expenses/accrued/unaccrued Income in Balance Sheet	Under this, there may be Prepaid/Outstanding Expenses and Accrued/ Unaccured Incomes in the Balance Sheet.	Under this, there is no Prepaid/Outstanding Expenses or Accrued/ Unaccrued Incomes.
2. Higher/lower Income in case of Prepaid Expenses and Accrued Income	Income Statement will show a relatively higher income.	Income Statement will show lower income.
3. Higher/Lower Income in case of outstanding expenses and Unaccrued Income	Income Statement will show a relatively lower income.	Income Statement will show higher Income.
4. Recognition under the Companies Act, 2013	This basis is **recognised** under the Companies Act, 2013.	This basis is **not recognised** under the Companies Act, 2013.
5. Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g. FIFO/LIFO/SLM/WDV	Under this, an accountant has **options.**	Under this an accountant has **no option** to make a choice as such.

2. **DISTINGUISH BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE**
[JUNE 1993, NOV. 1996, MAY 1997, NOV. 2001, NOV. 2004]

Sol:

Basis of Distinction	Capital Expenditure	Revenue Expenditure

1. Meaning	It is an expenditure which is incurred: (a) to acquire or bring into existence an asset, or (b) to acquire or bring into existence an advantage or benefit of an enduring nature, or (c) to increase the productivity or earning capacity.	It is an expenditure which is incurred: (a) to maintain the productivity or earning capacity of a business, or (b) to carry out operating activities in the normal course of business.
2. Benefits	It normally yields benefits during current accounting period.	It normally does not yield benefits during current accounting period.
3. Accounting Treatment	It is debited to the Respective Asset Account.	It is debited to Respective Expense Account.
4. Examples	(a) Cost of Land and Building (b) Cost of Plant and Machinery (c) Cost of Furniture & Fixtures	(a) Depreciation on Land and Building (b) Rent of Machines (c) Repairs of Building (d) Insurance of Building

3. **DISTINGUISH BETWEEN CAPITAL RECEIPTS AND REVENUE RECEIPTS [NOV. 1994, MAY 1996, MAY 1998]**

Basis of Distinction	Capital Receipts	Revenue Receipts
1. Meaning	Capital receipts refer to those receipts which are not revenue in nature.	Revenue receipts refer to those receipts which arise in the normal course of business.
2. Accounting Treatment	These are credited to the respective account of capital nature.	These are credited to Respective Revenue Account which appears in the Income Statement.
3. Examples	(a) Sale of Land and Building by a person other than a dealer in real estate. (b) Raising of Loan by a person other than one engaged in the business of finance/banking. (c) Raising of Capital.	(a) Sale of Land and Building by a dealer in real estate. (b) Sale of Securities by a dealer in securities

4. **DISTINGUISH BETWEEN DEFERRED REVENUE EXPENSES & PREPAID EXPENSES [MAY 1995]**

Chartered Accountants of India (ICAI), defines deferred revenue expenditure as that expenditure for which payment has been made or a liability incurred, but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. "In short, it refers to that expenditure for that is, the time being, deferred from being charged to income. Such suspension of 'charging off' operation may be due to the nature of expenses and the benefit expected therefrom.

Deferred revenue expenditure should be revenue expenditure by nature in the first instance, for example, advertisement. But its matching with revenue may be deferred considering the benefit to be accrued in future.

A thin line of difference exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expense since the benefit from it will be available over the next three to five years but one cannot say precisely how long. On the other hand, insurance premium paid say, for the year ending 30th June 2018, when the accounting year ends on 31st March 2018, will be an example of prepaid expense to the extent of premium relating to three months period, i.e., from 1st April 2018 to 30th June 2018. Thus, the insurance protection will be available precisely for three months after the close of the year and the amount of the premium to be carried forward can be calculated exactly.

Deferred expenses are considered fictitious assets but prepaid expenses are considered as current assets.

5. **DISTINGUISH BETWEEN CONTINGENT LIABILITY AND OTHER LIABILITIES**

Sol

Basis of Distinction	Contingent Liability	Other Liabilities
1. Meaning	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.	These are financial obligations of an enterprise other than owners' equity.
2. Disclosure	It is disclosed by way of foot note to the Balance Sheet.	These are disclosed on the liabilities side of the Balance Sheet.
3. Example	1. Bills discounted but not yet matured 2. Arrears of dividend on Cum-Pref- Shares	1. Creditors for Goods 2. Outstanding Expenses

6. **DISTINGUISH BETWEEN PROVISION AND CONTINGENT LIABILITY**

Sol

Basis of Distinction	Provision	Contingent Liability
1. Meaning	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation..	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.
2. Recognition criteria	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3. Conditions for Recognition	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources emobodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligatioins will require outflow of economic benefits, or the amount cannot be reliably estimated.

EXAMPLE TO UNDERSTAND THE DISTINGUISH BETWEEN PROVISIONS AND CONTINGENT LIABILITIES.

The GST officer imposes a penalty on X Ltd. for violation of a provision in the GST Act. The company files an appeal. If the management of the company estimates that it is probable that the company will have to pay the penalty, it recognises a provision for the liability. On the other hand, if the management anticipates that the judgement of the appellate authority will be in its favour and it is less likely that the company will have to pay the penalty, it will disclose the obligation as a contingent liability instead of recognising a provision for the same.

7. **DISTINCTION BETWEEN FUNDAMENTAL ACCOUNTING ASSUMPTIONS AND ACCOUNTING POLICIES**

The Fundamental accounting assumptions differ from Accounting policies in the following respects:

Basis of Distinction	Fundamental Accounting Assumptions	Accounting Policies

1. Number	There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There in no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
2. Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
3. Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
4. Choice	There is no choice.	The firm has a choice to select a particular policy

8. **DISTINGUISH BETWEEN PERSONAL ACCOUNTS AND IMPERSONAL ACCOUNTS.**
[NOV. 1997, NOV. 1999, NOV. 2002]

Types of Accounts	Meaning	Examples
(a) Personal Accounts	These accounts relate to natural persons, artificial persons and representative persons.	**Natural-Ram's** A/c **Artificial-Ram & Co.'s** etc **Representative-Outstanding** Salary A/c, Prepaid Insurance
(b) Impersonal Accounts **(i) Real Accounts**	These accounts relate to the tangible or intangible real assets.	**Tangible-Land** A/c **Intangible-Goodwill** A/c
(ii) Nominal Accounts	These accounts relate to losses, profit & gains.	Expenses-Purchases A/c Loss-Loss by fire A/c **Profits & Gains-Sales** A/c, Discount Received A/c

9. **DISTINGUISH BETWEEN JOURNAL AND LEDGER** **[NOV. 2001]**

Journal differs from the Ledger in the following respects:

Basis of Distinction	Journal	Ledger
1. Nature of Book	It is book of original or **prime entry.**	It is book of final or **secondary entry.**
2. Basis for Preparation	It is prepared on the basis of **source documents** of transactions.	It is prepared on the basis of **journal.**
3. Stage of Recording	Recording in the journal is the **first** stage.	Recording in the ledger is the **second** stage.

4. Object	**It** is prepared **to record all transactions in chronological order.**	It is prepared **to know the net effect** of various transactions affecting a particular account.
5. Format	In Journal, there are **five column** 1. Date 2. Particulars 3. Ledger Folio 4. Debit Amount 5. Credit Amount	In ledger, there are identical **four column** on debit side and credit side. 1. Date 2. Particulars 3. Folio 4. Amount
6. **Balancing**	Journal is **not balanced.**	All ledger accounts (except nominal account) are **balanced** in the ledger.
7. Narration	Narration is **written** for each entry.	**No** narration is given.
8. **Name of the Process of recording entries**	The process of recording in journal is called **Journalising.**	The process of recording in the ledger is called **Posting.**
9. Basis for Preparation of Final Accounts	Journal directly does **not serve as basis** for the preparation of final accounts.	Ledger **serves the basis** for the preparations of final accounts.

10.

DISTINGUISH BETWEEN BOOKS OF ORIGINAL ENTRY AND LEDGER

Books of Original Entry and Ledger can be distinguished as follows:

Basis of Distinction	**Books of Original Entry**	**Ledger**
1. Nature of Book	There are books of original or **prime entry.**	This is a book of final **or secondary entry.**
2. Basis for Preparation	These books are prepared on the basis of **source documents.**	This book is prepared on the basis of **books of original entry.**
3. Stage of Recording	Recording of entries in these books is the first stage.	Recording of entries in the ledger is the second stage.
4. Net effect of various transactions	These books do not help to know the net effect of the various transactions affecting a particular account.	A ledger helps to know the net effect of the various transactions affecting a particular account.
5. Format	In the Journal, there is one column for particulars and two columns for amounts - one for debit and another for credit. Special journals (except Cash Book) have only one column of amount.	In the ledger, there are two divided sides having identical columns. The left side is known as debit and the right side is known as credit.
6. **Balancing**	In the books of original entry (except Cash Book) balancing is not done.	In the ledger, all the accounts (except nominal accounts) are balanced.

7. Next stage of accounting process	From the books of original entry, entries are transferred to the ledger.	From the ledger, first the trial balance is drawn and then financial statements are prepared.
8. Name of the process of recording entries	The process of recording entries in these books is called 'journalising'.	The process of recording entries in the ledger is called 'posting'.

11. **DISTINGUISH BETWEEN TRADE DISCOUNT AND CASH DISCOUNT**

[JUNE 1993, NOV. 2002]

Basis of Distinction	Trade Discount	Cash Discount
1. Meaning	It is a reduction granted by a supplier from the List Price of goods or services on business considerations (such as quantity bought, trade practices, etc.,) other than for prompt payment.	A reduction granted by a supplier from the Invoice Price in consideration of immediate payment or payment within a credit period allowed.
2. Purpose	It is allowed **to promote the sales or as a trade practices.**	It is allowed to **encourage the prompt payment.**
3. Time when allowed	It is allowed **on purchase** of goods.	It is allowed **on immediate payment** or payment within a specified period.
4. Disclosure in the Invoice	It is shown **by way of deduction in the invoice itself.**	It is **not shown in the invoice.**
5. Ledger Account	Trade Discount Account is not opened in the ledger.	Cash Discount Account is opened in the ledger.
6. Variation	It may vary with the quantity purchased.	It may vary with the period within which the payment is made.

12. **DISTINGUISH BETWEEN COMMISSION AND DISCOUNT.**

[May 1995, May 1997, May 1998, Nov. 2000, Nov. 2002]

Commission The term 'commission' may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and usually based on a percentage of the amounts involved. The various examples of commission include the following:

(a) Commission to selling or buying agents.

(b) Commission to brokers and bankers for services rendered.

(c) Commission to property dealers for assistance in renting out properties or for services in connection with purchase/sale of properties.

(d) Commission to export-import agents in foreign trade.

Commission earned is accounted for as an income in the books of the beneficiary and Commission allowed is accounted for as expenses or deferred revenue expenditure in the books of the party availing of such facility.

Discount The term 'discount' is used to express one of the following situations:

(a) An allowance given for the settlement of a debt before it is due, that is, cash discount.

(b) An allowance given to the wholesalers or bulk buyers on the list price or retail price, known as trade discount.

(c) The excess of par or face value of shares or debentures over the amount paid by subscriber, that is, discount on issue of shares or debentures.

(d) The amount charged by a bank on discounting of a bill of exchange.

Discount earned is accounted for as an income in the books of the beneficiary and discount allowed is accounted for as expenses or deferred revenue expenditure in the books of the party availing of such facility.

13. **DISTINGUISH BETWEEN IMPREST AND NON-IMPREST SYSTEM OF PETTY CASH.**

Meaning of Imprest or Float: 'Imprest' or 'Float' is the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

Petty Cash book may be maintained on imprest system on non-imprest system.

(a) Imprest System of Petty Cash—Under imprest system. The Chief Cashier makes the reimbursement of the amount spent by the Petty Cashier and the Petty Cashier again has the same amount of petty cash at the end as in the beginning.

(b) Non-imprest System of Petty Cash—Under non-imprest system, the Chief Cashier may hand over the cash to the Petty Cashier equal to/more than/less than the amount spent by the petty cashier. The Petty cashier may or may not have the same closing balance of petty cash as opening balance

Ques. **DISTINGUISH BETWEEN DEBIT NOTE AND CREDIT NOTE.**

Basis of Distinction	**Debit Note**	**Credit Note**
1. Who prepares?	It is prepared by **Purchaser.**	It is prepared by **Seller.**
2. Contents	(a) Date of return (b) Name of supplier to who returned (c) Details of goods returned (d) Reasons for returning goods	(a) Date of return (b) Name of Customer who returned (c) Details of goods returned (d) Reason for returning goods
3. Source Document	It is used as source document for recording in **Purchase Return Book.**	It is used as source document for recording in **Sales Return Book.**
4. Why Prepared?	It is prepared to debit supplier's account.	It is prepared to give credit to customer.

DISTINGUISH BETWEEN SALES DAY BOOK AND SALES ACCOUNT. **[NOV. 2001]**

Basis of Distinction	**Sales Day Book**	**Sales Account**
1. Nature	It is a book of original entry.	It is opened in the books of secondary entry i.e. ledger.
2. Basis for preparation	It is prepared on the basis of sales invoices raised.	It is prepared on the basis of Sales Day Book (for Credit Sales) and Cash Book (for Cash Sales)
3. Nature of transactions recorded	It records only the credit sales of goods in which the enterprise deals in.	It contains the effect of both Cash Sales and Credit Sales.

DISTINGUISH BETWEEN BANK STATEMENT AND BANK RECONCILIATION STATEMENT

Bank Statement differs from the Bank Reconciliation Statement in the following respects:

Basis of Distinction	**Bank Statement/Pass Book**	**Bank Reconciliation Statement**
1. Who prepares	It is prepared by the **Bank.**	It is prepared by the bank **Customer** i.e., account holder.
2. **Object**	It is prepared **to inform the customer about all transactions** which have taken place during the period covered by the Statement.	It is prepared **to reconcile** the bank balance as per cash book with the bank balance shown by the Bank Statement.
3. **Timing When Prepared**	It is prepared **for a particular period.**	It is prepared on a **particular date.**
4. Necessity	It is **compulsory** for the bank to prepare it.	It is **not compulsory.**
5. **Contents**	It shows — (a) Dates of Transactions (b) Particulars of Transactions (c) Withdrawals (d) Deposits (e) Balances	It shows — (a) Causes of disagreement & (b) Amount thereof
6. **Starting Amount**	It starts with the balance as per customer's account in bank ledger.	It may start with bank balance as per cash book or Bank Statement.
7. **Final Result**	It shows the balance in customer's account as per bank ledger at the end of the period.	It may show the bank balance as per cash book or Bank Statement at the end of period.

17. DISTINGUISH BETWEEN ERROR OF PRINCIPLE AND CLERICAL ERRORS. [JUNE 1994]

Error of Principle

Meaning: This error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation of expenditure or receipt between Capital and Revenue. The correct allocation between Capital and Revenue is of paramount importance because any incorrect allocation would disturb the final results as disclosed by the Financial Statements.

Effect: It may lead to under/over stating of Incomes or Expenses of Assets or Liabilities. This error

does not affect the trial balance.

Example: Freight paid for bringing a new machinery is debited to Freight A/c **Effect**

1. Effect on Revenve Expenditure (i.e., Freight) - Overstated

2. Effect on Capital Expenditure (i.e., Cost of Machinery) - Understated

3. Effect on Depreciation on Machinery - Undercharged

4. Effect on Net Profit - Understated by the Net Effect (i.e., the difference between the amount of Freight and amount of Depreciation).

Note: The costs incurred on the acquisition, installation and commissioning of a fixed asset up to the point the fixed asset is ready for use represent capital expenditures.

Clerical Errors

Meaning—Clerical errors refer to those errors which arise because of mistakes committed in the ordinary course of the accounting work. Type—There are three types of clerical errors as follows:

1. Error of Omission	
(a) Error of Complete Omission	This error arises when any transaction is not recorded in the books of original entry at all or, the transaction is recorded in General Journal (or Journal Proper) but is not posted in the ledger at all. This error does not affect the trial balance
(b) Error of Partial Ommission	An Error of Omission other than an Error of Complete Omission is called an Error of Partial Omission. This error **affects the trial balance..**
2. Error of Commission	This error arises due to wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc., Errors of commission may be classified as follows. **1. Error of Recording 2. Error of Casting 3. Error of Carring Forward 4. Error of Posting** This error may or may not **affect the trial balance..**
3. Compensating Errors	These errors arise when two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nil. In other words, compensating errors refer to such a group of errors wherein the effect of one error is compensated by the effect of other error or errors. These errors **do not affect the agreement of the trial balance but may** or **may not affect the figure of net profit.**

18. **DISTINGUISH BETWEEN FIFO AND LIFO METHOD OF VALUATION OF INVENTORY [JUNE 1994, NOV. 1998]**

FIFO Method of Valuation of inventory differs from LIFO Method in the following respects:

Basis of Distinction	FIFO	LIFO
1. Basic Assumption	Goods received first are issued first.	Goods received last are issued first.
2. Cost of Goods Sold	Cost of goods sold represents cost of **earlier purchases.**	Cost of goods sold represents cost of **recent purchases.**
3. Ending Inventory	Ending inventory represents cost of **recent purchases.**	Ending inventory represents cost of **earlier purchases.**
4. In case of Rising prices	**Higher income** is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, income tax liability is increased.	**Lower income** is reported since current costs (which are higher than the old costs) are matched with current revenue. As result, income tax liability is reduced.
5. Distortion in Balance Sheet	Balance Sheet shows the ending inventory at a value **nearer the current market price.**	Balance Sheet is distorted because ending inventory is **understated at old costs.**

19. **DISTINGUISH BETWEEN FIFO AND WEIGHTED AVERAGE METHOD OF STOCK VALUATION.[MAY 2002]**

FIFO

1. **Basic Assumption**—Goods received first are issued first.
2. **Cost of Goods Sold**—Cost of goods sold represents cost of earlier purchases.
3. **Ending Inventory**—Ending inventory represents cost of recent pur-chases.
4. **In case of Rising prices**—Higher income is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, in-come tax liability is increased.\
5. **Distortion in Balance Sheet—**Balance Sheet shows the ending inventory at a value nearer the current market price.

WEIGHTED AVERAGE PRICE METHOD

The Weighted Average Price Method is based on the assumption that each issue of goods consists of a due proportion of the earlier lots and is valued at the weighted average price. Weighted average price is x

due proportion of the earlier lots and is valued at the weighted average price. Weighted average price is calculated by dividing the total cost of goods in stock by the total quantity of goods in stock. This weighted average price is used for pricing all the issues until a new lot is received when a new weighted average price would be calculated. This method evens out the effect of widely varying prices of different lots which make up the stock.

20. **DISTINGUISH BETWEEN PERIODIC INVENTORY SYSTEM AND PERPETUAL INVENTORY SYSTEM**

Periodic Inventory System differs from Perpetual Inventory System in the following respects:

Basis of Distinction	Periodic Inventory System	Perpetual Inventory System
1. Basis of Ascertaining Inventory	Inventory is ascertained by taking an actual physical count	Inventory is ascertained on the basis of records.
2. Calculation of Inventory	Inventory is directly calculated by applying the method of valuation of inventories.	Inventory is calculated as a residual figure as under: Closing Inventory = Opening Inventory + Purchases - Cost of Goods Sold
3. Calculation of cost of goods sold	Cost of Goods Sold is calculated as a residual figure as under:	Cost of Goods Sold is directly calculated by applying the method of valuation of inventories. Cost of Goods Sold = Opening Inventory + Purchases - Closing Inventory
4. Lost Goods lost goods (if any).	Cost of Goods sold includes (if any).	Inventory includes lost goods
5. Closing Down of work for Stock taking	It requires closing down of work for stock taking.	It does not require closing down of work for Stock taking.
6. Continuous Stock stock checking.	It does not facilitate the Checking	It facilitates the continuous continuous stock checking.
7. Simplicity and cost	It is simple and inexpensive.	It is elaborate and expensive.

21. **DISTINGUISH BETWEEN STRAIGHT LINE METHOD & WRITTEN DOWN VALUE METHOD**
[JUNE 1993, MAY 2002]

Straight Line Method differs from Written Down Value Method in the following respects:

Basis of Distinction	Straight Line Method	Written Down Value Method
1. Basic of Calculation	Depreciation is calculated at a fixed percentage on the **original cost.**	Depreciation is calculated at a fixed percentage on original cost (in first year) and on **written down value** (in subsequent years).
2. Amount of Depreciation	The amount of depreciation **remains constant.**	The amount of depreciation goes on **decreasing.**
3. Total Charge (i.e., depreciation plus **repairs and renewals)**	Total charge in later years is **more** as compared to that in earlier years since the amount of repairs and renewals goes on increasing as the asset grows older, whereas the amount of depreciation remains constant year after year.	Total charge remains almost **uniform** year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is less whereas in later years, the amount of depreciation is less and the amount of repairs & renewals is more.
4. Book Value	The book value of the asset **becomes zero** or equal to its scrap value.	The book value of the asset **does not become zero.**
5. Suitability	This method is suitable for those assets in relation to which (a) repair charges are less (b) the possibility of obsolescence is less.	This method is suitable for those assets in relation to which (a) the amount of repairs & renewals goes on increasing as the asset grows older and (b) the possibilities of obsolescence are more.
6. **Calculation Easy** or **Difficult**	It is **easy to calculate** the rate of depreciation.	It is **difficult to calculate** the rate of depreciation.

22. **DISTINGUISH BETWEEN REVENUE AND CAPITAL RESERVE**

Revenue reserve refers to the amounts which are free for distribution by way of dividend. Capital reserve refers to the amounts which are not free for distribution by way of dividend.

23. **DISTINGUISH BETWEEN PROVISION AND RESERVE. [NOV. 1996, NOV. 2000, NOV. 2002]**

Provision can be distinguished from a Reserve as follows:

Basis of Distinction	Provision	Reserve
1. Purpose	It is created **for a particular purpose** and can only be used for that particular purpose.	It need **not** necessarily be created **for a particular purpose,** e.g., General reserve is not for any particular purpose.

2. Charge Vs. Appropriation	It is a **charge** against the profit and is required to be created irrespective of the amount of profit.	it is an **appropriation** out of profit and can be created only if profits have been earned.
3. Disclosure in Income Statement	It is shown on the debit side of **P & L**A/c.	It is shown on the debit side of **P & L Appropriation A/c.**
4. Disclosure in Balance Sheet	Usually a provision is shown **by way of deduction** from the amount of the items for which the it is created, e.g. Provision for Doubtful Debts.	Reserve is shown as a separate item under the head **Reserves and Surplus** on the liabilities side of the Balance Sheet.
5. Investment outside the business	There is **no question** of investment of the amount of provisions.	The amount of a reserve **can be** invested **outside the business.**
6. **Utilisation for Dividends**	It **cannot** be utilised for distribution by way of dividends.	It **can be** utilised for distribution by way of dividends.
7. Legal Necessity	**It** is made mainly because of **legal necessity.**	It is a matter of financial **prudence.**

24. **DISTINGUISH BETWEEN A BILL OF EXCHANGE AND A PROMISSORY NOTE.**

[NOV. 1994, MAY 1995, NOV. 1997, NOV. 1999, NOV. 2000]

A Bill of Exchange can be distinguished from a Promissory Note as follows.

Basis of Distinction	**Bill of Exchange**	**Promissory Note**
1. No. of Parties	There are **three** parties—Drawer, Drawee and Payee and Payee.	There are **two** parties—Maker and Payee.
2. Promise/order	It contains an unconditional **order** given by a Creditor to a Debtor.	It contains an unconditional **promise** given by a debtor to a creditor.
3. Nature of Liability	The liability of the drawer is **secondary and conditional.**	The liability of the maker is **primary and absolute.**
4. Acceptance	It **requires** an acceptance to become a valuable instrument.	It **does not require** any acceptance since it is a valuable instrument right from the beginning.
5. Same identity of payer and payee	The drawer and payee **may** be the same person.	The maker and payee **cannot** be the same person.
6. **Payable to bearer**	It **can be** payable to the bearer.	It **cannot** be payable to bearer. It cannot be drawn as payable to bearer on demand.
7. Protest for Dishonour	It **requires** the protesting for dishonour.	It **does not require** any protesting.
8. **Notice of Dishonour**	Notice of dishonour must be given **to all persons** (including drawer) liable to pay.	Such notice is not required **to** be **given** to the **maker.**

25. **DISTINGUISH BETWEEN TRADE BILLS AND ACCOMMODATION BILLS. [MAY 2006]**

Basis of Distinction	**Trade Bills**	**Accommodation Bills**
1. Purpose	These bills are drawn to settle a business transaction.	These bills are drawn to meet the financial needs of the drawer/ drawee/both temporarily.
2. Consideration	These bills are accepted for a consideration.	These bill are accepted without any consideration.
3. Role	These bills act as an evidence of indebtedness.	These bills act as a source of finance.
4. Sharing of Proceeds of the Bill	On discounting of such bills, proceeds remain with the holder.	On discounting of such bills, proceeds may be shared by drawer and drawee in an agree ratio.
5. Recovery in case of dishonour	On dishonour of such bills, drawer can file a suit against the drawee, because drawee is liable to drawer.	On dishonour of such bill, drawer cannot file suit against the drawee because drawee is not liable to drawer.

26. **DISTINGUISH BETWEEN CONSIGNMENT AND SALE. [NOV. 1994, NOV. 1997, MAY 2002]**

Consignment differs from Sale in the following respects:

Basis of Distinction	**Consignment**	**Sale**
1. Nature of Relationship	The relation between the Consignor and the consignee is that of **principle and agent.**	The relation between the seller and the buyer is that of **creditor and debtor.**
2. Ownership and possession of goods	**Only the possession** and not the ownership is transferred to the consignee.	**Both** the possession and ownership are transferred.
3. Risk of goods	Risk remains **with** the **Consignor** because ownership remains with the Consignor.	Risk remains **with** the **buyer** since ownership remains with him.
4. Proforma Invoice/ Invoice	Consignor prepares only a **proforma invoice.**	Seller prepares a sales **invoice.**
5. Subject matter of dealing	**Only movable properly** may be its subject matter.	**Any property** may be its subject matter.
6. Who bears expenses	Expenses incurred by consignee are borne by **Consignor.**	Expenses incurred after sale by **buyer** are borne by him and not by seller.
7. Profit/Loss belongs to	Profit/Loss on sale of belongs to **Consignor.**	After the sale is complete, the profit/loss belongs to **buyer.**
8. Return of Goods	Goods are **returnable** if they are not sold by the consignee.	Goods once sold are **not returnable.**
9. Account Sales	**Account Sales** has to be submitted by the consignee to the Consignor from time to time.	**No Account Sale** is required to be submitted by the Buyer to the Seller.

10. Treatment of Unsold Goods	Unsold goods with the Consignee is be treated as stock of the Consignor.	The seller has nothing to do with the goods which could not be resold. Unsold Goods with the buyer is treated as Stock of the Buyer.

27. **DISTINGUISH BETWEEN ORDINARY COMMISSION AND DEL-GREDERE COMMISSION**

Basis of Distinction	Ordinary Commission	Del credere Commission
1. When allowed?	It is allowed to all the consignees for all the consignments for selling goods.	It is allowed to the consignee only when he undertakes the risk of bad debts arising out of credit sales.
2. Guarantee	In return of this commission, consignee guarantees only the proceeds of cash sales	In return of this commission, consignee guarantees the proceeds of cash sales and credit sales.
3. How to Calculate?	It is calculated at an agreed rate on the total sales.	It is calculated at an agreed rate either on total sales (if no agreement) or credit sales (if agreement provides).

28. **DISTINGUISH BETWEEN NORMAL LOSS AND ABNORMAL LOSS IN CONSIGNMENT. [NOV. 2002]**

Normal loss differs from Abnormal loss in the following respects:

Basis of Distinction	Normal Loss	Abnormal Loss
1. Avoidable vs. Unavoidable	It is an unavoidable loss.	It is an avoidable loss.
2. Causes	It is caused due to the inherent feature of the goods e.g. evaporation, normal leakage/ spoilage.	It is usuallly cause by fire, theft, abnormal spoilage/pilferage etc.
3. Part of Cost	It is treated as a part of cost.	It is not treated as a part of cost.
4. Valuation	Its value is not calculated separately.	Its value is calculated in the same manner as value of unsold stock.
5. Treatment	Its value is adjusted by inflating the cost per unit as under. Effective cost per unit =	Its value is credited to the consignment Account in order to calculate the normal profit/ loss on consignment.
6. Journal Entry	No journal entry is passed to account for such loss.	The following journal entry is passed to account for such a loss: P&L A/c [irrecovered loss] Dr. Insurance Co. Dr. [Clain admitted] To Consignment A/c [Total Loss]

31. **DISTINGUISH BETWEEN ORDER OF LIQUIDITY AND ORDER OF PERMANENCE**

Basis of Distinction	Order of Liquidity	Order of Permanence
1. Order of Assets	The assets are arranged in the order of their liquidity, i.e., the most liquid asset (e.g., Cash-in-hand), is shown first. The least liquid asset (e.g., Goodwill) is shown last. The least liquid asset does not mean an asset which cannot be encashed.	The assets are arranged in the order of their permanence i.e., the least liquid asset (e.g., Goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. Order of Liabilities	The liabilities are arranged in the order of their urgency of payment, i.e., the most urgent payment to be made (e.g., Short-term creditors) is shown first. The least urgent payment to be made (e.g., Longterm creditors) is shown last.	The liabilities are arranged in the order of their permanence i.e., the least urgent payment to be made (e.g., Owners) is shown first and the most urgent payment to be made (e.g., Short-term creditors) is shown last.
3. Users	Usually, the banking and financial companies, sole proprietorship and the partnership concerns prepare their balance sheets in the order of liquidity.	The company as defined under the Companies Act, 1956 is required to prepare the balance sheet in order of permanence.

32. **DISTINGUISH BETWEEN TRADING & PROFIT & LOSS ACCOUNT & BALANCE SHEET[NOV. 1994]**

The Trading and Profit and Loss Account can be distinguished from the Balance Sheet as follows:

Basis of Distinction	Trading and Profit & Loss A/c	Balance Sheet
1. Need for Preparation	The Trading and Profit & Loss A/c is prepared to ascertain the **Financial Performance** during an accounting period.	The Balance Sheet is prepared to ascertain the **Financial Position** of an enterprise at a particular time.
2. Contents	The balances of all the ledger accounts of **revenue nature** are shown in the Trading and Profit& Loss A/c.	The balances of only those ledger accounts which still remain open even after the preparation of Trading and Profit & Loss A/c, are shown in the Balance Sheet.
3. Format	(a) The Trading & Profit & Loss A/c is a **ledger account.** (b) It has debit side and a credit side. (c) It is closed by transferring its balance to the Capital Account.	(a) The Balance Sheet is only a statement & not an account. (b) It has no debit side and credit side. (c) The headings of the two sides are 'Liabilities' and 'Assets'.

33. **DISTINGUISH BETWEEN A TRIAL BALANCE AND A BALANCE SHEET [MAY 1995, MAY 1997, MAY 1998, MAY 2002]**

A Trial Balance can be distinguished from a Balance Sheet as follows:

Basis of Distinction	Trial Balance	Balance Sheet
1. Need for Preparation	It is prepared to check the arithmetical accuracy	It is prepared to ascertain the Financial Position of an enterprise at a particular point of time.
2. Contents	All the ledger accounts are shown in the Trial Balance.	The balances of only those ledger accounts which still remain open even after the preparation of Trading & Profit & Loss Account are shown in the Balance Sheet.
3. Format	The headings of the two columns are **'debit balances'** and **'credit balances'** (in case of a Trial Balance by Balance Method).	The headings of the two sides are **'Liabilities'** and **'Assets'.**
4. Closing Stock	Generally, the Closing Stock does not appear in the Trial Balance whereas the opening stock appears.	In a Balance Sheet, only the Closing Stock appears on the Assets side as a Current Assets.
5. Items of Adjustments (e.g., Outstanding Expenses, Prepaid Exp., Accrued Income etc.)	It can be prepared without incorporating the items of adjustments.	It cannot be prepared without incorporating the items of adjustments.
6. Net Profit /Net Loss	Information about net Profit/Net loss is not provided in a Trial Balance.	Information about net Profit/Net Loss is provided.
7. Periodicity	It can be prepared periodically (say) at the end of a month/ quarter/half-year.	It is generally prepared at the end of an accounting period.
8. Can the preparation be dispensed with?	Its preparation can be dispensed with.	Its preparation cannot be dispensed with.

34. **DISTINGUISH BETWEEN FIXED CAPITAL METHOD AND FLUCTUATING CAPITAL METHOD.**
[NOV. 1995, NOV. 2004]

Fixed Capital method and Fluctuating Capital method in partnership accounts can be distinguished as follows:

Basis of Distinction	Fixed Capital Method	Fluctuating Capital Method
1. Change in Capital	The capital normally **remains unchanged** except under special circumstances.	The capital **fluctuates** quite frequently from period to period.
2. No. of Accounts maintained	**Two** accounts are maintained for each partner viz. (a) Fixed Capital Account, (b) Current Account.	Only **one** account (viz., Capital Account) is maintained for each year.

3. Adjustments for drawings etc.	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit/loss are made **in Current Account.**	All adjustments for drawings, interest on capital, salary, share of profit/loss are made **in Capital Account.**
4. Can Capital Account show a negative balance?	Fixed Capital Account can **never show** a negative balance.	Fluctuating Capital Account **can show** a negative balance.

35. **DISTINCTION BETWEEN AVERAGE PROFITS & SUPER PROFITS**

Basis of Distinction	**Average Profit**	**Super Profit**
1. Meaning	Average Profit is the **average of the profit of past few years.**	Super Profit is the **excess of Average Profits over Normal Profits.**
2. Whether Average Capital Employed considered for calculation	Average Capita! Employed is **not considered** while calculating Average Profits.	Average Capital Employed is **considered** while calculating Super profits.
3. Whether Normal Rate of Return considered for calculation?	Normal Rate of Return is **not considered** while calculating Average Profits.	Normal Rate of Return is **Considered** while calculating Average Profits.
4. Relevance while Valuing Super Goodwill	Average Profit is relevant **for Average Profits Method, Super Profits Method and Capitalization Methods of** valuation of Goodwill.	Super profits is relevant **for Profits Method and Capitalization of Super Profits Method** of valuation of Goodwill.

36. **DISTINGUISH BETWEEN PERSONAL GUARANTEE AND FIRM GUARANTEE .**

Personal Guarantee	When guarantee is given by one or some or all of the partners in a ratio different from existing profit sharing ratio, such guarantee is said to be personal guarantee.
Firm Guarantee	When guarantee is given by all the partners in an existing profit sharing ratio, such guarantee is said to be firm guarantee.

37. **DISTINGUISH BETWEEN SACRIFICING RATIO AND GAINING RATIO**

Sacrificing Ratio and Gaining Ratio can be distinguished as follows:

Basis of Distinction	**Sacrificing Ratio**	**Gaining Ratio**

1. Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favour of new partner.	It is the ratio in which the continuing partners acquire the outgoing (retired or deceased) partners share.
2. Purpose	It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners.	It is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partner.
3. How to calculate?	It is calculated by taking out the difference between Old Share and New Share.	It is calculated by taking out the difference between New Share and Old Share.
4. When to calculate?	It is calculated at the time of admission of a new partner and change in profit sharing ratio.	It is calculated at the time of retirement or death of a partner and change in profit sharing ratio.

38. **DISTINGUISH BETWEEN EXISTING PARTNERSHIP AND LLP.**

Basis of Distinction	**Partnership**	**LLP**
Regulating Law	It is governed by **'The Indian Partnership Act, 1932'**	It is governed by **'The Limited Liability Partnership Act, 2008'**
Registration	Registration is **optional.**	Registration is **compulsory.**
Creation	It is created **by agreement.**	It is created **by Law.**
Separate Legal Entity	**It has no** separate legal entity.	It **has** separate legal entity.
Name of Entity	**It** can have **any name** as per choice.	Its Name to contain **'Limited Liability Partnership' or 'LLP'** as suffix.
Perpetual Succession	It does **not have perpetual succession.** The death, insolvency or unsoundness of its members may affect its existence.	It **has** perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence. Members may come and go but LLP goes forever.
Can Foreign National become partner?	Foreign National **cannot become** a partner in a Partnership Firm in India.	Foreign National **can become** a Partner in a LLP.
Number of Members	Minimum **2** and Maximum **10** for Banking business & **20** for non- Banking business.	**Minimum** 2 but their is **no limit on maximum** number of partners.
Liability of Partners	Liability of Partner is **unlimited.** Partners are severally and jointly liable for actions of other partners and the firm and liability extend to their personal assets.	Liability of Partner is **limited,** to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.

Mutual Agency	Partners are **agents of the firm and other partners.**	Partners act as **agents of LLP and not of other partners.**
Designated Partner	It **need not have** Designated Partners.	It **must have** at least 2 two individuals as Designated Partners, of whom at least one must be resident in India. Each Designated Partner is required to have a DPIN before appointment.
Digital Signature	There is **no requirement** of obtaining Digital Signature	Atleast one Designated Partner **must have** Digital Signatures since e forms are filled electronically.
Whistle Blowing	**No such provision** is provided under The Indian Partnership Act, 1932	**Provision has been made** to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.
Admission of Minor	Minor **can be admitted** to the benefits of Partnership as per its Agreement.	Minor **can not be admitted** to the benefits of LLP.
Liability of Partners for Legal Compliance	**All Partners** are liable for Legal Compliance.	**Only Designated Partners** are liable for Legal Compliance.

39. **DISTINGUISH BETWEEN COMPANY AND LLP**

Basis of Distinction	**Company**	**LLP**
Prevailing Law	It is governed by **'The Companies Act, 2013'**	It is governed by 'The Limited Liability Partnership Act, 2008'
Motive	It can be formed for **Profit or Service motive.**	It can be formed **only for Profit motive.**
Cost of Formation	Minimum Statutory fee for incorporation of Private Company is Rs. **6,000 and that of Public Company is** Rs. **19,000.**	Minimum cost of Formation of **LLP** is Rs. **800 only,** comparatively much lesser than the cost of formation of Company.
Charter Document	**Memorandum of Association** is the charter of the company which defines its scope of operations.	**LLP Agreement** is a charter of the LLP which denotes its scope of operations.
Common Seal	It **must have** its own common seal (i.e. Official Signature).	It **may have** its own common seal (i.e. Official Signature) as per its Agreement.

Formalities of Incorporation	1. Memorandum & Articles of Association 2. **Various e Forms** 3. **Prescribed Fee.** required to be filled with Registrar of Companies.	**1. LLP Agreement** 2. **Various e Forms** **3. Prescribed Fee.** required to be filled with Registrar of LLP.
Number of Members	**Private Company : Minimum** 2 members & **maximum** 200 members. **Public Company: Minimum** 7 members but their is **no limit on maximum** number of partners.	**Minimum** 2 but their is **no limit on maximum** number of partners.
Liability of Partners/ Members	Generally **limited to** the amount required to be **paid up** on each share.	Liability of Partner is Limited, **to the extent their contribution** towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
Transfer of Share/ Partnership rights in case of death	Shares are **transmitted** to the legal heirs.	**Legal heirs will not become partners.** The legal heirs have the right to get the refund of the capital contribution + Share in Accumulated Profits, if any.
Filing of Annual Statement of Solvency	Annual Statement of Solvency is **not required** to be filed with the Registrar of Companies every year.	Annual Statement of Solvency is **required** to be filed with the Registrar of LLP every year.
Audit of Accounts	Companies are required to get their accounts audited **annually** as per the provisions of the Companies Act, 1956.	An LLP is required to get their accounts audited annually as per the provisions of LLP Act 2008 **if its turnover exceeds Rs. 40 Lacs or its capital contribution exceeds Rs. 25 Lacs in any financial year.**
Whistle Blowing	**No such provision** is provided under the Companies Act, 1956.	**Provision** has been **made** to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.

40. **DISTINGUISH BETWEEN A PROFIT SEEKING ORGANISATION AND A NOT-FOR-PROFIT ORGANISATION**

A Profit seeking Organisation may be distinguished from a Not-for-Profit Organisation as under:

Basis of Distinction	**Profit seeking organisation**	**Not-for-profit organization.**
1. Primary Motive	The primary motive of such an entity is to earn profit.	The primary motive of such an entity is to provide services.

2. Owner's Fund Vs. Capital Fund	Interest of owners is known as Owner's Fund which represents the owner's investments plus accumulated reserves and surplus.	Interest of members is known as Capital Fund which represents the accumulated surplus of subscriptions, donations and net Income from activities carried on by such an entity.
3. Net Result of activities	The net result of the activities of such an entity is known as the profit/loss.	The net result of the activities of such an entity is known as the surplus/deficit.
4. Accounting Statements	The accounting statements of such type of entity include: (a) a Manufacturing A/c (b) a Trading A/c; (c) a Profit and Loss A/c; (d) a Balance Sheet.	The accounting statements of such an entity includes: (a) a Receipts and Payments A/c; (b) an Income and Expenditure A/c (c) a Trading A/c; (d) a Balance Sheet.

41\. **DISTINGUISH BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT [NOV. 2002, MAY 2005]**

A 'Receipt & Payment Account' and 'Income & Expenditure Account' can be distinguished as follows:

Basis of Distinction	**Receipts & Payments A/c**	**Income & Expenditure A/c**
1. Nature of Account	It is a **real** account.	It is a **nominal** account.
2. Period to which items relate	It records the receipts and payments whether they relate to **previous, current** or **following** accounting periods.	It records only those incomes, expenses and losses which relate to **current** accounting period.
3. **Nature of items recorded—Revenue Vs. Capital.**	It records all the receipts and payments **whether of capital or revenue nature.**	It records the incomes, expenditures and losses of **revenue nature.**
4. Non-cash Items	Non-cash items are **not shown** in this account.	Non-cash items such as depreciation, bad debts, etc., are **shown.**
5. Items of Debit side	It is debited with all the **sums received.**	It is debited with the **expenses and losses.**
6. Items of Credit side	It is credited with all the **sums paid out.**	It is credited with the **incomes.**
7. Closing balance	Closing balance represents **cash or bank balance (or bank overdraft) at the end** of the accounting period.	Its closing balance represents either **net surplus** or **net deficit.**
8. Treatment of closing balance	Its closing balance is **carried forward** in the same account of the **next period.**	Its closing balance is transferred to the **Capital Fund** in the Balance Sheet.

9. Opening balance	Opening balance represents **cash or bank balances (or Bank Overdraft) in the beginning** of the accounting period.	It has **no** opening balance.
10. Basic Structure	It is **basically a summarised Cash Book.**	It is **like a Profit & Loss Account.**
11. Object	It is prepared to present a summary of cash transactions during an accounting period.	It is prepared to ascertain the net results of all the transactions during an accounting period.

42. **DISTINGUISH BETWEEN INCOME AND EXPENDITURE ACCOUNT AND PROFIT AND LOSS ACCOUNT**

Income & Expenditure Account differs from Profit & Loss Account in the following respects:

Basis of Distinction	**Income & Expenditure A/c**	**Profit & Loss A/c**
1. Object	The main object of Income and Expenditure Account is **to ascertain excess of income over expenditure** or **excess of expenditure over income.**	The main object of Profit and Loss Account is **to ascertain Net Profit** or **Net Loss.**
2. Who prepares?	This account is prepared by **Non- Profit Organisations.**	This account is prepared by **Trading Institutions.**
3. Basis of Preparation	This account is prepared on the basis of **Receipts and Payments Account and other information.**	This account is prepared on the basis of **Trial Balance.**
4. Balance	The balance of this account represents **Surplus** or **Deficit**	The balance of this account represents **Net Profit** or **Net Loss.**

43. **DISTINGUISH BETWEEN RESERVE CAPITAL AND CAPITAL RESERVE**

Reserve Capital should not be confused with Capital Reserve which is created out of profits. Reserve Capital and Capital Reserve can be distinguished as follows:

Basis of Distinction	**Reserve Capital**	**Capital Reserve**
1. Meaning	It refers to those portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up. (Sec. 65)	It refers to those amounts which are not regarded as free for distribution by way of divided through Profit and Loss Account.
2. Mandatory or **Not**	It is **not mandatory** to create Reserve Capital.	It is **mandatory** to create Capital Reserve in case of profit on forfeited shares.

3. Disclosure in Balance Sheet	It is **not disclosed** in the company's Balance Sheet.	It is required to be **disclosed** as the I st item under the head 'Reserves and Surplus' on the liabilities side of the Balance Sheet.
4. Time when it can be used	It can be used during **only at the time of winding up.**	It can be used **during the life of the company.**
5. Realised vs. Unrealised	It refers to the amount which has neither **been called up** nor **been received.**	It (excluding items like revaluation profit) refers to that amount which has already been **realised.**
6. Can it be used to write off capital losses?	It **cannot be used** to write off capital losses.	It **can be used** to write off capital losses.
7. Can it be used to declare share bonus?	It **cannot be used** to declare a share bonus.	It (excluding items like revaluation profit) **can be used** to declare a share bonus.

44. **DISTINGUISH BETWEEN AN EQUITY SHARE AND PREFERENCE SHARE**

An Equity Share and Preference Share can be distinguished as follows:—

Basis of Distinction	An Equity Share	A Preference Share
1. Preferential right as to the payment of dividend	Payment of equity dividend is made **after** the payment of preference dividend.	Payment of preference dividend is made **before** the payment of equity dividend.
2. Preferential right as to the repayment of capital	Repayment of Equity share capital is made **after** the repayment of preference share capital.	Repayment of preference share capital is made **before** the repayment of equity share capital.
3. Fluctuations in the rate of dividend	The rate of equity dividend **may vary** from year to year depending upon the decision of directors and members.	The rate of preference dividend is **fixed.**
4. Arrears of dividend	In case of an equity share, arrears of dividend **cannot accumulate** in any case.	In case of a preference share, arrears of dividend may **accumulate.**
5. Convertibility	It **cannot** be convertible.	It **may be** convertible.
6. Voting Rights	Equity shareholders generally **enjoy** voting rights.	Preference shareholders **do not have** any voting rights **except at their class meetings.**
7. Redeemability	It is **not redeemable** during the life time of the company **unless** the company decides to **buyback** the shares.	It is **redeemable** during the life time of the company.

45. ## DISTINGUISH BETWEEN CALLS-IN-ARREARS & CALLS-IN-ADVANCE

Calls-in-arrears differ from Calls-in-advance in the following respects:

Basis of Distinction	**Calls-in-arrears**	**Calls-in-advance**
1. Meaning	It refers to the Called up amount not yet received from some shareholders till the last day fixed for payment thereof.	It refers to the Uncalled up amount received in advance from some shareholders.
2. Authority under Articles	There is **no question** of any authority under Articles.	A company may accept Calls- in-advance only if Articles permit.
3. Interest	Interest is **charged** on Calls-in- arrears.	Interest is **allowed** on Calls-in- advance.
4. Maximum Rate of Interest	The maximum rate of interest as per **Table F** is **10%** p.a.	The maximum rate of interest as per **Table F** is **12%** p.a.
5. Disclosure	The amount of Calls-in-arrears is shown in the **Notes to Accounts 'Share Capital'** to the Balance Sheet.	The amount of Calls-in- advance is shown under the head **'Current Liabilities'** and sub-head **'Other Current Liabilities'.**

46. ## DISTINGUISH BETWEEN A SHARE AND A DEBENTURE

A Share and A Debenture can be distinguished as follows:

Basis of Distinction	**A Share**	**A Debenture**
1. Capital vs. Loan	Share is a part of owned **capital.**	Debenture constitutes a **loan.**
2. Reward for Investment	Reward is the payment of **dividend.**	Reward is the payment of **interest.**
3. Fluctuations in the rate of interest and dividend	The rate of dividend **may vary** from year to year depending upon the profit decisions of directors and members.	The rate of interest is **fixed except** in case of Debentures carrying Floating Rate of Interest.
4. Charge vs. Appropriation	Payment of dividend is an **appropriation** out of profit and this cannot be made if there is not profit.	Payment of interest is a **charge** against profits and is to be made even if there is no profit.
5. Priority as to payment of interest/dividend	Payment of **dividend gets no priority** over the payment of interest.	Payment of **interest gets priority** over the payment of dividend.
6. Priority as to repayment of principal during winding up	**Payment** of share capital is made **after** the repayment of **debentures.**	**Payment** of debentures is made **before** the payment of **share capital.**
7. Secured by charge	Shares are **not secured** by any charge.	Non-Convertible Debentures redeemable on or after 18 months are **secured** by a charge.

8. Restriction on issue discount	**Sec.** 53 **prohibits** the issue of shares at discount.	**No restriction** is imposed on the issue of debentures at discount.
9. Voting rights	Shareholders generally **enjoy** voting rights.	Debenture-holders **do not** have any voting rights (except at their class-meetings).
10. Convertibility	Equity shares can **never** be **convertible.**	Debentures **can be convertible.**
11. Trust Deed	Trust Deed is **required** to be executed.	Debenture Trust Deed is **required** to be executed.

48. **WRITE A SHORT NOTE ON QUALITATIVE CHARACTERISTICS.** **[NOV. 2003]**

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The framework suggests that the financial statements should observe and maintain the following four qualitative characteristics as far as possible :

1. Understandability	The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more one discloses better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complexity.
2. Relevance	The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.
3. Reliability	To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless: (a) Transactions and events reported are faithfully represented. (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'. (c) The reporting of transactions and events are neutral, i.e. free from bias. (d) Prudence is exercised in reporting uncertain outcome of transactions or events.
4.Comparability	Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

51. **DISTINCTION BETWEEN A COMPANY'S BALANCE SHEET & FIRM'S BALANCE SHEET**

A company's Balance Sheet differs from a firm's Balance Sheet in the following respects:

1. A Company's Balance Sheet is prepared in the order of permanence whereas a partnership firm's Balance Sheet is usually prepared in the order of liquidity.
2. For company's Balance Sheet, there is vertical form prescribed under the Companies Act, 2013 whereas, there is no standard form prescribed under The Indian Partnership Act, 1932 for a partnership firm's Balance Sheet.
3. In case of a company's Balance Sheet, previous year's figures are required to be given whereas it is not so in the case of a partnership firm's Balance Sheet.

CH - 12

TRUE & FALSE

INTRODUCTION TO ACCOUNTING

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.[Dec. 1993]
2. Capital is all assets less fictitious assets. [May 2001]
3. Transactions and events are guided by generally accepted accounting principles subject to laws of land.
4. Accounting can be viewed as an information system which has its input processing methods and outputs. [May 2003]
5. Equity + LTL - CL = FA + CA [May 2003]
6. Accounting involves communication. [Nov. 2003]
7. Capital is equal to assets less external liabilities. [Nov. 2004]
8. As per AS - I, Fundamental Accounting Assumptions are Going Concern, Full Disclosure and Accrual.
9. Qualitative Characteristics cf Financial Statements are - Understanding, Relevance, Reliability and Materiality
10. Major considerations governing the selection and application of accounting policies are Prudence, Substance over Form and Full Disclosure.
11. Valuation Principles are - Historical Cost Base, Current Cost Base, Realizable Value Base and Future Value Base
12. Accounting is the process of identifying, measuring and communicating economic information to permit

informed judgements and decisions by the external users of accounts.

13. A person who owes money to the firm is a creditor.

14. A person to whom the firm owes money is a debtor.

15. Furniture purchased by Rama Motors is a current asse

16. Furniture purchased by Rama Furniture is a fixed asset.

17. A transaction which increases the capital is called Income'.

18. Amount owed to outsiders (other than proprietor) is called capital.

19. An increase in assets is always due to profits.

20. Profit/Loss = Closing Capital + Additional Capital - Drawings - Opening Capital.

Sol:

S. No.	Reason
1.	**False:** The right hand side of the equation includes cash twice-once as a part of current assets and another separately. The basic accounting equation is: Capital + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities.
2.	**False:** Capital is all assets less fictitious assets less outside liabilities.
3.	**True:** Transactions and events are guided by generally accepted accounting principles subject to laws of land. For example, the Companies Act has prescribed the format of financial statements of companies. All transactions with suppliers and customers are governed by The Contract Act, The Sale of Goods Act and The Negotiable Instruments Act, etc.
4.	**True:** Accounting is a process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of accounts. Here, Input = Financial transactions Processing Methods = Recording, Classifying, Summarizing, Analysing and Interpreting Output = Communicating the accounting information to the users
5.	**False:** The basic accounting equation is: Equity + LTL = FA + CA - CL
6.	**True:** Accounting is the process of identifying, measuring and communicating economic informations to permit informed judgements and decisions by the users of accounts. Hence, accounting involves communication.
7.	**True:** Capital is equal to all assets (whether tangible or intangible but not fictitious) less external liabilities.
8.	**False:** As per AS - 1, Fundamental Accounting Assumptions are Going Concern, Consistency and Accrual
9.	**False:** Qualitative Characteristics of Financial Statements are - Understanding, Relevance, Reliability and Comparability.
10.	**False:** Major considerations governing the selection and application of accounting policies are Prudence, Substance over Form and Materiality.

11.	**False:** Valuation Principles are - Historical Cost Base, Current Cost Base, Realizable Value Base and Present Value Base.
12.	**False:** Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the all users of accounts.
13.	**False:** A person who owes money to the firm is a debtor.
14.	**False:** A person to whom the firm owes money is a creditor.
15.	**False:** Furniture purchased by Rama Motors is a fixed asset.
16.	**False:** Furniture purchased by Rama Furniture is a current asset.
17.	**False:** A transaction which increases the capital need not necessarily be Income'. It may be additional capital contribution.
18.	**False:** Amount owed to outsiders (other than proprietor) is called External Liability.
19.	**False:** An increase in assets is not necessarily due to profits. It may be due to purchase of assets.
20.	**False:** Profit/Loss = Opening Capital + Additional Capital - Drawings - Closing Capital.

ACCOUNTING PRINCIPLES

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1. Prudence is a concept to recognise unrealized profits and not losses. [June 1993]
2. In accounting, all business transactions are recorded as having dual aspect. [Nov. 1996]
3. Accrual concept implies accounting on cash basis. [May 1998, Nov. 2001 and May 2004]
4. Revenues are matched with expenses in accordance with the matching principle. [May 2003]
5. The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle. [May 2003]
6. The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions. [Nov. 2003]
7. Accounting principle is general rule followed in preparation of financial statements. [Nov. 2004]
8. As per the concept of conservatism, the accountant should provide for all possible losses, but should not

anticipate income. [Nov. 2005]

9. The Assets are classified as Current Assets and Fixed Assets as per Full Disclosure Principle.

10. The Assets and Incomes are not overstated and the Liabilities and Losses are not understated as per Accrual Principle.

11. Accounting of a small calculator as an Expense and not as an Asset is as per Going Concern Principle.

12. The Accounting Data should be definite, verifiable and free from personal-bias as per Materiality Principle.

13. Materiality Principle is an exception to Consistency Principle.

14. Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors are the applications of Consistency Principle.

15. Disclosure is required if Fundamental Assumptions are followed.

16. Disclosure is required if a particular Accounting Policy is followed.

17. Prudence Principle is an exception to Full Disclosure Principle.

18. Change in Accounting Estimate has to be given Retrospective Effect.

19. Personal transactions are distinguished from business transactions in accordance with the Money Measurement Assumption.

20. When stock is valued at cost in one accounting period and at lower of Cost and net realisable value in another accounting period Consistency Principle conflicts with the Prudence Principle.

21. Accrual means recognition of revenue as it is earned and of costs as they are paid.

22. Going Concern Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised.

23. According to Matching Principle, Periodic Profit = All Revenues - All expenses.

24. According to Accounting Standard (AS-1), the fundamental accounting assumptions are Going Concern,

Conservatism and Accrual.

25. Prudence is the inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under condition of uncertainity so that assets and income are not understated, and loss and liabilities are not overstated.

26. X purchased goods for Rs. 20,000 and sold 9/10th of the goods for Rs. 24,000 and met expenses of Rs. 2,000. He counted net profit as Rs. 2,000 (i.e. Rs. 24,000 - Rs. 20,000 - Rs. 2,000). He has violated the Cost Concept.

27. X Ltd purchased a machine for Rs. 1,00,000 on 1.1.2018. The market price of the machine was Rs. 1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs. 1,20,000 while finalising the accounts. He has violated the Realisation Concept.

28. X purchased merchandise worth Rs. 24,000 and sold 11/12 of the merchandise. The market value of the remaining merchandise was Rs. 1,920. He valued the closing stock at Rs. 2,000. He has violated the Realisation Concept.

29. Prudence is a concept to recognise realised losses and not profits

30. Prudence is a concept to recognise all losses and not profits.

ANSWERS:

S. No.	Reason
1.	**False:** Prudence is a concept to recognize unrealized losses and not profits.
2.	**True:** Being associated with the double entry system of book keeping every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.
3.	**False:** Accrual concept implies accounting on 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
4.	**False:** Expenses are matched with revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.
5.	**True:** The financial statement must disclose all the relevant and reliable information in accordance with AS-1 Disclosure of Accounting Policies.

6.	**True:** The economic life of an enterprise is artificially split into periodic intervals in accordance with the accounting period assumption or the periodicity concept. The going concern assumption assumes that an enterprise will continue in operation for indefinite period of time.
7.	**True:** Accounting principles may be defined as those rule of action, which are adopted by the accountants universally while recording accounting transactions.
8.	**True:** The financial position of a business should not be shown better than what it is. Hence an accountant should not anticipate income but should provide for all possible losses.
9.	**False:** The Assets are classified as Current Assets and Fixed Assets as per Going Concern Principle.
10.	**False:** The Assets and Incomes are not overstated and the Liabilities and Losses are not understated as per Prudence Principle.
11.	**False:** Accounting of a small calculator as an Expense and not as an Asset is as per Materiality Principle.
12.	**False:** The Accounting Data should be definite, verifiable and free from personal-bias as per Objectivity Principle.
13.	**False:** Materiality Principle is an exception to Full Disclosure Principle.
14.	**False:** Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors are the applications of Prudence Principle.
15.	**False:** No disclosure is required if Fundamental Assumptions are followed.
16.	**False:** Disclosure is required if a particular Accounting Policy is followed.
17.	**False:** Prudence Principle is an exception to Consistency Principle.
18.	**False:** Change in Accounting Estimate has not to be given Retrospective Effect.
19.	**False:** Personal transactions are distinguished from business transactions in accordance with the Accounting Entity Assumption.
20.	**False:** When stock is valued at cost in one accounting period and at lower of Cost and net realisable value in another accounting period Prudence Principle conflicts with the Consistency Principle
21.	**False:** Accrual means recognition of revenue as it is earned and of costs as they are incurred.
22.	**False:** Accounting Period Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised.
23.	**False:** According to Matching Principle, Periodic Profit = All Accrued Revenues - All Accrued expenses
24.	**False:** According to Accounting Standard (AS-1), the fundamental accounting assumptions are Going Concern, Consistency and Accrual
25.	**False:** Prudence is the inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under condition of uncertainly so that assets and income are not overstated, and loss and liabilities are not understated.
26.	**False:** X purchased goods for Rs. 20,000 and sold 9/10th of the goods for Rs. 24,000 and met expenses of Rs. 2,000. He counted net profit as Rs. 2,000 (i.e. Rs. 24,000 - Rs. 20,000 - Rs. 2,000). He has violated the Matching Concept.
27.	**False:** X Ltd purchased a machine for Rs. 1,00,000 on 1.1.2018. The market price of the machine was Rs. 1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs. 1,20,000 while finalising the accounts. He has violated the Cost Concept.

28.	**False:** X purchased merchandise worth Rs. 24,000 and sold 11/12 of the merchandise The market value of the remaining merchandise was Rs. 1,920. He valued the closing stock at Rs. 2,000. He has violated the Prudence Concept.
29.	**False:** Prudence is a concept to recognise unrealised losses and not profits.
30.	**False:** Prudence is a concept to recognise all unrealised losses and not profits.

JOURNALISING, POSTING AND BALANCING

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 The sales day book is a part of the ledger. [Nov. 1994, Nov. 2001 and May 2004]

2 Sale of office furniture should be credited to Sales Account. [Nov.1995, Nov.1997, Nov.2001 & May 2004]

3 When we buy furniture on cash we debit Cash Account. [June 1993]

4 Patent right is in the nature of nominal account. [Nov. 1995, Nov. 2001 and of May 2004]

5 Outstanding expenditure is a nominal account. [Nov. 1999]

6 The debts written off as bad, if recovered subsequently are credited to Debtors Account. [Nov 1996 and May 2002]

7 Wages paid for erection of machinery are debited to Profit and Loss Account. [Nov. 1995, Nov. 2000 and May 2002]

8 The return of goods by a customer should be debited to Return Outward Account. [Nov. 2003]

9 The balance of an account is always known by the side which is shorter. [Nov. 2003]

10 Nominal accounts are balanced at the end of the accounting year. [May 1999]

11 The allowance made for prompt payment is called trade discount. [June 1994]

12 The allowance made for prompt payment is called trade discount. [June 1994]

13 Goods costing Rs. 600 taken by the proprietor for personal use should be credited to Sales Account. [May 2005]

14	Rent paid account is a Nominal Account whereas, rent received account is a Real Account. [May 2005]
15	Where subsidiary books are maintained journal is not required. [May 2005]
16	Fixed Assets + Current Assets - External Liabilities = Capital + Creditors
17	Reserve for Discount on Creditors has a credit balance.
18	Normally Personal and Nominal accounts are balanced and not Real Accounts.
19	Real and Personal Accounts are closed at the end of accounting period.
20	The return of goods to a suppliers should be credited to Return Inward Account
21	Prepaid Expense is a Nominal Account.
22	The allowance made for promoting sales is called cash discount.
23	When trade discount is allowed to a customer, trade discount allowed is credited.
24	Goods costing Rs. 600 distributed as free samples should be credited to Sales Account.
25	The recovery of debts (due from Mohan Rs. 10,000) written off in the previous year should be credited
	to Mohan's Account.
26	Debit means an increase in liability and a decrease in an asset.
27	Credit means an increase in asset and a decrease in a liability.
28	Credit means an increase in asset and a decrease in a liability.
29	Ledger is a book of original entry.
30	L.F. (i.e. Ledger Folio column) in the journal is filled at the time of journalising
31	The words 'To Balance b/d' or By Balance b/d are recorded in the particulars column at the time of
	balancing.
32	A sale of goods to Ram for cash should be debited to Ram.
33	A withdrawl of cash from business by the proprietor should be credited to Drawing Account.
34	Goods were sold to Ram for Rs. 1,000 on 1.4.2018. On 1.5.2018, Ram paid Rs. 950 on account. Ram's

Account should be credited with Rs. 1,000.

35 Ram paid Rs. 900 towards a debt of Rs. 950 which was written off as bad in the previous year. Ram's Account should be credited with Rs. 950.

36 Goods worth Rs. 100 taken by the proprietor for personal use should be credited to Sales Account

37 In case of debit balance. The words To Balance c/d' are written on credit side

38 While posting an opening entry in the ledger, in case of an Account having debit balance,the words To Balance b/d' are written on credit side and in case of an Account having credit balance the words 'By Balance b/d' are written on debit side

Sol :

S. No.	Reason
1.	**False:** The sales day book is a **book of prime entry** and hence it is a part of **journal.**
2.	**False:** Sale of office furniture should be credited to **Furniture Account** because it is a capital receipt.
3.	**False:** When we buy the furniture on cash the **furniture account is debited** and cash account is credited.
4.	**False:** Patent-right being an intangible asset is in the nature of **real account.**
5.	**False:** Outstanding expenditure is a **personal account of representative nature** because it represents a liability due to some person.
6.	**False:** The debts written off as bad, if recovered subsequently, shall be treated as gain and be credited to Bad Debts Recovered Account which is closed by transferring it to the Profit and Loss Account.
7.	**False:** Such wages being capital expenditure should be debited to the machinery account.
8.	**False:** The return of goods by a customer should be debited to **Returns Inward Account.**
9.	**False:** The balance of an account is always known by the side which is **higher.**
10.	**False:** Nominal accounts are **not balanced but are closed** by transferring their balances to the Income Statement.
11.	**False:** The allowance made for prompt payment is called **cash discount.**
12.	**False:** Bank Account is a Personal Account
13.	**False:** Goods taken by the proprietor for personal use should be credited to Purchases Account.
14.	**False:** Rent paid and rent received—both are nominal accounts as they relate with expenses and incomes.
15.	**False:** Journal is required even where subsidiary books are maintained. Opening and closing entries, rectification entries, transfer and adjusting entries and other miscellaneous entries are recorded in the journal.
16.	**False:** Fixed Assets + Current Assets + Fictitious Assets = Capital + External Liabilities Creditors also included in the External Liabilities.
17.	**False:** Reserve for Discount on Creditors has a debit balance.

18.	**False:** Normally Personal and Real accounts are balanced and not Nominal Accounts.
19.	**False:** Real and Personal Accounts are balanced and not closed at the end of accounting period.
20.	**False:** The return of goods to a suppliers should be credited to Return Outward Account.
21.	**False:** Prepaid Expense is a personal Account of representative nature because it represents an asset due from some person.
22.	**False:** The allowance made for promoting sales is called **trade discount.**
23.	**False:** When trade discount is allowed to a customer, trade discount allowed is not recorded at all.
24.	**False:** Goods costing Rs. 600 distributed as free samples should be credited to Purchases Account.
25.	**False:** The recovery of debts (due from Mohan Rs. 10,000) written off in the previous year should be credited to Bad Debts Recovered Account.
26.	**False:** Debit means a decrease in liability and an increase in an asset.
27.	**False:** Credit means in a decrease asset and an increase in a liability.
28.	**False:** Journal is a book of original entry.
29.	**False:** Ledger is a book of secondary entry.
30.	**False:** L.F. (i.e. Ledger Folio column) in the journal is filled at the time of posting.
31.	**False:** The words To Balance c/d' or By Balance c/d are recorded in the particulars column at the time of balancing.
32.	**False:** A sale of goods to Ram for cash should be debited to Cash.
33.	**False:** A withdrawl of cash from business by the proprietor should be credited to Cash Account.
34.	**False:** Goods were sold to Ram for Rs. 1,000 on 1.4.2018. On 1.5.2018, Ram paid Rs. 950 on account. Ram's Account should be credited with Rs. 950.
35.	**False:** Ram paid Rs. 900 towards a debt of Rs. 950 which was written off as bad in the previous year. Bad Debt Recovered Account should be credited with Rs. 900.
36.	**False:** Goods worth Rs. 100 taken by the proprietor for personal use should be credited to Puchases Account
37.	**False:** In case of debit balance. The words 'To Balance b/d' are written on debit side
38.	**False:** While posting an opening entry in the ledger, In case of debit balance,the words To Balance b/f are written on debit side and In case of credit balance the words 'By Balance b/f are written on credit side

CASH BOOK

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 The balance in the Petty Cash Book represents expense. [Dec. 1993, May 1999, May 2005]

2	The balance in the Petty Cash Book represents expense. [Dec. 1993, May 1999, May 2005]
3	Bank column of the cash book will show only a debit balance. [Nov. 2002]
4	Cash column of a Cash Book may show a debit or credit balance
5	In a Cash Book, Discount Columns may show either debit balance or credit balance.
	[May 1997 and May 2000]
6	If a cheque received is further endorsed, it must be entered on both sides of the cash book. [Nov. 03]
7	A crossed cheque is always payable across the bank counter. [Nov. 2002]
8	Cash Book is a special Journal and not a Ledger.
9	In a Cash Book, Trade Discount received is recorded on the debit side of Cash Book and Trade Discount
	allowed is recorded on the credit side of Cash Book.
10	In a Cash Book, Cash Discount received is recorded on the debit side of Cash Book and Cash Discount
	allowed is recorded on the credit side of Cash Book.
11	When a firm maintain a Three-column Cash Book, it need not maintain Cash Account, Bank Account
	and Discount A/c in the Ledger.
12	If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a
	double Entry.
13	The allowance made for prompt payment is called Trade Discount.
14	The total of Discount column on debit side of Cash Book is posted to the Credit of Discount Account

S. No.	Reason
1.	**False:** The balance in the Petty Cash Book represents unspent petty cash balance lying with the Petty Cashier. It is shown on the asset side of the Balance Sheet under the heading 'Cash & Bank Balances'.
2.	False: The balance in the cash book shows cash in hand.
3.	False: Bank column of the cash book may show credit balance in case of bank overdraft.
4.	False: Cash Column of a cash book always shows a debit balance

5.	False: Discount Columns of a Cash Book are merely totalled but never balanced. Debit total of discount column represents discount allowed and that of credit side represents discount received. These are merely totalled and transferred to Discount Allowed and Discount Received Account respectively.
6.	True: The cash book is debited when the cheque is received and it is credited when it is endorsed in favour of somebody.
7.	False: Only a bearer cheque is payable across the bank counter.
8.	False: Cash Book is both special Journal and Ledger.
9.	False: In a Cash Book, Cash Discount is recorded and not the Trade Discount.
10.	False: In a Cash Book, Cash Discount received is recorded on the credit side of Cash Book and Cash Discount allowed is recorded on the debit side of Cash Book.
11.	False: When a firm maintain a Three-column Cash Book, it need not maintain Cash Account and Bank Account. Discount A/cs are maintained in the Ledger
12.	False: If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a contra Entry
13.	False: The allowance made for prompt payment is called Cash Discount.
14.	False: The total of Discount column on debit side of Cash Book is posted to the debit of Discount Allowed Account.

SUBSIDIARY BOOKS OTHER THAN CASH BOOK

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Purchase book records all purchases of goods. [Nov. 1996]

2 The purchase day book is a part of the ledger. [Nov. 2002, Nov. 2005]

3 The Sales book is kept to record all sales. [Nov. 2002]

4 The debit notes issued are used to prepare sales return book. [May 2003]

5 Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper. [Nov. 2003]

6 An individual transaction of Purchase Book is posted to the credit of Purchases A/c.

7 Purchases A/c in the ledger shows all purchases.

8 The Credit Notes are used to prepare Purchases Returns Book.

9	Where Cash Book, Purchases Book, Sales Book, Purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal need not be maintained.
10	Purchases Returns Book is used to record return of all assets purchased on credit.
11	Sales Returns Book is used to record return of assets sold on credit.
12	When a customer returns the goods, a debit note is sent to him.
13	When the goods are returned to a supplier, a credit note is sent to him.
14	Purchase of a fixed asset on credit is recorded in Purchases Book.
15	The allowance made for prompt payment is called Trade Discount.
16	The total of Purchases Returns Book is posted to the debit of Purchases Account.

Sol:

S. No.	Reason
1.	**False:** Purchase book records only credit purchases of goods dealt in or of material and stores used in the factory.
2.	**False:** Purchase day book is a book of prime entry and hence it is a part of journal.
3.	**False:** The Sales book is kept to record only the credit sales of goods dealt in by the firm, Cash sales are entered in the cash book.
4.	**False:** The debit notes issued are used to prepare purchase return book.
5.	**True:** All the Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper because these entries can not be recorded in any other subsidiary book.
6.	**False:** An individual transaction of Purchase Book is posted to the credit of Individual Supplier's A/c.
7.	**False:** Purchases A/c in the ledger shows all purchases of goods (whether cash or on credit).
8.	**False:** The Credit Notes are used to prepare Sales Returns Book.
9.	**False:** Where Cash Book, Purchases Book, Sales Book, Purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal is also required to be maintained for transactions which can not be recorded in any other subsidiary book.
10.	**False:** Purchases Returns Book is used to record return of goods purchased on credit.
11.	**False:** Sales Returns Book is used to record return of goods sold on credit.
12.	**False:** When a customer returns the goods, a credit note is sent to him.
13.	**False:** When the goods are returned to a supplier, a debit note is sent to him.
14.	**False:** Purchase of a fixed asset on credit is recorded in Journal Proper.
15.	**False:** The allowance made for prompt payment is called Cash Discount.
16.	**False:** The total of Purchases Returns Book is posted to the credit of Purchases Returns Account.

BANK RECONCILIATION STATEMENT

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1	Bank reconciliation statement is prepared to arrive at the bank balance. [Dec. 1993, May 1995, Nov. 1997, Nov. 2000, May 2002 and Nov. 2004]
2	Interest charged by the bank will be deducted, when the overdraft as per the cash book is the starting point for making the bank reconciliation statement. [Nov. 1996 and May 1997]
3	If the balance as per cash book and pass book are the same, there is no need to prepare a reconciliation statement. [May 2003]
4	Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank Pass Book as compared to the balance as per the Cash Book.
5	The interest charged by Banker to customer on overdrawn account is called Red in interest.[Nov. 2005]
6	While preparing a BRS taking the balance as per pass book as starting point undercast of bank (debit) column of Cash Book is added.
7	While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is subtracted.
8	Amended Cash Book is prepared by passing Rectifying Entries in respect of errors committed in Cash Book and Pass Book.
9	While preparing a BRS taking balance as per Amended Cash Book, Uncollected Cheques, Unpresented Cheques and all items which appear only in Pass Book are considered.
10.	In Balance Sheet bank balance as per unamended cash book appears and not as per Pass Book.
11	Bank Reconciliation Statement is a part of Cash Book.

12 Bank Reconciliation Statement is prepared by a Bank.

13 Credit balance in Pass Book means overdraft.

14 A debit balance of Rs. 1,000 has been brought forward as a credit balance of Rs. 100 on the next page in the Pass Book. Rs. 900 should be added to the balance as per Pass Book is order to ascertain the balance as per Cash Book.

15 A Bank Reconciliation statement is prepared to reconcile the Cash Balance as per Cash Book with Bank Balance as per Pass Book.

16 The Pass Book is a copy of the Bank column of Cash Book of the account holder.

17 When balance as per Cash Book is the starting point, unpresented cheques are subtracted.

18 When balance as per Pass Book is the starting point, uncollected cheques are subtracted.

19 When balance as per Pass Book is the starting point, direct deposits by customers into the bank are added.

Sol:

S. No.	Reason
1.	**False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.
2.	**False:** Interest charged by the bank will be added because this charge when accounted for, will increase the overdraft (credit balance) as shown by the cash book.
3.	**False:** Bank reconciliation statement is prepared to find out the causes of difference in individual items of cash book and pass book even if the balance as per cash book and pass book are same.
4.	**True:** Because unless the customer is informed and records in the cash book, the balance as per Cash Book will remain lower as compared to Bank Balance as per Pass Book.
5.	**False:** Interest changed by banker to customer on overdrawn account is called 'interest on overdraft' whereas 'red-ink interest' is applied in account current if the due date of a bill falls after the date of costing the account. The red-ink interest is treated as negative interest.
6.	**False:** While preparing a BRS taking the balance as per pass book as starting point undercast of bank (debit) column of Cash Book is subtracted.
7.	**False:** While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is added.
8.	**False:** Amended Cash Book is prepared by passing Rectifying Entries in respect of errors committed in Cash Book and by passing Adjusting Entries in respect of correct items which appear only in Pass Book.

9.	**False:** While preparing a BRS taking balance as per Amended Cash Book Uncollected Cheques, Unpresented Cheques and Wrong Entry only in Pass Book are considered.
10.	**False:** In Balance Sheet bank balance as per amended cash book appears and not as per Pass Book.
11.	**False:** Bank Reconciliation Statement is not a part of Cash Book.
12.	**False:** Bank Reconciliation Statement is prepared by a Account holder.
13.	**False:** Credit balance in Pass Book means clear balance.
14.	**False:** A debit balance of Rs. 1,000 has been brought forward as a credit balance of Rs. 100 on the next page in the Pass Book. Rs. 1,100 should be subtracted from the balance as per Pass Book is order to ascertain the balance as per Cash Book.
15.	**False:** A Bank Reconciliation statement is prepared to reconcile the Bank Balance as per Cash Book with Bank Balance as per Pass Book.
16.	**False:** The Pass Book is a copy of the Bank Account of account holder in bank books.
17.	**False:** When balance as per Cash Book is the starting point, unpresented cheques are added.
18.	**False:** When balance as per Pass Book is the starting point, uncollected cheques are added.
19.	**False:** When balance as per Pass Book is the starting point, direct deposits by customers into the bank are subtracted.

TRIAL BALANCE, ERRORS AND THEIR RECTIFICATION

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 A tallied trial balance means that the books of accounts contain no errors. Or

A tallied Trial balance is a conclusive proof of accuracy of books of accounts.

2. Errors of principle will affect trial balance. [June 1993]

3 Errors of principle involves an incorrect allocation of expenditure or receipt between capital and revenue. [May 1997, May 1998, Nov. 2000 and May 2002]

4 Any type of error affects the agreement of trial balance. [Nov. 1995]

5 Wrong casting of subsidiary books does not affect the trial balance. [June 1994 and Nov. 2002]

6 IF the amount is posted in the wrong account or it is written on the wrong side of an account, it is called an error of commission. [Dec. 1993 and May 1999]

7	Under or over-casting of a subsidiary book is an example of error of commission. [Nov. 2004]
8	Purchase of office furniture has been debited to general expenses account. It is a compensating error.
	[May 1996]
9	A tallied trial balance will not reveal compensating errors and errors on account of wrong balancing.
	[May 1995, May 1998 and May 2001]
10	Error of carry-forward of totals of purchase journal affects two accounts. [Nov. 1996]
11	Travelling expenses of Rs. 80,000 paid to a technician for the installation of a new machine is debited
	to a profit and loss account. [May 2000]
12	Errors of complete omission will be located, if trial balance is prepared. [Nov. 2002]
13	Rectification of mistakes is necessary to tally the trial balance. [June 1993, Nov. 1994, May 2005]
14	Rectifying errors in subsequent accounting period always affects the profit or loss of that period.
	[Nov. 2004]
15.	Salary paid to Ram will be debited to Ram's Personal account. [Nov. 2005]
16	A trial balance will reveal all errors of commission .
17	A trial balance will reveal all errors of posting.
18	The object of opening Suspense Account is to avoid the delay in preparation of Trial Balance.
19	The balance of Suspense A/c represents the net effect of all errors whether detected or not.
20	After the preparation of financial statements, Profit & Loss Adjustment Account is used to rectify all
	errors involving Real & Personal A/cs in the subsequent year so as not to affect the Profit / Loss of
	that period.
21	The preparation of a Trial Balance helps in locating errors of complete omission.
22	Freight Inward Account shows a debit balance but a Freight Outward Account shows a credit balance.
23	Errors of recording in the books of original entry will affect the Trial Balance.

24 Correct recording in the Journal Proper but not posted in the ledger at all will affect the Trial Balance.

25 Trial Balance is prepared for a particular period which may be a week, month, quarter, half year or year.

26 When some of the errors affecting the Trial Balance are located and rectified, the Suspense Account automatically stands balanced.

27 The difference in the Trial Balance is transferred on the debit side of the Suspense Account if the total of debit column of the Trial Balance exceeds that of credit column.

28 Trial Balance is prepared after preparing the Profit & Loss Account.

Sol:

S. No.	Reason
1.	False: Agreement of trial balance is not an absolute proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not affect the agreement of trial balance.
2.	False: Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded. Error of Principle involves incorrect allocation of payments/receipts between capital and revenue.
3.	True: Recording the transaction in a fundamentally incorrect manner in contravention of accounting principles is an error of principle.
4.	False: Every error does not affect the agreement of trial balance. For example: Errors of Principle, compensating errors do not affect the agreement of trial balance.
5.	False: Wrong casting of subsidiary books affects the trial balance. For example, if Purchase Book is undercast by Rs. 1,000, the total of debit column will be lower by Rs. 1,000.
6.	True: Errors of commission includes errors on account of wrong posting, wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
7.	True: Errors of commission includes errors on account of wrong posting wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
8.	**False:** It is an error of principle because an item of capital nature has been treated as an item of revenue nature.
9.	**Partly True, Partly False:** A tallied trial balance will not reveal compensating errors as it will agree inspite of the existence of these errors. However, in the case of errors on account of wrong balancing, the trial balance will not tally. However, the statement will be true in the limited cases where the errors on account of wrong balancing get fully compensated.
10.	**False:** It will affect only one account i.e. purchases account and hence it will affect the agreement of trial balance.
11.	**False:** Such expenses being a capital expenditure should be debited to Machinery Account.
12.	**False:** Such errors cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trial balance.

13.	**False:** The trial balance can be tallied by debiting or crediting the difference amount to suspense account. However, rectification of mistakes is necessary to have a proper accounting of transactions and if all errors are located and rectified then there is no reason for disagreement of trial balance.
14.	**False:** Rectifying errors involving Real & Personal Accounts will not affect the profit of that period.
15.	**False:** Salary paid to Ram will be debited to Salaries account.
16.	**False:** A trial balance will reveal all errors of commission other than error of recording and error of posting involving to wrong account on correct side with correct amount.
17.	**False:** A trial balance will not reveal errors of posting involving to wrong account on correct side with correct amount.
18.	**False:** The object of opening Suspense Account is to avoid the delay in preparation of Financial Statements.
19.	**False:** The balance of Suspense A/c represents the net effect of errors which still remain undetected.
20.	**False:** After the preparation of financial statements, Profit & Loss Adjustment Account is used to rectify all errors involving Nominal A/c in the subsequent year so as not to affect the Profit / Loss of that period.
21.	**False:** The preparation of a Trial Balance helps in locating one sided errors of commission.
22.	**False:** Freight Inward Account shows a debit balance but a Freight Outward Account shows a debit balance.
23.	**False:** Errors of recording in the books of original entry will not affect the Trial Balance.
24.	**False:** Correct recording in the Journal Proper but not posted in the ledger at all will not affect the Trial Balance.
25.	**False:** Trial Balance is prepared at a particular date.
26.	**False:** When all the errors affecting the Trial Balance are located and rectified, the Suspense Account automatically stands balanced.
27.	**False:** The difference in the Trial Balance is transferred on the credit side of the Suspense Account if the total of debit column of the Trial Balance exceeds that of credit column .
28.	**False:** Trial Balance is prepared before preparing the Profit & Loss Account.

CAPITAL AND REVENUE EXPENDITURE

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Pre-operative expenses are revenue expenses. [June 1993]

2 An expenditure intended to benefit the current period is a revenue expenditure.

[June 1994, Nov. 1997 and Nov. 2002]

3 Expenditure which results in acquisition of a permanent asset is a capital expenditure.

[May 1995, Nov. 1997, Nov. 2000 and Nov. 2001]

4	Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years
	[Nov. 1994 and Nov. 2002]
5	Heavy expenditure incurred on advertisement at the time of introducing a new product is a deferred
	revenue expenditure. [June 1993]
6	Expenses incurred to keep the machine in working condition is a capital expenditure. [Dec. 1993]
7	Wages paid to workers to produce a tool to be captively consumed is capital expenditure.
	[Nov. 1994, May 1998]
8	Amount paid for acquiring goodwill is deferred revenue expenditure. [Nov. 1995 and Nov. 2002]
9	Overhaul expenses of a second-hand machinery purchased are revenue expenditure.
	[May 1996 and Nov. 1996]
10	Amount spent for replacement of worn out parts of a machine is a capital expenditure. [May 1999
11	Expenditure incurred on white washing of factory building done after every six months is revenue
	expenditure. [May 199]
12	Amounts written off from the cost of fixed assets is capital expenditure. [Nov. 1994]
13	Legal fees paid to acquire a property is capital expenditure.[A/ov. 1999, Nov. 2002 and Nov. 2004]
14	Expenditure on renovation of a theatre which has increased the seating capacity by 10% is deferred
	revenue expenditure. [May 2000]
15	Temporary shed put up at project site to house materials is a capital expenditure. [Nov. 1999]
16	Overhauling expenses of Rs. 25,000 for the engine of a motor car to get better fuel efficiency are
	revenue expenses
17	Inauguration expenses of Rs. 25 lacs incurred on the opening of a new manufacturing unit in an existing
	business are of capital expenditure.
18	Compensation of Rs. 2.5 crores paid to workers, who opted for voluntary retirement in capital exp.

19	Amount paid to Management company for consultancy to reduce the working expenses is revenue expenditure. [May 2005]
20	Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense. [Nov. 2005]
21	The classification of expenditures and receipts each into Capital and Revenue is as per Accrual Principle.
22	Sale of land & buildings by a real estate dealer is a Capital receipt.
23	Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is a Revenue Expenditure.
24	Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is a Revenue Expenditure.
25	Registration fees paid at the time of purchase of a building is a Revenue Expenditure.
26	Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a Revenue Expenditure.
27	The expenditure incurred in erecting a platform on which a machine will be fixed is a Revenue Expenditure.
28	Advertising expenditure, the benefits of which a machine will last for five years is a Revenue Exp.
29	Cost of Rs. 80,000 for dismantling, removing and reinstalling plant by a Cotton mill incurred in connection with the removal of works to a more suitable locality is a Capital Expenditure.
30	A sum of Rs. 50,000 spent for alternation of existing plant incorporating thereby new devices which could affect substantial reduction in power consumption is a Revenue Expenditure.
31	Imported goods worth Rs. 1,00,000 confiscated by Customs Authorities for non-disclosure of material facts is a capital loss
32	Expenditure of Rs. 20,000 for advertisement in newspapers is a Capital Expenditure.
33	Expenditure of Rs. 30,000 on neon-sign board at the airport is a Revenue Expenditure.

34	Spent Rs. 50,000 for remodeling the factory is a Capital Expenditure and the value of factory is enhanced by Rs. 20,000.
35	Rs. 1,00,000 spent on renewal fee of patent rights is a Capital Expenditure.
36	Expenses incurred in connection with obtaining a licence for starting the Factory are Revenue Exp.
37	Rings and Pistons of an engine were changed at a cost of Rs. 5,000 to get fuel efficiency. This is Revenue Expenditure.
38	Rs. 2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Capital Expenditure
39	71,00,000 paid as compensation to the two employees who were retrenched is a Capital Expenditure.
40	Rs. 10,000 Customs Duty paid on import of a machinery for modernisation of the factory production during the current year is a Revenue Expenditure
41	Rs. 5,000 paid on Import Duty for purchase of Raw Materials is a Capital Expenditure.
42	Rs. 12,000 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. It is a Revenue Expenditure.
43	Any expenditure which is unreasonably large is capital expenditure.
44	Premium received on issue of shares is a revenue receipt.

Sol:

S.No.	Reason
1.	**False:** Pre-operative expenses are incurred prior to commencement of commercial production and hence are generally capitalized.
2.	**True:** Revenue expenditure is that expenditure the benefit of which does not extend beyond the current accounting period.
3.	**True:** Expenditure which result in acquisition of a permanent asset is a capital expenditure since it will generate enduring benefits and help in revenue generation over more than one accounting period.
4.	**False:** Deferred revenue expenditure is that expenditure for which payment has been made or a liability has been incurred during current year but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods.

5.	**True:** It is considered as deferred revenue expenditure because its benefit would accrue over a subsequent period or periods.
6.	**False:** It is a revenue expenditure because it is not increasing the benefits but only keeping the machine in working condition.
7.	**True:** Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.
8.	**False:** Amount paid for acquiring goodwill is capital expenditure because it involves acquisition of an intangible asset which is classified as fixed asset.
9.	**False:** Such expenses are capital expenditure because these are incurred to put secondhand machinery in good/working condition to derive long term benefits of enduring nature.
10.	**False:** Amount spent for replacement of any worn out part of a machine is revenue expenditure because it is part of its maintenance cost.
11.	**True:** These expenses are revenue expenditure because these are incurred in the course of normal maintenance of the asset.
12.	**False:** Amount written off from the cost of fixed assets is treated as revenue expenditure and charged to profit and loss account. Depreciation is an example of such write-off.
13.	**True:** Legal fees paid to acquire a property is a part of the cost of that property. Hence it is taken as capital expenditure.
14.	**False:** It is a capital expenditure because it has increased the revenue earning capacity of the business over more than one accounting period.
15.	**True:** Temporary shed put up at a project site to house materials is incidental to the main construction and the expenditure on it, is a part of construction cost and hence, it is a capital expenditure.
16.	**False:** These expenses should be capitalised because these are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long term advantage.
17.	**False:** Such expenses are revenue expenditure because such expenditure may not generate any enduring benefit to the business over more than one accounting period.
18.	**False:** Such compensation is revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to treat it as deferred revenue expenditure.
19.	**False:** Amount paid to management company for consultancy to reduce the working expenses is deferred revenue expenditure as this expenditure will generate long-term benefit to the entity.
20.	**False:** Wages incurred by a factory in manufacturing a part of its plant, is a capital expenditure. This expenditure will be included in the cost of plant.
21.	**False:** The classification of expenditures and receipts each into Capital and Revenue is as per Going Concern Principle.
22.	**False:** Sale of land & buildings by a real estate dealer is a Revenue receipt and not a Capital receipt.
23.	**False:** Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is a Capital Expenditure.
24.	**False:** Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is a Capital Expenditure.

25.	**False:** Registration fees paid at the time of purchase of a building is a Capital Expenditure.
26.	**False:** Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a Deferred Revenue Expenditure.
27.	**False:** The expenditure incurred in erecting a platform on which a machine will be fixed is a Capital Expenditure.
28.	**False:** Advertising expenditure, the benefits of which a machine will last for five years is a Deferred Revenue Expenditure
29.	**False:** Cost of Rs. 80,000 for dismantling, removing and reinstalling plant by a Cotton mill incurred in connection with the removal of works to a more suitable locality is a Revenue Expenditure.
30.	**False:** A sum of Rs. 50,000 spent for alternation of existing plant incorporating thereby new devices which could affect substantial reduction in power consumption is a Capital Expenditure
31.	**False:** Imported goods worth Rs. 1,00,000 confiscated by Customs Authorities for nondisclosure of material facts is a revenue loss.
32.	**False:** Expenditure of Rs. 20,000 for advertisement in newspapers is a Revenue Expenditure.
33.	**False:** Expenditure of Rs. 30,000 on neon-sign board at the airport is a Capital Expenditure.
34.	**False:** Rs. 20,000 for remodelling the factory is a Capital Expenditure and the balance **Rs.** 30,000 is a Revenue Expenditure.
35.	**False: Rs.** 1,00,000 spent on renewal fee of patent rights is a Revenue Expenditure.
36.	**False:** Expenses incurred in connection with obtaining a licence for starting the Factory are Capital Expenditure.
37.	**False:** Rings and Pistons of an engine were changed at a cost of **Rs.** 5,000 to get fuel efficiency. This is Capital Expenditure
38.	**False: Rs.** 2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Revenue Expenditure
39.	**False: Rs.** 1,00,000 paid as compensation to the two employees who were retrenched is a Revenue Expenditure.
40.	**False: Rs.** 10,000 Customs Duty paid on import of a machinery for modernisation of the factory production during the current year is a Capital Expenditure.
41.	**False: Rs.** 5,000 paid on Import Duty for purchase of Raw Materials is a Revenue Expenditure.
42.	**False:** It is a Capital Expenditure.
43.	**False:** Any expenditure which is unreasonably large need not be capital expenditure. For example, Rs. 20,00,000 paid as arrears of salaries & wages will be Revenue Expenditure although the amount is large.
44.	**False:** Premium received on issue of shares is a capital receipt.

	DEPRECIATION
	State with reason whether the following statements are true or false (No Marks shall be awarded
	without valid reason):
1	Depreciation is an amortised expenditure. [June 1993]
2	Depreciation is a process of allocation of the cost of fixed asset. [Nov. 2003]
3	Depreciable amount refers to the difference between historical cost and the market value of an asset.
	Depreciation cannot be provided in case of loss, in a financial year. [A/ov. 1994 and Nov. 1997]
4	Depreciation is a cash expenditure like other normal expenses. [Nov. 2002]
5	Land is also a depreciable asset. [May 2001]
6	Providing depreciation ensures sufficient cash for asset replacement. [Dec. 1993]
7	Reducing balance method for depreciation is followed to have a uniform charge for depreciatio
	and repairs and maintenance together. [June 1993]
8	Depreciation can be charged on Goodwill by Fixed Instalment Method [May 2006]
9	Depletion refers to economic deterioration of natural resources like ore deposits in mines, oil wells.
10	Amortization refers to the physical deterioration of intangible assets like Goodwill, Patents, Copy Rights.
11	Obsolescence refers to physical deterioration by change in technology or taste or fashion.
12	Depreciation Accounting is the process of valuation and not allocation.
13	If market value of a fixed asset is higher than its cost .then Depreciation need not be provided
14	Depreciation is non-cash and non- operating expense which is to be provided for if there are profits.
15	Providing depreciation in the accounts reduces the amount of cash profits .
16	Providing depreciation in the accounts reduces the amount of cash profits .
17	There exists difference between the Written Down Value Method and Diminishing Balance Method of
	Depreciation

18 The expressions—depreciation is to be charged at 10% and 10% p.a. on furniture carry the same meaning.

19 M/s Ram & Co need not provide any depreciation on Plant & Machinery as its market value (Rs. 10,00,000) is much higher than the cost of purchase (Rs. 9,00,000).

21 Straight Line Method of Depreciation is followed to have a uniform charge for depreciation and Repairs & Maintenance together.

Sol:

S.No.	Reason
1.	True: Depreciation is charged on value of fixed assets over their useful life. Thus, by way of depreciation charge, capital expenditure is amortised over the useful life of depreciable asset.
2.	True: 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.
3.	False: Depreciable amount refers to historical cost less estimated salvage values.
4.	False: Depreciation being a charge against profit has to be provided for whether there is profit or loss in a financial year.
5.	False: Depreciation is non-cash expenditure because it does not involve any cash outflow.
6.	False: Land is not a depreciable asset because its useful life is not limited to few years.
7.	False: Providing depreciation does not necessarily ensure sufficient cash for asset replacement especially under inflationery conditions.
8.	**True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new but depreciation charge is high. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously but depreciation charge reduces continuously. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
9.	**True:** Depreciation can be charged on goodwill by fixed instalment method because fixed instalment method is suitable where the risk of obsolescence is less.
10.	**False:** Depletion refers to physical deterioration of natural resources like ore deposits in mines, oil wells.
11.	**False:** Amortization refers to the economic deterioration of intangible assets like Goodwill, Patents, Copy Rights.
12.	**False:** Obsolescence refers to economic deterioration by change in technology or taste or fashion.
13.	**False:** Depreciation Accounting is the process of allocation and not valuation.
14.	**False:** Depreciation needs be provided since Depreciation is not concerned with the Fluctuations in market price.
15.	**False:** Depreciation is non-cash but operating expense which is to be provided for whether there are profits/ losses.
16.	**False:** Providing depreciation in the accounts does not reduce the amount of cash profits .

17.	**False:** Fixed Assets are stated in the Balance Sheet at their cost less depreciation.
18.	**False:** There does not exist any difference between the Written Down Value Method and Diminishing Balance Method of Depreciation.
19.	**False:** The expressions—depreciation is to be charged at 10% and 10% p.a. on furniture do not carry the same meaning. Depreciation at 10% means charge depreciation without reference to time but Depreciation at 10% p.a. means charge depreciation with reference to time
20.	**False:** M/s Ram & Co must provide depreciation since depreciation is not affected by fluctuations in the market value .
21.	**False:** Reducing Balance Method of Depreciation is followed to have a uniform charge for depreciation and Repairs & Maintenance together.

INVENTORY VALUATION

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Finished goods are normally valued at cost or market price whichever is higher [June 1994, May 1995 and Nov. 2001]

2 The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less. [Nov. 2004, Nov. 2005]

3 Damaged inventory should be valued at cost or market price, whichever is lower. [May 2004]

4 Inventory of by-products, should be valued at net realisable value where cost of by-products can be separately determined. [Nov 2003]

5 Periodic Inventory System is a method of recording inventory balances after each issue and receipt.

6 Inventories include Stock of Materials, Work-in-Progress and Finished Goods, Maintenance Supplies, Consumables, Loose Tools and Machinery Spares.

7 Cost of Conversion consists of Direct Labour, Direct Expenses, Sub-Contracted Work and Production Overheads as per Marginal Costing Method

8 The Cost of Inventories includes:

	(i) Abnormal amounts of wasted material labour or other production cost.
	(ii) Storage Cost.
	(iii) Administrative Overheads.
	(iv) Selling and Distribution Cost.
9	As per AS-2 'Valuation of Inventories', the historical cost of inventories should normally be determined by FIFO (First In First Out),LIFO and Weighted Average Cost Formula.
10	As per AS-2, the historical cost of manufactured Inventories should be arrived at by Marginal costing.
11	As per AS-2, the historical cost may be compared with Net Realizable Value (NRV) by item by item method only.
12	As per AS-2, the Inventory of Raw Materials is valued at Cost or NRV whichever is lower.
13	As per AS-2, the inventory of Materials and other Supplies is valued at Cost or NRV whichever is lower even if Finished Products are expected to be sold at or above cost.
14	If Closing Stock is understated, the Cost of Goods sold will increase but Profit and Current Assets will decrease.
15	Under inflationary conditions, LIFO method will show Lower Cost of Goods Sold, higher income and Higher value of Closing Stock
16	Cost of Unsold Goods lying with others on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should not form part of our Closing Stock at Balance Sheet Date
17	In Balance Sheet Stock as per physical verification as on date of balance sheet appears

Sol:

S. No.	Reason
1.	**False:** Finished goods are normally valued at cost or net realisable value whichever is lower.
2.	**False:** According to AS-2 on Valuation of Inventories, inventory is valued at the lower of historical cost and net realisable value.

3.	**False:** Damaged inventory should be valued at net realisable value.
4.	**False:** Inventory of by-products, should be valued at net realisable value where cost of by-products cannot be separately determined.
5.	**False:** Perpetual Inventory System is a method of recording inventory balances after each issue and receipt.
6.	**False:** Inventories include Stock of Materials, Work-in-Progress and Finished Goods, Maintenance Supplies, Consumables and Loose Tools but does not include Machinery Spares.
7.	**False:** Cost of Conversion consists of Direct Labour, Direct Expenses, Sub-Contracted Work and Production Overheads as per Absorption Costing Method.
8.	**False:** The Cost of Inventories excludes: (i) Abnormal amounts of wasted material labour or other production cost. (ii) Storage Cost. (iii) Administrative Overheads. (iv) Selling and Distribution Cost.
9.	**False:** As per AS-2 'Valuation of Inventories', the historical cost of inventories should normally be determined by FIFO (First In First Out) and Weighted Average Cost Formula.
10.	**False:** As per AS-2, the historical cost of manufactured Inventories should be arrived at by absorption costing.
11.	**False:** As per AS-2, the historical cost may be compared with Net Realizable Value (NRV) by item by item method or group of items method.
12.	**False:** As per AS-2, the Inventory of Finished Goods is valued at Cost or NRV whichever is lower.
13.	**False:** As per AS-2, the inventory of Materials and other Supplies is not written down below Cost if Finished Products are expected to be sold at or above cost.
14.	**False:** If Closing Stock is understated, the Cost of Goods sold will decrease but Profit and Current Assets will increase.
15.	**False:** Under inflationary conditions, FIFO method will show Lower Cost of Goods Sold, higher income and Higher value of Closing Stock.
16.	**False:** Cost of Unsold Goods lying with others on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should form part of our Closing Stock at Balance Sheet Date.
17.	**False:** In Balance Sheet Stock as per books appears and not Stock as per physical verification.

FINANCIAL STATEMENTS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1 Fixed cost remain relatively unaffected in a defined period of time. [Dec. 1993]

2 Current cost gives an alternative measurement base. [Nov. 1999]

3	Net profit is reflected in higher cash balances and net loss is reflected in lower net worth. [Dec. 1993]
4	Profit and loss account shows the financial position of the concern. [Dec. 1993,Nov. 1994, Nov.97]
5	A profit and loss account is a point statement whereas a balance sheet is a period statement. [May 95]
6	Fixed assets are stated in the balance sheet at their market value. [Nov. 1994]
7	Trial balance is prepared after preparing the profit and loss account. [Nov. 1995]
8	The provision for discount on debtors is calculated before deducting the provision for doubtful debts
	from debtors. [Nov. 1995, May 1998, Nov. 2002 and Nov. 2004]
9	Provision for doubtful debts is debited to sundry debtors account. [May 2000]
10	The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a
	Business. [May 1997 and Nov. 2000]
11	Freight and cartage expenses paid on purchases of goods is added to the amount of purchase. [May 1998 and Nov. 2000]
12	The debit balance in the profit & loss account is surplus. [May 2001]
13	Debit balance of profit and loss account is a real asset. [Nov 2002]
14	Assets and Liabilities of a particular accounting period are shown in the balance sheet. [Nov 2002]
16	The value of human resources is generally shown as asset in the Balance Sheet. [May 2003]
17	A withdrawal of cash from the business by the proprietor should be charged to profit and loss
	account as an expense. [June 1994]
18	The proprietor of a shop feels that he has made a loss due to closing stock being zero. [May 1995 and Nov 1997]
19	Marshalling and Grouping has the same meaning
20	Sundry Debtors are liquid assets. [May 2006
21	Closing stock will never appear in the trial. [May 2006]

22	Income Statement is prepared to ascertain the financial position but Balance Sheet is prepared to ascertain financial performance at the end of a given accounting period
23	Income Statement is prepared on the basis of closing entries relating to Nominal and Real Accounts but Balance Sheet is prepared on the basis of balances of Real and Nominal Accounts
24	Gross Profit means excess of all revenue over all expenses
25	Operating Profit means excess of operating revenues over all expenses and losses
26	Net Profit means excess of all operating revenues over all expenses and losses
27	Depreciable fixed assets are valued at Cost
28	Current assets are usually valued at Net Realizable Value or Cost whichever is higher
29	Under order of liquidity the most liquid assets is shown last and least urgent payment is shown first
30	The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of liquidity.
31	Banking and finance companies, and sole proprietorships prepare their balance sheets in the Order of Permanence.
32	Under order of performance least liquid asset is shown last and most urgent payment is shown first.
33	In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of purchases and sales respectively
34	If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in Income Statement and not in the Balance Sheet.
35	If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in only in the Balance Sheet and not in Income Statement.
36	Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance and Provision for Discount on Debtors.
37	If opening entry and adjusting entries are not passed both trial balance and balance sheet will not be

	tallied.
38	Reserve for Discount on Creditors has credit balance.
39	Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, Provision for Depreciation are Nominal Accounts.
40	Bills Receivable Account and Bills Payable Account are Real Accounts.
41	Prepaid Insurance, Accrued Interest, Commission received in advance and Closing Stock are Nominal Accounts.
42	Manufacturing A/c is prepared by an enterprise engaged in trading Activities.
43	Manufacturing A/c is prepared to ascertain the cost of goods sold.
44	Manufacturing A/c is closed by transferring its balance to the credit of Profit & Loss A/c.
45	Opening and Closing Stock of Raw Materials, Work in Progress and Finished Goods are considered while preparing Manufacturing A/c
46	A Balance Sheet is a statement of assets and liabilities of an enterprise for a particular accounting period.
47	The most liquid asset is shown first and the most urgent payment to be made is shown last in order of liquidity.
48	The least liquid asset is shown first and the least urgent payment to be made is shown last in order of permanence.
49	Contingent liability is an ascertained liability but its amount and due date are indeterminate.

Sol:

S. No.	Reason
1.	**True:** Fixed costs represent that part of cost of production which, by its very nature, remain relatively unaffected in a defined period of time provided there is no change in the level of production and there is no change in factor prices.
2.	**True:** Current cost is another alternative of measurement basis according to which assets are carried at the amount at which the same or an equivalent asset can be acquired currently. This is used under Current Cost Accounting. Historical Cost is used under Historical Cost Accounting.

3.	**False:** Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net worth is the sum of capital, reserves and profit and loss account balance. Net worth is reduced by net loss. But net worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss.
4.	**False:** Profit and loss account shows the financial performance of a concern for a particular accounting period.
5.	**False:** A profit and loss account is a **periodic** statement and a balance sheet is a **point** statement.
6.	**False:** Fixed assets are stated in the balance sheet at cost less depreciation.
7.	**False:** Trial balance is prepared **before** preparing the profit and loss account.
8.	**False:** The provision for discount on debtors is calculated **after** deducting the provision for doubtful debts from debtors.
9.	**False:** Provision for doubtful debts is debited to profit and loss account. In the balance sheet, it is shown as deduction from 'Debtors'.
10.	**True:** The profit on sale of capital assets should not be added to ascertain the true net profit of a business because it is not due to normal business operations.
11.	**True:** As per AS-2 Freight paid to bring the goods purchased into the business premises/ factory are included in the 'cost of purchase'. **Alternatively,** the statement may be taken as 'false' since for accounting purposes, these expenses are not added to the amount of purchases but are shown separately in the trading account.
12.	**False:** The debit balance in the Profit and Loss account is **deficit or loss** because expenses are more than revenues.
13.	**False:** Debit balance of profit and loss account is a **fictitious asset.**
14.	**False:** Assets and Liabilities at a particular date are shown in the Balance Sheet.
15.	**False:** Under the 'liquidity approach' assets which are most liquid are presented **first.**
16.	**False:** It is not shown in the balance sheet as per money measurement concept because it cannot be measured in monetary terms.
17.	**False:** Such Cash withdrawal should be treated as drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.
18.	**False:** The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits. The whole stock might have been sold out.
19.	**False:** The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading Trade Creditors' the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown. The term 'Marshalling' refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of permanency.
20.	**True:** Sundry debtors are liquid assets because these are readily convertible into cash.
21.	**False:** Closing stock may appear in the trial balance if an adjusting entry relating to closing stock has already been passed. If closing stock appears in trial balance it will appear only on the asset side of the Balance Sheet.
22.	**False:** Income Statement is prepared to ascertain the Financial performance for a given accounting period but Balance Sheet is prepared to ascertain financial Position at the end of a given accounting period.

23.	***False:*** *Income Statement is prepared on the basis of closing entries relating to Nominal Accounts but Balance Sheet is prepared on the basis of balances of Real and Personal Accounts.*
24.	***False:*** *Gross Profit means excess of operating revenue over direct operating expenses.*
25.	***False:*** *Operating Profit means excess of operating revenues over operating expenses and losses.*
26.	***False:*** *Net Profit means excess of all revenue (whether operating or non-operating) over expenses and losses (whether operating or non-operating).*
27.	***False:*** *Depreciable fixed assets are valued at Cost less Depreciation.*
28.	***False:*** *Current assets are usually valued at Net Realizable Value or Cost whichever is lower.*
29.	***False:*** *Under order of liquidity the most liquid assets is shown first and least urgent payment is shown last.*
30.	***False:*** *The company as defined under Companies Act, 2013 prepares Balance Sheet in the Order of Permanence.*
31.	***False:*** *Banking and finance companies, and sole proprietorships prepare their balance sheets in the order of liquidity*
32.	***False:*** *Under order of performance least liquid asset is shown first and most urgent payment is shown last.*
33.	***False:*** *In Trading Account Returns having debit balance and credit balance are shown by way of deduction from amount of sales and purchases respectively.*
34.	***False:*** *If Closing Stock, Outstanding Expenses, Prepaid Expenses and Accrued Income and Unaccrued Income appear inside the Trial Balance, these appear only in the Balance Sheet and not in Income Statement.*
35.	***False:*** *If Depreciation, Interest on Capital, Interest on Drawings appear inside the Trial Balance, these will appear in Income Statement and not in the Balance Sheet.*
36.	***False:*** *Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trial balance but before deducting Provision for Discount on Debtors*
37.	***False:*** *If opening entry and adjusting entries are not passed both trial balance and balance sheet will be tallied.*
38.	***False:*** *Reserve for Discount on Creditors has debit balance.*
39.	***False:*** *Bank Account, Provision for Doubtful Debts, Provision for Discount on Debtors, Reserve for Discount on Creditors, are Personal Accounts but Provision for Depreciation is Real Account.*
40.	***False:*** *Bills Receivable Account and Bills Payable Account are Personal Account.*
41.	***False:*** *Prepaid Insurance, Accrued Interest, Commission received in advance are Personal Accounts but Closing Stock is Real Account.*
42.	***False:*** *Manufacturing A/c is prepared by an enterprise engaged in Manufacturing Activities.*
43.	***False:*** *Manufacturing A/c is prepared to ascertain the cost of goods manufactured.*
44.	***False:*** *Manufacturing A/c is closed by transferring its balance to the debit of Trading A/c.*
45.	***False:*** *Opening and Closing Stock of Raw Materials and Work in Progress and not Finished Goods are considered while preparing Manufacturing A/c.*
46.	***False:*** *A Balance Sheet is a statement of assets and liabilities of an enterprise at a particular date.*
47.	***False:*** *The most liquid asset is shown first and the most urgent payment to be made is shown first in order of liquidity.*

48.	**False:** The least liquid asset is shown first and the least urgent payment to be made is shown first in order of permanence.
49.	**False:** Contingent liability is an unascertained liability but its amount and due date are indeterminate.

NOT FOR PROFIT ORGANISATIONS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Receipts and Payments Account is a summary of all capital receipts and payments. [Nov. 1995, Nov. 1997, May 2005]

Or

The Receipts and Payments account records receipts and payments of revenue nature only.[May 1996]

2 Scholarship granted to students out of funds provided by Government will be debited to Income and Expenditure Account. [May 1995]

3 If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. [May 1997]

4 Receipts and Payments Account highlights total income and expenditure. [Nov. 1999]

5 Only revenue items are disclosed in Income and Expenditure account. [Nov. 2005]

6 Receipts and payments Account is a summary of all receipts and payments (whether capital or revenue) relating to current year.

7 Income and Expenditure Account is a summary of all revenue receipts and revenue payments relating to current year.

8 Income and Expenditure Account is a summary of all revenue income and payments relating to current year.

Sol:

S. No.	Reason
1.	**False:** Receipts and Payments Account is a summary of all cash/bank receipts and payments whether capital or revenue in nature.
2.	**False:** The scholarship granted to students should be shown as deduction from the funds provided by the Government for the same purpose in the Balance Sheet.
3.	**False:** Such expenses will be deducted from sports fund only.
4.	**False:** Receipts and payments account is a classified summary of cash/bank receipts and payments over an accounting period together with cash and bank balances at the beginning and close of the period.
5.	**True:** Income and Expenditure Account is a revenue statement prepared to find out surplus/deficit. Hence, only revenue items are shown in the Income and Expenditure Account.
6.	**False:** Receipts and payments Account is a summary of all receipts and payments(whether capital or revenue) relating to current year,previous year or future year.
7.	**False:** Income and Expenditure Account is a summary of all revenue incomes and revenue expenses relating to current year.
8.	**False:** Income and Expenditure Account is a summary of all revenue income and revenue expenses relating to current year.

CONSIGNMENT

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 The relationship between consignor and consignee is that of principal and agent. [June 1994, Nov. 1995, Nov. 1997, May 1998, Nov. 2000 and May 2002]

2 In consignment, the goods are dispatched on the basis that the goods will be sold on behalf of, at the expense of and at the risk of the consignee. [May 1995]

3 Account sales is the statement sent by the consignor to the consignee. [May 1996]

4 Del-credere commission is normally calculated on total sales. [May 1996]

5 Loss of stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities. [Nov. 1996, May 2005]

6 Loss of stock is said to be normal loss when such loss is not due to inherent characteristics of the

	commodities. [May 1998]
7	If the consignee is not authorized to get the del-credere commission, then he is liable for all losses on account of non-recovery of debts. [May 1997]
8	Consignee has no right in the profit on goods sent on consignment. [May 2001, Nov. 2005]
9	In consignment account, ownership of the goods remains with the consignor. [Nov. 2002]
10	The party to whom goods are sent is called 'consignee'. [Nov. 2003]
11	Over-riding commission is calculated on credit sales only. [Nov. 2004]
12	The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission. [May 2005]
13	Overriding commission is granted to an agent in case of sales exceeding targets. [Nov. 2005]
14	The relationship between Consignee and Consignor is that of Principal and Agent.
15	Unless otherwise agreed, Del-credere Commission is calculated on credit sales
16	Any property may be the subject matter of consignment.
17	Discount charges on discounting a B/R accepted by Consignee are credited to Consignment A/c.
18	Total Cost of Abnormal Loss not recovered is debited to Consignment A/c.
19	Total Cost of Abnormal Loss not recovered is debited to Consignment A/c.
20	Cost of Unsold Consignment Stock lying with Consignee consists of Cost of Unsold Goods, Consignor's Proportionate Expenses and Consignee's all Expenses of non-recurring nature.
21	Consignee will not pass a journal entry in his books for the amount of bad debts if del-credere commission is allowed.
22	Consignor allows overriding Commission to the consignee to bear the bad debts on account of credit sales.
23	Non-recurring expenses are those expenses which are incurred after the goods reach the Consignee's

	godown.
24	The Consignee gives advance to the consignor as a part payment of goods received.
25	Loading charges paid by the Consignee are non-recurring expenses.
26	All expenses incurred by the Consignee are debited to his account.
27	When defective goods are returned by the Consignee, the Consignor debits it to Consignee's Account.
28	Consignee does not pass any entry for goods sent on consignment, profit/loss on Consignment and Consignment Stock.
29	The cost of Consignment stock is the cost at which the goods are consigned plus all the nonrecurring expenses.
30	Goods returned by the Consignee should be charged to Consignment Account at cost or market price whichever is lower.
31	Expenses incurred in forwarding the defective goods should be debited to Profit & Loss Account.
32	Loss of weight due to evaporation is abnormal loss.
33	Normal Loss does not affect the valuation of Closing Stock.
34	Abnormal Loss affects the valuation of Closing Stock.
35	Abnormal Loss is debited to Consignment Account.
36	The amount of loss not accepted by the Insurance Company is debited to Consignment Account.
37	Loading is the difference between Selling Price and Cost Price.
38	Consignor always consigns goods at invoice price.
39	Sending goods at invoice price shall result in more profit in the Consignment Account, if no adjustment is made for the loading.
40	Invoice price is always equal to selling price.
42	Loading on closing stock will be nullified by debiting Stock Reserve Account and crediting Closing Stock

	Account.
43	All the entries of adjustment for loading are recorded in the books of consignee.
44	Sales Account and Account Sales are synonymous terms:

Sol:

S.No.	Reason
1.	**True:** The relationship between consignor and consignee is that of principal and agent. The consignee acts only on behalf of and at the instructions of the consignor and not as partner of the consignor.
2.	**False:** In a consignment business, goods are generally sold on behalf of, at the expense of and at the risk of the **consignor.** However, if the consignee gets del-credere commission, the risk of bad debts is borne by him.
3.	**False:** Account sales is a statement sent by the consignee to consignor, showing (a) the details of sales made, (b) the expenses incurred on behalf of the consignor, (c) the commission earned by the consignee, (d) any advance given to the consignor and (e) the balance due to the consignor.
4.	**True:** Although it arises in relation to credit sales, it is calculated on the total sales, not merely on credit sales unless otherwise agreed.
5.	**False:** When loss is caused by abnormal factors like fire, theft, abnormal, spoilage etc., loss is said to be abnormal.
6.	**False:** Loss due to inherent features of goods is a normal loss.
7.	**False:** If the consignee is not authorized to get the del-credere commission, then he is not responsible for any bad-debts that may arise in due course of business.
8.	**True:** The consignee being an agent earns only commission and not profit.
9.	**True:** The ownership of goods remains with the consignor. The consignee does not become owner even though the goods are in his possession.
10.	**True:** In consignment accounts, the party which sends the goods is called the consignor, while the party to whom goods are sent is called the consignee.
11.	**False:** In case the sales exceeds a specific amount, an extra commission is allowed to the consignee. This commission is termed as over-riding commission. It is calculated on total sales, unless specifically agreed between the consignor and the consignee.
12.	**False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
13.	**False:** Overriding commission is granted to an agent in case the sales exceed a specific target.
14.	**False:** The relation between Consignee and Consignor is that of Agent and Principal.
15.	**False:** Unless otherwise agreed, Del-credere Commission is calculated on total sales and not on credit sales.
16.	**False:** Only movable property may be the subject matter of consignment.
17.	**False:** Discount charges on discounting a B/R accepted by Consignee are debited to Profit & Loss A/c and not to Consignment A/c.
18.	**False:** Total Cost of Abnormal Loss (whether recovered or not) is credited to Consignment A/c.
19.	**False:** Consignor sends Proforma Invoice but Consignee sends Account Sales.

20.	**False:** Cost of Unsold Consignment Stock lying with Consignee consists of Cost of Unsold Goods, Consignor's Proportionate Expenses and Consignee's Proportionate Expenses of non-recurring nature.
21.	**False:** Consignee will pass a journal entry in his books for the amount of bad debts if del-credere commission is allowed. Or **False:** Consignee will not pass a journal entry in his books for the amount of bad debts if del-credere commission is not allowed.
22.	**False:** Consignor allows overriding Commission to the consignee to achieve sales exceeding a specific amount.
23.	**False:** Non-recurring expenses are those expenses which are incurred before the goods reach the Consignee's godown.
24.	**False:** The Consignee gives advance to the consignor as a security for the goods despatched to him..
25.	**False:** Loading charges paid by the Consignee after the goods reach the Consignee's godown are recurring expenses.
26.	**False:** All expenses incurred by the Consignee are credited to his account.
27.	**False:** When defective goods are returned by the Consignee, the Consignor debits it to Goods Sent on Consignment Account.
28.	**True:** Consignor passes entry for goods sent on consignment, profit/loss on Consignment and Consignment Stock.
29.	**False:** The cost of Consignment Stock is the cost at which the goods are consigned plus Proportionate non-recurring expenses.
30.	**False:** Goods returned by the Consignee should be credited to Consignment Account at cost or Net Realisable Value whichever is lower.
31.	**False:** Expenses incurred in forwarding the defective goods should be debited to Consignment Account.
32.	**False:** Loss of weight due to evaporation is normal loss.
33.	**False:** Normal Loss affects the valuation of Closing Stock.
34.	**False:** Abnormal Loss does not affect the valuation of Closing Stock.
35.	**False:** Abnormal Loss is credited to Consignment Account.
36.	**False:** The amount of loss not accepted by the Insurance Company is credited to Consignment Account.
37.	**False:** Loading is the difference between Invoice Price and Cost Price.
38.	**False:** Consignor need not always consign the goods at Invoice Price. Goods may be consigned at cost also.
39.	**False:** Sending goods at invoice price shall result in less profit in the Consignment Account, if no adjustment is made for the loading. Profit shall be reduced by the amount of loading on Goods Sold.
40.	**False:** Invoice price is always equal to Cost plus profit.
41.	**False:** Consignor consigns the goods at invoice price to conceal the actual Cost of Goods to the Consignee .
42.	**False:** Loading on closing stock will be nullified by debiting Consignment Account, and crediting Stock Reserve Account.
43.	**False:** All the entries of adjustment for loading are recorded in the books of consignor.
44.	**False:** Sales Account and Account Sales are different terms:

	BILL OF EXCHANGE
	State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):
1	A bill given to a creditor is called bills payable. [May 1996, Nov. 2001 and May 2004]
2	A promissory note can be made payable to the bearer. [May 1996, Nov 2000]
3	A has drawn a bill on B. B accepts the same and endorses the bill to C. [May 2000]
4	No cancellation entry is required when a bill is renewed. [May 1997, May 1998, Nov 2001, May 2004]
5	Cancelling old bill and drawing new bill is called renewal of bill. [May 2001]
6	Discount at the time of retirement of a bill is a gain for the drawee. [Nov 1996 and May 2002]
7	At the time of Renewal of a bill, Interest account is debited in the books of a drawee.[May 2006]
8	Promissory Note requires acceptence. [May 2006]
9	Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill.
10	A bill of exchange is a conditional order in writing given by a Debtor to a Creditor. [Nov 2005]
11	A Promissory Note is a written unconditional order to pay by a Creditor to a Debtor but a Bill of Exchange is a written unconditional undertaking to pay by a Debtor to a Creditor.
12	The term of bill after date commences from the date of acceptance of the bill but the term of Bill after sight commences from the date of drawing a bill.
13	In case of all bills of exchange, three days (days of grace) are added to due date to arrive at date of maturity.
14	In case of Insolvency of Acceptor, the amount which could not be recovered is debited to Deficiency A/c in the books of drawer and the amount which could not be paid is credited to Bad Debts A/c in books of drawee.

15	Rebate on Retirement of bill is an Expense for Drawer and an Income for Drawee.
16	On discounting of accommodation bills, the proceeds are shared by drawer and drawee equally. The party
	bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed.
17	In case of a public holiday the due date of the bill falls on the next working day.
18	Bill of Exchange is an unconditional promise to pay in writing.
19	When bill is endorsed or discounted, no entry is passed in the books of drawer.
20	When an endorsed or discounted bill is honoured, no entry is passed in the books of drawee.
21	When the bill is honoured on the due date, the drawee credits Bills Payable A/c in his books.
22	When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the
	drawee
23	In case of the dishonour of a bill, noting charges are initially paid by the drawee.
24	The bill is treated as dishonoured in case of insolvency of the drawee who pays only 75%.
25	When the bill is dishonoured, in drawee's books the banker(in case bill has been discounted) and
	Endorsee (in case bill has been endorsed) will be debited.
26	For drawing an accommodation bill some valuable consideration must pass between the two parties.
27	A Bills Receivable drawn on Ram recorded in B/R Book is posted to the debit of Bills Receivable A/c.
28	All individual entries from Bills Payable Journal are to be posted to the debit of Bills Payable A/c.
29	A bill of exchange is an unconditional promise in writing given by a debtor to a creditor.
30	A promissory note is an unconditional order in writing given by a creditor to a debtor.
31	Drawee and Payee can be the same person in a Bills Receivable.
32	Days of grace are added to date of maturity of bill to arrive at due date.

Sol

S.No.	Reason
1.	**True:** A bill given to a creditor is called Bills Payable because the debtor commits to pay by giving a bill to creditor.
2.	**False:** A promissory note cannot be made payable to the bearer. It is payable to or to the order of a certain person.
3.	**False:** B cannot endorse the bill to C because he is a drawee. Only A, the drawer can do so.
4.	**False:** When the bill is renewed, entries are passed first for cancellation of the old bill and then for recording of the new bill.
5.	**True:** When the acceptor of a bill fails to make the payment on the due date, a new bill may be drawn on him after cancellation of the old bill. This is known as renewal of a bill.
6.	**True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer. Gain is basically an interest for the unexpired term of the bill.
7.	**True:** At the time of renewal of a bill, interest account is debited in the books of a drawee because it represents an expense for drawee.
8.	**False:** Promissory not does not require acceptance because it is already a valuable instrument. Bills receivable requires acceptance.
9.	**False:** Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill.
10.	**False:** A bill of exchange is an unconditional order in writing given by a creditor to a debtor.
11.	**False:** A Promissory Note is a written unconditional undertaking to pay by a Debtor to a Creditor but a Bill of Exchange is a written unconditional order to pay by a Creditor to a Debtor.
12.	**False:** The term of bill after date commences from the date of drawing a bill but the term of Bill after sight commences from the date of acceptance of the bill.
13.	**False:** In case of all bills of exchange (other than payable on demand), three days (days of grace) are added to due date to arrive at date of maturity.
14.	**False:** In case of Insolvency of Acceptor, the amount which could not be recovered is debited to Bad Debts A/c in the books of drawer and the amount which could not be paid is credited to Deficiency A/c in books of drawee.
15.	**False:** Rebate on Retirement of bill is an Income for Drawer and an Expense for Drawee.
16.	**False:** On discounting of accommodation bills, the proceeds are shared by drawer and drawee in agreed ratio. The party bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed
17.	**False:** In case of a public holiday the due date of the bill falls on the preceding working day.
18.	**False:** Bill of Exchange is an unconditional order to pay in writing.
19.	**False:** When bill is endorsed or discounted, no entry is passed in the books of drawee.
20.	**False:** When an endorsed or discounted bill is honoured, no entry is passed in the books of drawer.
21.	**False:** When the bill is honoured on the due date, the drawee debits Bills Payable AJc in his books.
22.	**False:** When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the drawer.

23.	**False:** In case of the dishonour of a bill, noting charges are initially paid by the holder of the bill.
24.	**True:** The bill is treated as dishonoured in case of insolvency of the drawee since he fails to pay at the date of maturity.
25.	**False:** When the bill is dishonoured, the drawer will be debited in books of drawee whether the bills is retained, endorsed or discounted.
26.	**False:** For drawing an accommodation bill consideration need not pass between the two parties
27.	**False:** A Bills Receivable drawn on Ram recorded in B/R Book is posted to the credit of Ram's A/c
28.	**False:** All individual entries from Bills Payable Journal are to be posted to the debit of drawer's A/c.
29.	**False:** A bill of exchange is an unconditional order in writing given by a creditor to a debtor.
30.	**False:** A promissory note is an unconditional promise in writing given by a debtor to a creditor.
31.	**False:** Drawer and Payee can be the same person in a Bills Receivable.
32.	**False:** Days of grace are added to due date of bill to arrive at date of maturity.

AVERAGE DUE DATE AND ACCOUNT CURRENT

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1 If payment is made on the average due date, it results in loss of interest to creditors. [Nov. 1995 and May 1999]

2 Average due date is the median average of several due dates for payments. [May 1999]

3 In the calculation of average due date, only the due date of first transaction must be taken as the base date. [May 1999, Nov. 2003]

4 In Account Current, red-ink interest is treated as negative interest. [Nov. 1999 and May 2003]

Sol:

S. No.	Reason
1.	**False:** Average due date is 'no loss no gain' date to either party i.e. neither the debtor nor the creditor stands to lose or gain anything by way of interest.
2.	**False:** Average due date is mean/equated date for several due dates of payments.
3.	**False:** While calculating the average due date, any transaction date may be taken as the base date.
4.	**True:** In case the due date of a bill falls after the date of closing the account, interest from the date of closing to such due date is written in 'Red-Ink' in the appropriate side of Account Current. This red-ink interest is treated as negative interest.

GOODS SENT ON APPROVAL

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1 Sales or Return Account in the Sale or return ledger represents the value of goods still lying with the customers for approval. [May 2006]

2 If Goods Sent on Approval are temporarily pledged by customer for security purposes only with the lender, it does not mean that goods have been sold to the customer.

3 If Goods Sent on Approval to a customer are sent by that customer on approval basis to any other person, it does not mean that goods have been sold to the customer

4 Credit Balance of Sale on Approval A/c at the close of Accounting Period represents total value of Goods Sent Out.

5 Goods sent out on Approval but neither sold nor Returned till the close of accounting period are included in the stock of the customer at Cost or Net Realizable Value whichever is higher

Sol:

S. No.	Reason
1.	**True:** The balance of Sale or Return Account in Sale or Return ledger represents the value of goods lying with the customers who have neither returned nor accepted goods till date.
2.	**False:** If Goods Sent on Approval are pledged by customer as security with the lender, it amounts to acceptance of goods and it means that goods have been sold to the customer.
3.	**False:** If Goods Sent on Approval to a customer are sent by that customer on approval basis to any other person, it amounts to acceptance of goods and it means that goods have been sold to the customer.
4.	**False:** Credit Balance of Sale on Approval A/c at the close of Accounting Period represents total value of Goods Sent Out but neither Sold nor Returned.
5.	**False:** Goods sent out on Approval but neither sold nor Returned till the close of accounting period are considered as goods lying with customer on behalf of seller and included in the stock of the Seller at Cost or Net Realizable Value whichever is lower.

PARTNERSHIP—FUNDAMENTALS

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason)

1	A joint venture is a partnership under the Partnership Act. [May 2000, May 2003]
2	A partner who devotes more time to a business than other partners is entitled to get a salary. [May 2000]
3	Partners can share profits or losses in their capital ratio, when there is no agreement. [May 2001]
4	The business of partnership firm must be carried on by all the partners. [Nov. 2005]
5	When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio. [May 2005]
6	Sharing of Profit is conclusive evidence of partnership but Mutual Agency is only a prima facie evidence of Partnership
7	Registration of a firm has to be effected before the formation of partnership.
8	Every partner is only jointly liable to third parties
9	It is necessary to have Partnership Agreement in writing.
10	Terms of Partnership and nature of business of firm can be changed with the consent of majority of partners.
11	If the amount of available profits is less than the total amount of interest on capital, the available profits should be distributed in the profit sharing ratio of partners.
12	If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.m.
13	A partnership deed must be in writing.
14	In the absence of any provision in the partnership deed, the partners share profit be and losses in the ratio of their capitals.

15 In the absence of any provision in the partnership deed, only a working partner (and not nonworking partner) is entitled to remuneration.

16 In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawings for a period of 12 months assuming that the amounts were drawn evenly throughout the year.

17 If a fixed amount is withdraw on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6 months.

18 If a fixed amount is withdrawn on the last day of every month, the interest on the total of drawings will be calculated for a period of 6.5 months.

19 Interest on loan given by a partner to the firm shall be paid if there are profits.

20 Current accounts of partners are maintained under the Fluctuating capital Method.

Sol:

S. No.	Reason
1.	**False:** Joint venture is not a partnership under the Partnership Act. Since it is only a kind of temporary trading relationship between co-venturers to carry out a commercial venture.
2.	**False:** No partner is entitled to a salary unless the partnership deed specifically provides for the same.
3.	**False:** Profits or losses are to be shared equally among partners if there is no agreement.
4.	**False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
5.	**False:** According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
6.	**False:** Sharing of Profit is only a prima facie evidence of partnership but Mutual Agency is a conclusive evidence of partnership.
7.	**False:** Registration of a firm is optional and not compulsory and can be effected on or after the formation of partnership.
8.	**False:** Every partner is jointly and severally liable to third parties.
9.	**False:** It is not necessary to have Partnership Agreement in writing.
10.	**False:** Terms of Partnership and nature of business of firm can be changed only with the consent of all partners.
11.	**False:** If the amount of available profits is less than the total amount of interest on capital, the available profits should be distributed in the ratio of interest claims of partners.

12.	**False:** The Partnership Act has not prescribed any Rate of Interest on Loan by firm to Partner.
13.	**False:** A partnership deed need not in writing.
14.	**False:** In the absence of any provision in the partnership deed, the partners share profit be and losses equally.
15.	**False:** In the absence of any provision in the partnership deed, no partner is entitled to remuneration.
16.	**False:** In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawings for a period of six months assuming that the amounts were drawn evenly throughout the year.
17.	**False:** If a fixed amount is withdraw on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6.5 months.
18.	**False:** If a fixed amount is withdrawn on the last day of every month, the interest on the total of drawings will be calculated for a period of 5.5 months.
19.	**False:** Interest on loan given by a partner to the firm shall be paid even if there are losses.
20.	**False:** Current accounts of partners are maintained under the Fixed Capital Method.

ADMISSION OF A PARTNER

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Goodwill is a fictitious asset. [May 1996, May 2001, Nov. 2001 and May 2004]

Or

Goodwill is a current asset. [May 1998]

2 Goodwill is in the nature of personal account. [May 1999]

3 Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio. [May 2000]

4 A person may be admitted as partner either with the consent of majority of partners or in accordance with express agreement among partners .

5 There exists no difference between T surrenders 1/3rd of his share and 'Y' surrenders 1/3rd from his share.

6 Machinery Replacement Fund is credited to partners in their sacrificing.

7	Excess of Investment Fluctuation Reserve over difference between book value and market value is credited to Revaluation Account.
8	Excess of Workmen Compensation Reserve over Liability of Workmen Compensation is credited to Revaluation Account.
9	The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the gaining ratio.
10	Unless given otherwise, the ratio of sacrifice is the same as old profit sharing ratio.
11	The amount of goodwill brought in by the new partner is shared by old partners in their old profit sharing ratio.
12	The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities upto the date of admission may be adjusted in the capital accounts of sacrificing partners only.
13	If, at the time of admission, provision for doubtful debts is to be reduced, it will be debited to Debtors Accounts.
14	Any amount released from the sale of unrecorded asset is debited to the old partners' capital Accounts
15	Any amount paid to discharge an unrecorded liability is credited to the old partners' capital accounts.
16	Gain or loss arising from revaluation of assets and liabilities is shared by old partners in their sacrificing ratio.
17	All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective sacrificing ratio.

Sol:

S. No.	Reason
1.	**False:** Goodwill is an intangible asset and not fictitious or current asset.
2.	**False:** Goodwill is an intangible asset therefore it is an item of real account.
3.	**False:** When a new partner brings in cash for goodwill, it is taken away by the old partners in their sacrificing ratio.
4.	**False:** A person may be admitted as partner either with the consent of all partners or in accordance with express agreement among partners (Sec. 31)
5.	**False:** There exists difference between 'B surrenders 1/3rd of his share' and 'B surrenders 1/3rd from his share'. If B's share is 2/5th, it means in the former case he has surrendered 2/15th [i.e. (1/3) x (2/5)] share and B's New Share is 4/15 [i.e. (2/5) - (2/15)], in the latter case, he has surrendered 1/3rd share and B's New Share is 1/15 [i.e. (2/5)-(1/3)].
6.	**False:** Machinery Replacement Fund is not credited to partners because it is in the nature of accumulated depreciation and not accumulated profit.
7.	**False:** Excess of Investment Fluctuation Reserve over difference between book value and market value is credited to partners in Profit Sharing Ratio.
8.	**False:** Excess of Workmen Compensation Reserve over Liability of Workmen Compensation is credited to partners in Profit Sharing Ratio
9.	**False:** The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio.
10.	**True:** Unless given otherwise.it is presumed that old partners have surrendered their share in favour of incoming partner in their respective old profit sharing ratio.
11.	**False:** The amount of goodwill brought in by the new partner is shared by old partners in their sacrificing ratio.
12.	**False:** The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities upto the date of admission may be adjusted in the capital accounts of old partners only.
13.	**False:** If, at the time of admission, provision for doubtful debts is to be reduced, it will be debited to Provision for Doubtful Debts Account.
14.	**False:** Any amount released from the sale of unrecorded asset is debited to Cash/Bank Account.
15.	**False:** Any amount paid to discharge an unrecorded liability is credited to Cash/Bank Account
16.	**False:** Gain or loss arising from revaluation of assets and liabilities is shared by old partners in their respective old profit sharing ratio.
17.	**False:** All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective old profit sharing ratio.

PARTNERSHIP—RETIREMENT/DEATH OF A PARTNER

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 If a partner retires, then other partners have a gain in their profit sharing ratio. [May 2001]

2 Joint life policy is taken by the partners in order to provide working capital for the firm.[June 1994]

Or

The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm. [Nov. 2002]

3 A partner may retire from firm either with the consent of majority of partners or in accordance with express agreement among partners.

4 Deceased Partner's Share of Profit is adjusted through P&L Suspense A/c which appears on the Liabilities side of the Balance Sheet.

5 The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as sacrificing ratio.

6 Unless given otherwise, the gaining ratio is the same as old profit ratio.

7 The assets and liabilities are revalued at the time of retirement/death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death of a partner may be adjusted in the capital accounts of continuing partners only.

8 Gain or loss arising from revaluation of assets and liabilites up to date of retirement/death of a partner is shared only by continuing partners in their respective old profit sharing ratio.

9 All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of retirement of a partner are transferred only to continuing partners' capital accounts in their respective old profit sharing ratio.

10 The amount standing to the credit of deceased partner 'capital account is transferred to his/her loan account in case it is not paid immediately.

11 Joint Life Policy is an assurance policy covering the lives of the partners jointly & severally .

12 Joint Life Policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is later.

13 Surrender value of an insurance policy means the realizable value of an insurance policy in the event of the surrender of the policy to the Insurance company at the date of maturity.

14 A retired partner or the legal representative of a deceased partner can not claim a share in the subsequent profits of the firm in any case.

Sol:

S. No.	Reason
1.	**True:** If a partner retries, his share of profit or loss will be shared by the other partners in their profit sharing ratio unless otherwise agreed.
2.	**False:** The objective of taking a joint life policy is to minimize the financial hardships in the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.
3.	**False:** A partner may retire from firm either with the consent of all other partners or in accordance with express agreement among partners.
4.	**False:** Deceased Partner's Share of Profit is adjusted through P&L Suspense A/c which appears on the Assets side of the Balance Sheet.
5.	**False:** The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as gaining ratio.
6.	**True:** Unless given otherwise.it is presumed that continuing partners have acquired the outgoing (retired or deceased) partner's share in their respective old profit sharing ratio.
7.	**False:** The assets and liabilities are revalued at the time of retirement/death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death may be adjusted in the capital accounts of all the partners.
8.	**False:** Gain or loss arising from revaluation of assets and liabilites up to date of retirement/ death of a partner is shared by all partners in their respective old profit sharing ratio.
9.	**False:** All accumulated profits, reserves, losses and fictitious assets appearing in the books of the firm at the time of retirement of a partner are transferred to all partners' capital accounts in their respective old profit sharing ratio.
10.	**False:** The amount standing to the credit of deceased partner 'capital account is transferred to his/her Executors's Loan Account in case it is not paid immediately.
11.	**False:** Joint Life Policy is an assurance policy covering the lives of the partners jointly .

12.	**False:** Joint Life Policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is earlier.
13.	**False:** Surrender value of an insurnace policy means the realizable value of an insurance policy in the event of the surrender of the policy to the Insurance company before the date of maturity.
14.	**False:** A retired partner or the legal representative of a deceased partner can claim a share in the subsequent profits of the firm if his accounts are not settled.

ACCOUNTING FOR SHARE CAPITAL

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Maximum number of members in case of private company is 50 .

2 Maximum paid up capital for Public Company is Rs. 5 lakhs and for Private Company is Rs. 1 lakh.

3 Equity Share Capital with differential rights as to voting or dividend cannot be issued.

4 Unless otherwise stated a preference share is always deemed to be Non-Cumulative, Nonparticipating & Non-convertible.

5 Participating Preference Share is that share which in addition to two basic preferential rights also carries a right to participate in surplus profits and surplus assets.

6 Securities Premium can be applied to issue partly paid bonus shares.

7 Under the Capital Clause of Memorandum of Association, the amount of Issued Capital and its division into shares of fixed amount is required to be stated.

8 Issued Capital refers to paid up value of all shares allotted.

9 Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'Issued Capital'

10 Reserve Capital and Capital Reserve carry the same meaning.

11 As per Table F, the Minimum rate of interest that can be charged on Calls-in-Arrear and that can be

allowed on calls-in-advance are 10% p.m. and 12% p.m. respectively.

12 While passing an entry for Forfeiture, Share Capital A/c is debited with the amount Paid-up (excluding Securities Premium) till the stage of forfeiture.

13 While passing an entry for Forfeiture, Securities Premium is debited only with the amount of total Securities premium.

14 While passing an entry for Forfeiture Forfeited Shares A/c is credited with the total amount already received (whether on application or allotment or call).

15 While passing an entry for re-issue Share Capital is credited with the amount called up.

16 While passing an entry for re-issue, Securities Premium is credited with excess of re-issue price over the face value.

17 Share Application Account, Share Allotment Account, Share Call Account and Share Capital Account are Real Accounts.

18 Forfeited Shares Account, Securities Premium Account, Calls- in -arrears Account and Calls - in advance Account are Nominal Accounts.

Sol:

S. No.	Reason
1.	**False:** Maximum number of members in case of private company is 200
2.	**False:** Minimum paid up capital for Public Company is Rs. 5 lakhs and for Private Company is Rs. 1 lakh.
3.	**False:** Equity Share Capital with differential rights as to voting or dividend may be issued.
4.	**False:** Unless otherwise stated a preference share is always deemed to be Cumulative, Non-participating & Non-convertible.
5.	**False:** Participating Preference Share is that share which in addition to two basic preferential rights also carries a right to participate in surplus profits and/ or surplus assets.
6.	**False:** Securities Premium can be applied to issue fully paid bonus shares.
7.	**False:** Under the Capital Clause of Memorandum of Association, the amount of Authorized Capital and its division into shares of fixed amount is required to be stated.
8.	**False:** Issued Capital refers to nominal value of all shares allotted.
9.	**False:** Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'Subscribed Capital'.

10.	**False:** Reserve Capital refers to that portion of uncalled up share capital which shall not be capable of being called up except in the event and for the purposes of the company being wound up.. Capital Reserve refers to those amounts which are not regarded as free for distribution by way of dividend.
11.	**False:** As per Table F, the maximum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.a. and 12% p.a. respectively.
12.	**False:** While passing an entry for Forfeiture,,Share Capital A/c is debited with the amount called up (excluding Securities Premium) till the stage of forfeiture.
13.	**False:** While passing an entry for Forfeiture, Securities Premium is debited only with the amount of Securities premium due but not received.
14.	**False:** While passing an entry for Forfeiture Forfeited Shares A/c is credited with the amount already received (excluding Securities Premium) (whether on application or allotment or call).
15.	**False:** While passing an entry for re-issue Share Capital is credited with the amount of Paid-up Value.
16.	**False:** While passing an entry for re-issue, Securities Premium is credited with excess of re-issue price over the paid up value.
17.	**False:** Share Application Account, Share Allotment Account, Share Call Account and Share Capital Account are Personal Accounts.
18.	**False:** Forfeited Shares Account, Securities Premium Account are Nominal Accounts but Calls- in -arrears Account and Calls - in advance Account are Personal Accounts.

ACCOUNTING FOR DEBENTURES

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 Now Debentures can be issued at par /Premium but not at discount.

2 Like Shares a company can issue debentures with voting rights.

3 Debenture interest is calculated on issue price and is payable when there are profits after the payment of any dividend on shares.

4 Debenture Redemption Premium Account and Discount on issue of debentures Account are Nominal Accounts.

Sol:

S.No.	Reason
1.	**False:** Debentures can be issued at par /Premium/ discount since there are no restrictions on issue of debentures at discount.
2.	**False:** Like Shares a company cannot issue debentures with voting rights.
3.	**False:** Debenture interest is calculated on face value and not on issue price and is payable irrespective of fact whether there are profits or not before the payment of any dividend on shares.
4.	**False:** Debenture Redemption Premium Account is a Personal Account but Discount on Issue of Debentures Account is a Nominal Account.

LIMITED LIABILITY PARTNERSHIP (HELPFUL FOR LAW)

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

1 LLP is an entity registered under The Limited Liability Partnership Act, 2018

2 LLP has no separate legal entity.

3 LLP is created by agreement and not by Law.

4 LLP has no perpetual succession.

5 Name of LLP need not contain 'Limited Liability Partnership' or 'LLP' as suffix

6 For LLP Minimum number of partners required is 2 but their is limit of 20 on maximum number of partners

7 Liability of LLP Partner is unlimited

8 LLP Partners act as agents of LLP and other partners

9 Minor can be admitted to the benefits of LLP

10 Foreign National cannot become a Partner in a LLP

11 LLP must have at least 2 individuals as Designated Partners who must be residents in India

12 Each Designated Partner of LLP is required to have a DPIN before appointment

13 All Designated Partner must have Digital Signatures since e forms are filled electronically

14 All Partners of LLP are liable for Legal Compliance

S. No.	Reason
1.	**False**: LLP is an entity registered under The Limited Liability Partnership Act, 2008'
2.	**False**: LLP has separate legal entity.
3.	**False**: LLP is created by Law.
4.	**False**: LLP **has** perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence. Members may come and go but LLP goes forever.
5.	**False**: Name of LLP must contain 'Limited Liability Partnership' or 'LLP' as suffix.
6.	**False**: For LLP Minimum number of partners required is 2 but their is no limit on maximum number of partners.
7.	**False**: Liability of LLP Partner is limited, to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
8.	**False**: LLP Partners act as agents of LLP and not of other partners.
9.	**False**: Minor can not be admitted to the benefits of LLP.
10.	**False**: Foreign National can become a Partner in a LLP.
11.	**False**: LLP must have at least 2 individuals as Designated Partners, of whom at least one must be resident in India
12.	**False**: Each Designated Partner of LLP is required to have a DPIN before appointment.
13.	**False**: Atleast one Designated Partner must have Digital Signatures since e forms are filled electronically.
14.	**False**: Only Designated Partners of LLP are liable for Legal Compliance.

ICAI EXAMS – 2019

State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason):

May 2019 (i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

(iii) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(iv) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(v) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Sol: **(i) True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

(iii) False: In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(v) False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

Nov 2019 (i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(ii) M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was Rs 30,000 and was treated as a revenue expenditure.

(iii) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of

Conservatism.

(iv) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

(v) A Partnership firm cannot own any Assets.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Sol: **(i) False:** Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.