CA FOUNDATION

ACCOUNTING

New Scheme

CA ZUBAIR KHAN

FCA, B.Com, Dip in IFRS (ACCA)

PREFACE

I am delighted to present this book on Principles & Practice of Accounting for CA-Foundation. I have strategically designed this book as a complete solution for CA Foundation examination. This book covers the entire syllabus of Principles & Practice of Accounting.

After thorough study of the subject and examination pattern, this book is carefully designed to include detailed theory as per the latest amended notes of ICAI. Along with that ample of questions are provided for every topic that will be solved in the class. It also includes chapter wise practice questions that will help students practise the topic thoroughly. The highlight of this book are creative charts and important points highlighted that will help students revise the topics easily.

I fervently hope this book will cater my reader's expectations.

I would highly appreciate any suggestions, recommendations and feedback that will help in adding value to my initiative.

CA Zubair Khan

FCA, B.Com, Dip. in IFRS (ACCA)

Email: ca.zubairkhan@gmail.com

Instagram: www.instagram.com/ca_zubair_khan/

Telegram: https://t.me/CAccountingGuru

INDEX

Chapter No.	Chapter Name	Page No.
1	Accounting Process (Journal, Ledger, Trial Balance, Cash Book & Subsidiary Books)	1-34
2	Bills of Exchange & Promissory Notes	35-50
3	Rectification of Errors	51-69
4	Bank Reconciliation Statement	70-88
5	Depreciation	89-104
6	Inventories	105-120
7	Final accounts of Sole Proprietors	121-161
8	Financial Statements of Not for Profit Organization	162-205
9	Accounting from incomplete records	206-243
10	Company Accounts – Shares Issue, Forfeiture, Issue of Debenture	244-288
11	Bonus & Right Issue	289-303
12	Redemption of Preference Shares	304-319
13	Redemption of Debentures	320-328
14	Partnership – Introduction, Goodwill, Admission, Retirement & Death	329-389
15	Dissolution of Partnership Firm including piecemeal distribution	390-408
16	Accounting – Theoretical Framework	409-448

STUDY TRACKER

CA FOUNDATION ACCOUNTS

Chapter No.	Chapter Name	1st Revision	2nd Revision	3rd Revision	4th Revision	5th Revision
		1st Attempt Pass		Score 60 - 80	Score 80-90	Score 90 Plus
1	Accounting Process (Journal, Ledger, Trial Balance, Cash Book & Subsidiary Books)					
2	Bills of Exchange & Promissory Notes					
3	Rectification of Errors					
4	Bank Reconciliation Statement					
5	Depreciation					
6	Inventories					
7	Final accounts of Sole Proprietors					
8	Financial Statements of Not for Profit Organization					
9	Accounting from incomplete records					
10	Company Accounts – Shares Issue, Forfeiture, Issue of Debenture					
11	Bonus & Right Issue					
12	Redemption of Preference Shares					
13	Redemption of Debentures					
14	Partnership – Introduction, Goodwill, Admission, Retirement & Death					
15	Dissolution of Partnership Firm including piecemeal distribution					
16	Accounting – Theoretical Framework					

1

Accounting Process

Introduction

Every individual performs some kind of economic activity. A salaried person gets salary and spends to buy provisions and clothing, for children's education, construction of house, etc. A business run by an individual or a group of individuals, Governments, either central or State, all are carrying some kind of economic activities. Not necessarily all the economic activities are run for any individual benefit; such economic activities may create social benefit i.e. benefit for the public, at large. Anyway such economic activities are performed through **'transactions and events'**. A Business dealing, which can be measured and expresses in terms of money is called transaction while event is used to mean 'a happening, as a consequence of transaction(s), a result.'

An individual invests ₹ 2,00,000 for running a fast food business. On 1st January, he purchases goods for ₹ 1,15,000 and sells entire goods for ₹ 1,47,000 during the month of January. He pays shop rent for the month ₹ 5,000. The individual performs an economic activity. He carries on a few transactions and encounters with some events. Is it not logical that he will want to know the result of this activity?

We see that the individual, who runs the fast food business, earns a surplus of ₹ 27,000.

Particulars	₹	₹
Goods sold		1,47,000
Less : Goods purchased	1,15,000	
Shop rent paid	5,000	(1,20,000)
Surplus		27,000

Earning of ₹ 27,000 surplus is an event; also having the inventories in hand is another event, while purchase and sale of goods, investment of money and payment of rent are transactions.

Everybody wants to keep records of all transactions and events and to have adequate information about the economic activity as an aid to decision-making. Accounting discipline has been developed to serve this purpose as it deals with the measurement of economic activities involving inflow and outflow of economic resources, which helps to develop useful information for decision-making process.

The aim of accounting is to meet the information needs of the decision- makers, and thus, called the

Meaning of Accounting:

According to AICPA (American Institute of Certified Public Accountant), "Accounting is," the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof".

From the above, it is clear that accounting refers to:

1. a procedure of writing financial transactions and events.
2. a system of recording, classifying, summarizing, analyzing, interpreting & reporting periodically, in terms of money, which provides necessary financial information.

The said financial information is used for taking necessary and proper decisions about the allocation of economic resources.

Accounting accumulates data systematically and supplies the necessary information to the users of financial statements by which the users can take proper economic decisions and also may make proper predictions, i.e., in short, it conveys financial information about an entity for a specified period.

Important Terms:

1. Double Entry System

Double entry system of accounting is more than 500 years old.This system was invented by an Italian merchant named Fra Luco Pacioli in 1494 A.D.

According to this system, every transaction has got a two-fold aspect (dual aspect), i.e., one party giving the benefit and the other receiving the benefit and it has effect of opposite nature on two financial items. Information of one financial nature at one place is known as an account which is divided into two sides, debit and credit. In short, one account is to be debited and another account is to be credited for every transaction in order to have a complete record of the same. Therefore, every transaction affects two accounts in opposite direction.

For example, if goods are sold to Mr. A on credit, the same will affect goods/sales account and A's account and entries will be made in opposite direction in these two accounts.

This system is called Double Entry System since it keeps records for every transaction in two accounts. Therefore, the basic principle, under this system, is that for every debit there must be a corresponding credit or vice-versa.

2. Transaction

A Business dealings, which can be measured and expresses in terms of money and must be recorded in the books of account, is called a 'transaction'.

In a transaction there must be some monetary change between the parties. In every transaction there are always two parties and one of which must be the Entity in whose books, accounting is being done.

In other words, the meaning of a transaction is to receive and give, one party receives and other party gives. This give and take can be of Cash, Property, Goods, Services and benefits etc which has monetary value The receive & give may take place at the same point of time known as cash transaction or at different point of time known as credit transaction.

3. Event

Event is happening of something, as a consequence of transaction(s), which has financial effect on the entity. Example. A fire destroys furniture, Inventory at the end of the year, Profit for the period etc.

4. Goods

Goods in accounting means items which are purchased for resale or consumption in the process of production. Whether it is goods or not should be viewed from entities view point. Example. Table-chair for a furniture dealer is goods but for others it will be fixed Asset.

Sales account & Purchase accounts are of goods only. Instead of preparing goods a/c, we prepare Purchase a/c, Sale a/c etc. to get full information. Which are treated as nominal a/c.

5. Assets

Assets is what belongs to entity, what it owns, and which is valuable. It may be in the nature of property like Land, Building, Goodwill etc. or in the nature of rights (right to receive money or money's worth) like debtors, Bills receivable etc.

6. Liability

Liability is what the entity owes to others i.e. liable to give/pay something to others. Capital & Reserves though appears on liability side of Balance sheet but are part of owners' equity & are commonly viewed distinctly from liability towards outsiders. Liabilities are like creditors, Loans taken, expense payable, advance received etc.

7. Expense/Revenue Expenditure

The value/price/charges of goods, services & other benefits received by an entity is an expense. These are the charges benefit of which is usually enjoyed or consumed within an accounting year. Example. Salary paid, Purchases, Discount allowed, Rent expense etc.

8. Income/Revenue

The value/price of goods, services & others benefits which entity gives/provides to others is the income. Income is earned from the usual activity (ordinary activity) by the enterprise. Example: Fees received, Sales, Discount received, Interest income etc.

9. Capital

It generally refers to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses known as profit or loss are taken into capital account.

- Expenses: These represent those accounts which show the amount spent or even lost in carrying on operations.
- Incomes: These represent those accounts which show the amounts earned by the enterprise.

Account

Every transaction must be recorded in two accounts in the ledger which is done after proper classification of all transactions. Complete records are also to be made by posting the transactions in different accounts.An account has two sides, viz. debit -- the left hand side and credit -- the right hand side. In simple words if we record one type/one nature of information at one place it is called an account. So an account gives information about one particular item of asset, liability, expense, loss, income etc.

Classification of Accounts

Traditionally all accounts are broadly classified into two heads: (a) Personal Account and (b) Impersonal Account. The Impersonal Account may further be sub-divided into (i) Real Account, and (ii) Nominal Account. So, accounts can be classified into Personal, Real and Nominal.

a) Personal Account:

It deals with the accounts relating to persons and takes the following forms-

- Natural Person: e.g. the name of an individual, the suppliers and buyers, say, Ram, Shyam etc.
- Artificial Person or legal or Notional Person: e.g. Bank, Firm, Association, Company etc.
- Representative Personal Account: e.g. Outstanding liabilities for Rent, Salary etc, i.e. Rent Payable a/c etc.
- Capital a/c is also a personal a/c. It is the account of owner. Similarly Drawings a/c is also a personal a/c of owner.

b) Real Account:

It stands for properties and assets which are broadly classified as tangible and intangible e.g. Plant, Cash, Land, Building etc. are tangible real a/c, whereas goodwill, patent, trade mark etc. are intangible assets.

c) Nominal Account

Accounts which relate to expenses, losses, gains, revenue, etc. like salary account, interest paid account, and commission received account. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are, therefore, temporary.

Forming Entry

a) **Golden Rule of Accounting -** Deciding Entry by using classification of Accounts

All the above classified accounts have two rules each, one related to Debit and one related to Credit for recording the transactions which are termed as golden rules of accounting, as transactions are recorded on the basis of double entry system.

Types of Account	Account to be Debited	Account to be Credited
Personal Account	Receiver	Giver
Real Account	What comes in	What goes out
Nominal Account	Expense and losses	Income and gains

b) **Modern Classification of Accounts** - Forming an entry using the Nature of an Account

Here one should keep in mind that Asset, Expenses have debit balance and liability, income and capital account have credit balance. And further remember that Debit - Debit figures in same account will be added, Credit - Credit figures will be added but debit and credit figures will be subtracted from each other just like (+) & (-) in mathematics

Types of account	Normal balance of account	Account to be debited when there is:	Account to be credited when there is:
Asset account	Debit	Increase	Decrease
Liabilities account	Credit	Decrease	Increase
Capital account	Credit	Decrease	Increase
Income account	Credit	Decrease	Increase
Expense account	Debit	Increase	Decrease

OR

Entries made on the basis of nature of Account

Nature of A/c.	Type of A/c.	Balance in the Account is	Effect of the transaction on it	
			Increase in it	Decrease in it
Assets	Real or Personal	Dr.	Dr.	Cr.
Capital	Personal	Cr.	Cr.	Dr.
Liability	Personal	Cr.	Cr.	Dr.
Expense	Nominal	Dr.	Dr.	Cr.
Income	Nominal	Cr.	Cr.	Dr.

c) **Transfer Entries:**

When an account is to be transferred (i.e. it is being reduced/nullified) to some other a/c, the entry can be formed as follows:

If an account having debit balance is to be transferred. Then credit this account and debit the account where it is to be transferred. Ex. Salary Expense account ₹ 5,000 transferred to P&L account.

P & L A/c. Dr. 10,000
To Salary Expense A/c 10,000

Similarly if an account having credit balance is to be transferred. Then debit this account and credit the account where it is to be transferred. Ex. Interest Income account ₹ 1,000 transferred to P&L A/c.

Interest Income A/c. Dr. 1,000
To P & L A/c 1,000

d) Reversal Entries:

When an information is just a reversal/cancellation of an earlier transaction, then its entry can be formed as follows:

Sometimes a transaction is not a new transaction rather it is the cancellation of some earlier transaction. In such cases simply reverse the original entry

For example – Cheque received from Satish deposited in Bank ₹ 10,000.

Bank A/c. Dr. 10,000
To Satish A/c 10,000

Later on we got the information that above cheque is dishonored. Then simply reverse the above entry

Satish A/c. Dr. 10,000
To Bank A/c 10,000

Books of Account

Books of account can be classified in to following two category:

a) Books of entry: (also known as Subsidiary book, book of original entry or prime book of entry)
b) Ledger: (also known as Principle book, book of 2nd entry)

a) Books of Entry

It is book of 1st entry in which transactions are recorded date wise, in the chronological order of their happening. Every transaction will be recorded in any one book of entry. There are many books of entry which can be prepared. Which books of entry are to be prepared depends upon the size of the business, nature of business and volume of transactions. If it is very small business we may prepare only Journal or Cash book & Journal. If the size grows we may prepare other books of entry also. Example: Sales book, Purchase book, Return books, Bills Payable book, Bills Receivable book. Whichever may be book of entry, double entry effect (i.e. debit & credit) will be always there, & it will be always same.

Important Books of Entry Are As Follows -

Cash Book

1. **Single Column Cash Book**
   - All cash transactions i.e. receipts & payments will be recorded in the cash book.
   - Cash book will be prepared in the form of an account having debit and credit side.
   - Receipt will be recorded on the debit side and payments on the credit side.
   - The cash book itself serves the purpose of cash A/c & hence we don't have to prepare separate cash A/c in Ledger.

   Posting:

   - The receipt side items will be posted on credit side in respective accounts in ledger.
   - Payment side items will be posted on debit side in respective account in ledger.
   - Only one posting is made because cash book itself is also a cash account & hence when we write an entry on receipt side it means cash a/c is debited &
   - when we write an entry on payment side it means cash a/c is credited.
   - Balance of Cash a/c is cash balance & will be taken in Trail balance

2. **Double Column Cash Book**
   - We can make cash book with two columns, one for cash transactions & other for Bank transactions.
   - All deposits into & withdrawal from the bank will be recorded in bank column, & this itself is a bank a/c also.
   - No need to prepare now Cash & Bank a/c in ledger.

   Posting:

   - Posting from Bank column & cash column is made in the same way as explained in case of cash book.
   - Balance of Cash and Bank columns will come in Trial balance as cash and bank balances.

   a) Double column cash book can be of the following three types i) Cash & Bank column ii) Cash & discount column iii) Bank & discount column
   b) The discount columns are opened when the transactions involving discount allowed & discount received are frequent.
   c) Discount allowed will be entered on debit side and discount received on credit side. Posting to other accounts will be the cash/bank amount plus discount.
   d) Unlike Cash & Bank column, discount column is not treated as an account & hence total of discount column is posted in Discount account in ledger.

3. **Triple Column Cash Book:**
   - It will have three columns on both sides for cash, bank & discount.
   - Entry in this book & posting to ledger accounts will be same as mentioned above.

Cash column i.e. Cash account will always have debit balance but Bank column i.e. bank account can have either debit or credit balance.

4. Petty Cash Book

- This is to be prepared to record the petty (small) expenses, which are incurred frequently.
- On the payment side the amount is classified into various columns depending upon the account to which it has to be debited.
- The columns can be for conveyance expenses, postage, repairs & maintenance, printing & stationery, salary, wages and so on.
- It is also known as analytical cash book.
- In petty cash book receipt will be from main cash book.

Posting:

- The total of this columns is debited to respective expense accounts in the ledger after a specific period may be monthly, weekly etc.
- The Balance of petty cash book (i.e. receipts (-) payments) shows the balance of cash in hand which will be shown in Trial balance.

5. Imprest System

- An amount is fixed which is given to petty cashier who meets expenses out of it & periodically or when the amount is spent, he takes reimbursement from main Cashier exactly equal to amount spent hence his cash balance again becomes equal to fixed imprest amount.
- This is the upper limit of cash which petty cashier can have.
- It is a version of Petty cash book only.
- Example: Imprest amount is fixed at ₹ 1000. Petty cashier has spent ₹ 785 in that period, thus he has balance of ₹ 215. Now he will get reimbursement from main cashier ₹ 785, thus his balance will again become ₹ 1000/-

Other Subsidiary Book

1. Sales Book

- The Sales Day-Book is a register specially kept to record credit sales of goods dealt in by the firm,
- Cash sales are entered in the Cash Book and not in the Sales Day Book.
- Credit sales of things other than the goods dealt in by the firm are not entered in the Sales day Book; they are journalised.
- For accounting, Goods means only those items in which the particulars concern is doing business i.e. purchasing & selling it.
- It is a subsidiary book/subsidiary journal & posting is made from it to the sales account and accounts of the customers.

Posting:

- The total of sales register is Credited to sales a/c periodically say monthly.

- And individual amounts are Debited to respective parties (debtors) a/c.

a) Sales Account is a final record and postings are made to it from Cash Book (Cash sales) and Sales Day Book (credit sales)
b) Sales Account is maintained in the ledger in the manner, the other accounts are maintained
c) Sales Account is a nominal account and its balance is used for ascertaining gross profit or gross loss.

2. Purchase Book

- All credit purchases of goods are recorded in purchase book.
- Cash purchases are entered in the Cash Book and not in the Purchases Day Book.
- Credit purchases of things other than the goods dealt in by the firm are not entered in the Purchases day Book; they are journalised.
- It is a subsidiary book/subsidiary journal & posting is made from it to the purchases account and accounts of the suppliers.

Posting:

- The total of purchase register is Debited to purchase a/c periodically say monthly &
- individual amounts are Credited to respective parties (suppliers) a/c.

Cash sales & Cash Purchases will be recorded in Cash Book. And credit sales & credit purchase of Assets will be recorded in Journal. Comments for sales account made above equally apply to purchase account

3. Others

- Similarly Purchase Return Register, Sales Return Register, can be prepared if number of such transactions are large.
- The procedure of preparing such books & posting from them is exactly similar to that seen for sales book & purchase book.

Journal

- The remaining transaction which cannot be recorded in any of the above books will be recorded in journal.
- In journal normally following types of entry will come:
  - Opening entries (Previous years assets & Liabilities are brought forward),
  - Closing entries (Making provisions, adjustments & transferring all incomes & expenses in to Trading & Profit & Loss account)
  - Transfer entries, Rectification entries, credit sale/Purchase of fixed assets, Investment etc.

a) If any of the above books mentioned are not maintained then the entries related to that book will also be recorded in Journal.
b) From each entry debit and credit both will be posted in to respective accounts in ledger

Journal Entries In the Books of ....

Date	Particulars	LF	Debit ₹	Credit ₹

b) Ledger (also known as Principle book, book of 2nd entry)

- All accounts are opened in a separate register known as a ledger
- only exception is cash & Bank a/c. which are not prepared in ledger because cash & Bank book itself is cash & Bank account also (when Cash cum Bank Book is prepared).
- All other books are only books of entry they are not ledger accounts.
- Hence when we enter a transaction in a book of entry, we decide/write which account should be debited & which account should be credited.
- but actual debit & credit gets completed only when we write the amount from this books to respective accounts in ledger on debit or credit side as the case may be.
- This process of writing the amount from books of entry to ledger account is known as 'posting'.

Posting:

- Each account will have two sides, left hand side is known as debit side & right hand side as credit side.
- If the amount is written on debit side that means that account is debited &
- if written on credit side means that account is credited.
- All these accounts are then totaled & balanced.
- All the accounts which are having balances either debit or credit are listed on a statement known as Trial Balance.
- With the help of this Trial Balance, Final accounts namely Trading & P & L A/c and Balance sheet is prepared.

Ledger Account

Dr. **Cr.**

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
	To To				By By		

Trial Balance

Trial balance can be prepared in following three ways:

a) **Total method:** Under this method, every ledger account is totalled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totalled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as it cannot help in the preparation of the financial statements.

b) **Balance method:** Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts

c) **Total & balance method:** Against each account the total of debit side and credit side as well as balance either debit or credit will be mentioned.

Other Special Points:

1. **[RTP Nov. 2018 & Nov. 2020]** Accrual basis of accounting (Mercantile system of Accounting) & cash basis of accounting:

   A transaction is recognized when either a liability is created (i.e. when goods/services/benefits or properties are received) and/or an asset is created (i.e. when goods/services/benefits or properties are given). Whether payment is made or received is immaterial in accrual basis accounting. Accrual basis of accounting is also known as mercantile basis of accounting.
   On the other hand, cash basis of accounting is system of accounting by which a transaction is recognized only if cash is received or paid, no entry is being made when a payment or receipt is merely due.

   Accrual basis accounting is the only generally accepted accounting method for business entities which are supposed to operate for long period. Cash basis accounting is suitable for short duration ventures.

   All the chapters which you will study are on accrual basis only exception may be joint venture.

2. **Trade discount & Cash discount:**

   - Trade discount is a discount on the selling price for bulk purchase or for purchasing above a minimum quantity or is offered generally to regular customers. .
   - It is also called quantity discount.
   - This is a technique of sales promotion.
   - It is generally determined at the stage of sale itself & is deducted from the sale/ purchase value & hence doesn't appear separately in the Books of a/cs & Final a/cs.
   - Cash discount is the discount offered by the supplier in consideration of early or timely payment.
   - It may vary with the period of payment.
   - It is accounted as a separate item & appears in the Profit & loss a/c.
   - Cash discount is usually given at the time of payment/receipt as against trade discount is given at the stage of sale/purchase.

3. Debit Note & Credit Note

a) Debit Note : A debit note is a statement sent by one party to the other stating/informing him that his account has been debited with a specified amount and the reason for debit. A debit note is sent to the supplier when the goods purchased from him are returned (purchase return) or for discount to be received from him or for any expenses incurred for him.

Entry: In the books of sender of Debit note	In the books of receiver of Debit note
Party (to whom it is sent) a/c Dr.	Sales return/Discount allowed etc. a/c Dr
To Purchase return/Discount received etc.	To Party (who sent it) a/c

b) Credit Note: A Credit note is a statement/letter sent by one party to the other stating/informing him that his account has been credited with a specified amount and the reason for credit. A credit note is sent to the customer when we receive good returned by them or for discount to be allowed to him or for any expenses incurred for us by him.

Entry: In the books of sender of Credit note	In the books of receiver of Credit note
Sales return/Discount allowed etc. a/c Dr.	Party (who sent it) a/c Dr.
To Party (to whom it is sent) a/c	To Purchase return/Discount received

CLASS QUESTIONS

ENTITY CONCEPT – BUSINESS Vs. PERSONAL TRANSACTIONS

C.1. Mr. Saurabh carries on business as a stationary dealer under the name of Creative stores. State which of the following are transactions to be recorded in his business books.

a) Cash Sales
b) Sales to S.P Stores on credit
c) Purchases Sarees from Gupta Sons
d) Paid rent to Landlord where Saurabh resides, from his personal bank a/c
e) Used Stationery for domestic Purposes
f) Stationery given from shop to I.P. stores from whom utensils taken for home
g) Paid stock Insurance Premium by cheque
h) Wife's life Insurance Premium ₹ 200/- paid to L I C. from Creative stores
i) Sent Cash to Bank
j) Exchanged old domestic furniture for new furniture for shop
k) Borrowed ₹ 10,000 from Mrs. Saurabh @ 9% p.a. for shop.
l) Withdrawn from shop for domestic use ₹ 200.
m) Paid salaries of domestic servant from shop.

C.2. Manoj carries on business as a cloth dealer. State which of the following are transactions to be recorded in his business books.

a) He purchases a perambulator for his son.
b) He employs a typist for official correspondence and pays him ₹ 450 P.M.
c) He buys a showcase for ₹ 350.
d) He sells old domestic furniture for ₹ 300.
e) He purchases cloth ₹ 15,000.
f) He buys a Cash Register Machine for ₹ 15,000.
g) He purchases domestic utensils for ₹ 200 for which he gives clothe from the shop.
h) He takes cloth ₹ 25 for use at home.
i) He pays salary to his domestic servant, ₹ 50 from private funds.
j) He takes a loan of ₹ 10,000 from a friend for the marriage of his daughter.

CLASSIFICATION OF ACCOUNTS

C.3. State whether the following accounts are Real, Personal or Nominal:

a) Capital account
b) Drawings account
c) Bad debt account
d) Debtors account
e) Stock account
f) Cash account
g) Goods account
h) Purchase account
i) Sales account
j) Interest account

k) Salary outstanding account
l) Discount account
m) Loss by fire account
n) Printing and stationery account
o) Bank of India account
p) Mr. Banerjee account
q) ABC partnership firm account
r) Building account
s) Investment account

C.4. Classify the following accounts into Personal, Real and Nominal.

a) Cash Account
b) Wages Account
c) Building Account
d) Calcutta Tramway Co. Account
e) East Bengal Club Account
f) Rent Account
g) Capital Account
h) Drawings Account
i) Interest Account
j) Trade Mark Account
k) Bills Receivable
k) Dividend Account
l) Land Account
m) Goodwill Account
n) Patent Account
o) Bad Debts Account
p) Bank Account
q) Discount Allowed Account
r) Interest Received Account
s) Discount Received Account
t) Salary Payable

IDENTIFICATION OF ACCOUNTS IN A TRANSACTION

C.5. Mention the accounts affected in the following transaction:

a) Cash Sales
b) Sales to S.P Stores on credit
c) Purchases from Gupta Sons
d) Paid rent to Landlord
e) Used Goods for domestic Purposes
f) Bought Postage stamps
g) Sent Cash to Bank
h) Received cheque from Bimal on account
i) Cash received from S.P Stores
j) Goods received back from S.P Stores
k) Incurred advertising, ₹ 250; paid cash ₹ 100 and goods given for balance.
l) Installed a small printing machine at a cost of ₹9,500; paid by cheque.
m) Repairs to furniture ₹ 100.
n) Received cash from M/s. Mohanlal & Co., ₹ 1470; allowed them discount, ₹ 30.
o) Issued cheque for ₹ 5,500 in full settlement of ₹5700 to M/s Rao & Murty.
p) Received ₹ 10,000 as loan from Mr. Sanjay

C.6. Mention the accounts affected in the following transaction:

a) Bought goods of Pran
b) Sold goods to Somnath
c) Paid rent by cash
d) Received cash from Premnath
e) Received commission in cash
f) Paid salaries in cash
g) Purchased furniture from Deodas
h) Sold Machinery to Devanand
i) Received cash from Sharmaji
j) Paid Cash to Saurabh.
k) Cash sales to Mr. A.
l) Purchases from 'B' & paid cash.
m) Salary payable to 'C'.

CLASSIFICATION OF EFFECT OF PAYMENT

C.7. Which of the following payments are assets, which expenses and which are losses.

a) Paid rent to Landlord
b) Paid Insurance Premium by cheque
c) Issued cheque in favour of Gupta Sons for supply of Furniture
d) Issued cheque in favour of Sharma Bros. in full settlement of damages claimed by them.
e) Installed a small printing machine at a cost of ₹9,500; paid by cheque.
f) Repairs to furniture ₹ 100 paid in cash.
g) Paid salaries.
h) Purchases Trade mark and Patent. Payment made by cheque.
i) Paid for purchase of office stationery.
j) Paid compensation to injured employees.
k) Bought goods for cash.
l) Paid loading & installation charges for machinery.

C.8. Which of the following payments are assets, which expenses and which are losses.

a) Purchasing typewriters.
b) Acquiring trademarks.
c) Paying salaries.
d) Compensation to injured workers.
e) Paying Interest.
f) Securing a lease of land for 20 years.
g) Paying Rent.
h) Advertising.
i) Stationery.
j) Patents.
k) 'Theft of cash'
l) Purchases of goods

CLASSIFICATION OF EFFECT OF RECEIPT

C.9. Which of the following receipts are incomes?

1. Cash Sales
2. Received cheque from Kewal in full settlement of old machinery sold to them.
3. Received cheque from Bimal on account
4. Cash received from S.P Stores for goods supplied
5. Borrowed ₹ 10,000 from MR. Pearey Lal @ 9% p.a. Money put in Bank.

6. Received cash from M/s. Mohanlal & Co., being amount due for sales on credit.
7. Received ₹ 550/- from Ramdeo being interest.
8. Received ₹ 990/- on account of commission
9. Received back ₹ 10,000 as loan given to Mr. Sanjay.
10. Cash withdrawn from Bank.

C.10. Which of the following receipts are incomes?

a) Interest on loans.
b) Repayment of a loan.
c) Sale of Building.
d) Rent for premises sublet.
e) A loan taken from a bank.
f) Sale of goods

JOURNAL ENTRIES

C.11. Explain that each of the following transactions has two fold effect?

a) Paid ₹ 650/- to Jaideo
b) Received ₹ 550/- from Ramdeo
c) Paid ₹ 350/- toward interest
d) Received ₹ 990/- on account of commission
e) Bought goods worth ₹ 1,600/- for cash
f) Bought goods worth ₹ 1,650/- on credit from Somdeo
g) Sold goods worth ₹ 1,700/- on credit to Namdeo
h) Paid loading charges ₹ 10
i) Received ₹ 10,000 as loan from Mr. Sanjay
j) Paid for office cleaning ₹ 60

PREPARING JOURNAL

C.12. Journalize the transactions given below in the books of Kohli.

2022 April:

1. Kohli starts business with ₹ 25,000. Kohli opens account with bank and deposits ₹ 18,000.
2. Kohli purchases furniture, ₹850 and typewriter, ₹1500. Payment made by cheque.
3. Goods purchased from M/s. Rao and Murty on credit, ₹ 5,600.
4. Goods purchased from M/s. Khan & Singh for cash, ₹ 1,100.
5. Goods sold on credit to M/s Mohan Lal & Co. ₹ 1500/-
6. Goods sold on credit to M/s Basu & Co., ₹ 2,800/-
7. Paid for office stationery, ₹ 250/-
8. Paid rent for April, ₹ 200/-
9. Installed neon sign at a cost of ₹ 1,000.
10. Received cash from M/s. Mohanlal & Co., ₹ 1470; allowed them discount, ₹ 30.

11. Issued cheque for ₹ 5,500 in full settlement (i.e. nothing more is due them) to M/s Rao & Murty.
12. Deposited ₹ 1,200 in bank.
13. Received bill for two table fans, ₹ 300, from M/s Electrician Bros.
14. One electric fan stolen.
15. Paid insurance premium, ₹ 450, by cheque.
16. Insurance Premium ₹ 200/- paid to L I C.

C.13. Pearey Lal was carrying on business as a stationery merchant. On 1st January, 2022 his assets and liabilities were as under:

Assets: Furniture and Fixtures ₹ 2,400; Stock of Stationery ₹ 35,600; Cash at Bank ₹ 3,500; Cash in Hand ₹ 400; due from Bimal ₹1,600; Due from Kewal ₹ 800.

Liabilities: Due to Landlord (Decembers rent), ₹ 150; Due to Sharma Bros. ₹ 1,400: Due to Gupta Sons, ₹ 550. Prepare Journal.

The Transactions during January 2016 were:

2	Cash Sales	150
2	Sales to S.P Stores on credit	450
3	Purchases from Gupta Sons	380
4	Paid rent to Landlord (for December 2015)	150
	Used Stationery for office	60
	Used Stationery for domestic Purposes	20
6	Sold Stationery to I.P. College on Credit	250
	Bought Postage stamps	15
7	Paid Insurance Premium by cheque	350
	Received cheque from Kewal in full settlement	780
9	Issued cheque in favour of Gupta Sons in full settlement of the amount due on 1st Jan. 540	
10	Cash Sales	600
11	Sent Cash to Bank	500
	Received cheque from Bimal on account	1000
	Cash received from S.P Stores	430
	Goods received back from S.PStores	20
13	Bimal's Cheque returned dishonoured.	
	Issued cheque in favour of Sharma Bros. in full settlement.	1350
15	Sales on credit to Kewal	500
16	Cheque in favour of Sharma Bros. returned dishonoured because of improper rubber stamp.	
17	Incurred advertising, ₹ 250; paid cash ₹ 100 and stationery given for balance.	
20	Exchanged old furniture for new; price of new furniture ₹ 600; value of old furniture ₹ 200 (cost ₹ 350); balance paid in cash.	
22	Bimal declared insolvent; 40% received against amount due from him.	

	Sent cheque to Sharma Bros. ₹1400/-.
23	Kewal claims ₹ 50 as special allowance because of defect in goods: allowance agreed to.
25	Borrowed ₹ 10,000 from Mrs. Pearey Lal @ 9% p.a. Money put in Bank.
	Installed a small printing machine at a cost of ₹9,500; paid by cheque.
	Repairs to furniture ₹ 100.
28	Cash sales ₹ 400. Paid Income Tax ₹ 100.
30	Withdrawn for domestic use ₹ 200. Amount drawn from bank for office use ₹600/-.
31	Paid salaries, ₹250. Amount due to Landlord as rent for January ₹150.

CASH BOOK

C.14. [Single Column Cash Book] Anand starts business with ₹ 10,000 on 1st July, 2022 of this he pays ₹ 9,000 into his bank account. His cash transactions during the first week were.

July 1		₹
	Purchased Stationery, paid cash	40
	Purchased goods for cash	650
	Purchased office Table and Chair	200
2	Cash Sales	150
3	Received from Gopal, cash as Advance	200
4	Paid to Sethi & Sons, cash	140
5	Paid for signboard	130
6	Cash Sales	160
7	Purchased old Typewriter	300

C.15. [Double column Cash book] From the following transactions prepare the Cash Book with cash and discount columns:

Aug. 2022		₹
1	Opening cash balance	2500
3	Received from D & Co. ₹ 1,350 in full settlement of ₹ 1,400	
4	Received for cash sales	1250
5	Paid to Rajesh & Co. ₹ 775 in full settlement of his account for	800
7	Purchased office furniture	670
13	Paid for postal stamps	25
15	Paid for office rent for month of July, 2016	125
17	Used office cash for meeting personal expenses	150
19	Sold goods on credit to Mr. Faithful	1700
20	Paid to Rajnikant ₹ 670 in full settlement of his account for ₹ 700	
20	Deposited in the Bank all cash in excess of ₹ 1,200.	

C.16. [Triple Column Cash book] Writhe up a three column cash book from the following

Sept 2022		₹
1	Cash balance	1,700.00

	Bank overdraft	5,600.00
5	Received from Dinanath cash ₹ 750 and a cheque of ₹ 860 in full settlement of ₹ 1650	
7	Paid for office rent by cheque	500.00
8	Paid for wages in cash	250.00
9	Sold goods for cash ₹ 1500 and received half the amount in cash and half by cheque which is deposited in the bank	
10	Bank pass book states that the bank has collected interest on investment	660.00
12	Cheque received on 5th paid into bank	
15	Transferred ₹ 3000 from fixed deposit to Current account	
20	Drew for personal use cash ₹ 250 and a cheque of ₹ 375	
25	Made cash purchase and paid by cheque ₹ 1595	
30	Paid Dinesh ₹ 800 by cheque	

C.17. Enter the following transactions in a three column cash book of M/s. Barket & Co.

April, 2022

1	Cash on hand ₹237; Balance at bank ₹6,594.
2	Received from K. Agrawal cash ₹590, allowed him discount ₹10.
4	Paid salaries for March by cash ₹200. Cash sales, ₹134.
5	Paid B.K. Bose by cheque ₹300. Cash Purchases ₹60.
7	Paid Q. Ahmad by cheque ₹585; discount received 2 1/2%.
8	Cash Sales ₹112. Paid cartage and coolie ₹6.
10	Paid rent in cash ₹50
14	Cash Sales ₹212. Received from G.C. Dhar ₹ 194 by cheque discount 3%.
16	Deposited into Bank ₹600. Purchased a motor car for ₹5,800 and drawn a cheque for the amount
23	Received a cheque from Robert & Co. for ₹291; discount received 3%.
28	Cash Sales ₹298.
29	Bank notifies that Robert & CO's cheque has been dishonoured.
30	Deposited with Bank ₹300. Paid wages ₹72. Bank charges as shown in Pass Book ₹5.

C.18. **[Petty Cash Book]** Enter the following transactions in a columnar Petty Cash Book kept on the Imprest System and balance the cash book. Also post the transaction to the respective ledger accounts.

Jan 2022		₹
1	The Petty Cash received by cheque	300.00
2	Carriage	4.00
3	Coolie charges	5.50
6	Postal stamps	17.75
8	Revenue stamps	4.50
10	Bought stationery for office use	14.90
13	Bought envelopes	9.40

17	Safety pin box	5.00
19	Printing bill	25.00
23	Traveling expenses to salesman	45.25
25	Subscription to Economics Times	10.50
26	Bus Fare	17.00
27	Railway fare for sale executive	35.60
28	Tea to office staff	31.40
30	Paid advertising bill	10.25

SUBSIDIARY BOOKS

C.19. [ICAI - Purchase Book] The Rough Book of M/s. Narain & Co. contains the following:

2022

Feb. 1. Purchased from Brown & Co. on credit :
5 gross pencils @ ₹100 per gross
1 gross registers @ ₹ 240 per doz
Less : Trade Discount @ 10%

2. Purchased for cash from the Stationery Mart
10 gross exercise books @ ₹ 300 per doz

3. Purchased computer for office use from M/s. office
Goods Co. on credit for ₹ 30,000.

4. Purchased on credit from The Paper Co
5 reams of white paper @ ₹100 per ream.
10 reams of ruled paper @ ₹150 per ream.
Less : Trade Discount @ 10%

5. Purchased one dozen gel pens @ ₹15 each from M/s. Gupta Bros. on credit
Make out the Purchase Book of M/s. Narain & Co

C.20. [ICAI - Purchase Book] Enter the following transactions in Purchase Book and post them into ledger

2022

April 4 Purchased from Ajay Enterprises, Delhi
100 Doz. Rexona Hawai Chappal @ ₹120 per doz
200 Doz. Palki Leather Chappal @ ₹300 per Doz
Less : Trade discount @ 10%
Freight charged ₹150.

April 15 Purchased from Balaji Traders, Delhi
50 doz. Max Shoes @ ₹400 per doz.
100 pair Sports Shoes @ ₹140 per paid
Less : Trade discount @ 10%
Freight charged ₹200

April 28 Purchased from Tripti Industries, Bahad

40 pair leather shoes @ ₹400 per pair
100 doz. Rosy Hawai Chappal @ ₹180 per doz
Less : Trade discount @ 10%.
Freight charged ₹100.

C.21. **[ICAI - Sales Book]** The following are some of the transaction of M/s Kishore & Sons of the year 2022 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Gupta on credit: 30 shirts @ ₹ 800 per shirt.
20 trousers @ ₹1,000 per trouser.
Less : Trade Discount @ 10%
Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.
Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.
Sold 13 shirts to Cheap Stores @ ₹750 each for cash.
Sold on credit to M/s. Mathur & Jain. 100 shirts @ ₹750 per shirt
10 overcoats @ ₹5,000 per overcoat
Less: Trade Discount @ 10%

C.22. **[ICAI – Return Outward Book]** Post the following into the ledger.

Returns Outward Book

Date 2020	Particulars	L.F.	Details ₹	Amount ₹
Nov. 20	Rajindra Prakash & Sons One 36" Usha Ceiling Fan		200.00	
	Less : Trade Discount @ 10%		(20.00)	180.00
" 30	Modern Electric Company			100.00
	Total			280.00

C.23. **[ICAI]** 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
04.01.2022	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹ 1,000.
09.01.2022		Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹ 400.
16.01.2022	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹2,600.
30.01.2022		Returned one computer (being defective) @ ₹35,000 to B & Co.

C.24. **[Multiple Books of Entry]** Record the following transactions in the proper subsidiary books as prepared for 2022. Sept.

1	Faithful invoiced us goods	2,200
2	Sold goods to Chandarana	950
3	Bought goods from Ramchandra	1,500

4	Sent invoice to Vijaya for goods	1,000
5	Returned goods to Ramchandra	50
8	Padmini purchased our goods	900
10	Received an Invoice from Rekha	1,600
14	Sent credit Note to Padmini for ₹100 for goods returned	-
17	Sold goods to Chanda for ₹900 less 10% trade discount	-
23	Vijaya returned goods to us	75
25	Returned goods to Rekha	300
28	Purchased Typewriter from NGDA	975
30	Bought goods from Hiralal for cash	1,450

LEDGER

C.25. **[ICAI]** Prepare the Stationery Account of a firm for the year ended 31.12.2020 duly balanced off, from the following details:

2020		₹
Jan. 1	Inventory of stationery	480
April 5	Purchase of stationery by cheque	800
Nov. 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

C.26. Prepare Journal & Ledger as it would appear in the books of Shri. K. Roy.

Date	Particulars	₹
1	Sold goods to Mr. Dasgupta	1,000
2	Received from Mr. Dasgupta	500
3	Purchased goods from Mr. Dasgupta	400
4	Paid to Mr. Dasgupta	300
5	Sold goods to Mr. Dasgupta	2,000
6	Allowed him discount	200
7	He returned goods valued	300
8	Received cash from Mr. Dasgupta	1,000
9	Purchased goods from Mr. Dasgupta	1,000
10	Discount received from him	100
11	Goods returned to him	300
12	Paid to Mr. Dasgupta	500

C.27. **[ICAI]** Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 2020:

Cash in Hand ₹ 8,000, Cash at Bank ₹ 25,000, inventory of Goods ₹ 20,000, Building ₹ 10,000.
Trade receivables: Vijay ₹ 2,000 and Madhu ₹ 2,000.

Credit Balances on January 1, 2020:

Trade payables: Anand ₹ 5,000, Capital ₹ 55,000

Following were further transactions in the month of January, 2020:

Jan. 1	Purchased goods worth ₹ 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.
Jan. 4	Received ₹ 1,980 from Vijay and allowed him ₹ 20 as discount.
Jan. 8	Purchased plant from Mukesh for ₹5,000 and paid ₹100 as cartage for bringing the plant to the factory and another ₹200 as installation charges.
Jan. 12	Sold goods to Rahim on credit ₹600.
Jan. 15	Rahim became insolvent and could pay only 50 paise in a rupee.
Jan. 18	Sold goods to Ram for cash ₹1,000

C.28. **[ICAI]** The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2020.

1 Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.

4 Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.

5 Mr. S sold to Mr. H goods prices at ₹ 30,000.

17 Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹15,000.

18 Mr. S rejected 10% of Mr. R's goods of 4th April.

19 Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.

22 Mr. H cleared half his total dues to Mr. S, enjoying a $\frac{1}{2}$% cash discount (of the payment received, ₹ 20,000 was by cheque).

26 R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made

29 Close H's Account to record the fact that all but ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt

30 Balance R's Account

TRIAL BALANCE

C.29. **[ICAI – Total Method]** Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2020. You are required to prepare the Trial Balance by the Total Amount Method.

Dr. Cash Account Cr.

Particulars	₹	Particulars	₹
To Capital A/c	10,000	By Furniture A/c	3,000
To Ram's A/c	25,000	By Salaries A/c	2,500
To Cash Sales	500	By Shyam's A/c	21,000
		By Cash Purchases	1,000
		By Capital A/c	500

		By Balance c/d	7,500
	35,500		35,500

Dr. Furniture Account Cr.

Particulars	₹	Particulars	₹
To Cash A/c	3,000	By Balance c/d	3,000
	3,000		3,000

Dr. Salaries Account Cr.

Particulars	₹	Particulars	₹
To Cash A/c	2,500	By Balance c/d	2,500
	2,500		2,500

Dr. Shyam's Account Cr.

Particulars	₹	Particulars	₹
To Cash A/c	21,000	By Purchases A/c	25,000
To Purchase Returns A/c	500	(Credit Purchases)	
To Balance c/d	3,500		
	25,000		25,000

Dr. Purchases AccountCr.

Particulars	₹	Particulars	₹
To Cash A/c (Cash Purchases)	1,000	By Balance c/d	26,000
To Sundries as per Purchases Book			
(Credit Purchases)	25,000		-
	26,000		26,000

Dr. Purchases Returns Account Cr.

Particulars	₹	Particulars	₹
To Balance c/d	500	By Sundries as per Purchases	500
	500	Return Book	500

Dr. Ram's Account Cr.

Particulars	₹	Particulars	₹
To Sales A/c (Credit Sales)	30,000	By Sales Returns A/c	100
		By Cash A/c	25,000
		By Balance c/d	4,900
	30,000		30,000

Dr. Sales Account Cr.

Particulars	₹	Particulars	₹

To Balance c/d	30,500	By Cash A/c (Cash Sales)	500
		By Sundries as per Sales Book (Credit sales)	30,000
	30,500		30,500

Dr. Sales Returns Account Cr.

Particulars	₹	Particulars	₹
To Sundries as per Sales Returns Book	100	By Cash A/c	100
	100		100

Dr. Capital Account Cr.

Particulars	₹	Particulars	₹
To Cash A/c	500	By Cash A/c	10,000
To Balance c/d	9,500		
	10,000		10,000

C.30. **[ICAI]** Taking the same information as given in C. 29, prepare the Trial Balance by **Balance Method.**

C.31. **[ICAI]** Taking the same information as given in C.29, prepare the Trial Balance by **Total & Balance Method.**

C.32. **[ICAI]** From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2022

Account Head	₹
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

COMPLETE BOOKS OF ACCOUNT

C.33. Enter the following transactions in the proper books of Indian Tobacco Co. Jan-22.
Assets: Leasehold premises, ₹18,000; Machinery ₹27,600; Stock of leaf tobacco, ₹51,900; Cash at Bank ₹7,620; Cash-in-hand, ₹860 due from Mohan & Co. ₹1,460; Due from Cavendish & Co. ₹1,260; Furniture ₹1,500;
Liabilities: Loan @6% ₹20,000 , due to Wilson & Grey 6,000

Jan-22	Transaction	₹
3	Drawn from Bank	1,500
4	Wages paid	1,435
7	Bought of Wilson & Grey 896 Kg. Borneo Leaf @ 4.00 per kg. 627 Kg. west Indian Leaf @ ₹3.50 per kg. Charges ₹47	
9	Returned 128 Kg. of West Indian Leaf as not being upto quality.	
10	Sales of Tea & Cigarettes & cash received	900
12	Paid customs duty by cheque	6,860
14	Cash purchases of tea	800
17	Sold to Mohan & Co. 75 Kg. Royal Mixture @ ₹20.00 per Kg. 20,000 Agromatic Cigarettes @ ₹50.00 per 1,000; 40 kg. Five Flakes @ ₹80.00 per kg.	
18	Paid Wilsom & Grey by cheque in full settlement of amount due on January 1.	5,850
18	Received from Cavendish & Co. by cheque in full settlement	1,235
19	Bought of Sharp Bros. & co. advertising posters	1,100
24	Northern Engine Co. Ltd. charge for repairing machinery paid cash	250
24	Sold to Cavandish & co. 10000 Agrometic cigarettes @ ₹50 per 1000	
25	Bought of John Barnes & Co. Indian Leaf, 1,120 Kg. @ ₹3.00 per kg.	
26	Received from Mohan & Co. on account cheque	2,000
27	Received for boiler parts sold (part of machinery)	300
27	Bank notifies that Cavendish & Co. cheque is dishonoured.	
28	Bought of Dele & Sons : Borneo Leaf 882 kg. @ ₹4.00 per kg. and Indian Leaf 560 kg. @ ₹3.00 per kg. Charges ₹7	
29	Paid for advertisements	230
31	Paid for repairs to furniture	30
31	Paid for Ground Rent	600
31	Drawn from Bank for private use	400
31	Bank charged interest for the month	35
31	Received intimation that Cavindish & Co. are insolvent, no possibility of recovering anything.	
31	Allow interest on capital @5% per annum.	
31	Allow interest on loan.	
31	Cigarettes taken for private use	10
31	Salaries for the month of January unpaid	2,000
31	Sold to Blunt & Co. 50 kg. Five Flakes @ ₹80; 10,000 Aromatic Cigarettes @ ₹52.00 per 1,000. Packing charges ₹30	

PRACTICE QUESTIONS

CLASSIFICATION OF ACCOUNTS

P.1. State whether the following accounts are Real, Personal or Nominal:

(a) Building;
(b) Purchases;
(c) Sales;
(d) Bank Fixed Deposit;
(e) Rent;
(f) Rent Outstanding;
(g) Cash;
(h) Adjusted Purchases;
(i) Closing Inventory;
(j) Investments;
(k) Trade receivables;
(l) Sales Tax Payable,
(m) Discount Allowed;
(n) Bad Debts;
(o) Capital;
(p) Drawings;
(q) Interest Receivable account;
(r) Rent received in advance account;
(s) Prepaid salary account;
(t) Bad debts recovered account;
(u) Depreciation account,
(v) Personal income-tax account.

JOURNAL

P.2. **[ICAI]** Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

2020 April		(` in 000)
1.	R started business with	5,000
2.	He purchased furniture for	1,200
3.	Paid salary to his clerk	1,100
4.	Paid rent	1,150
5.	Received interest	2,000

P.3. **[ICAI]** Journalise the following transactions. Also state the nature of each account involved in the Journal entry.

1. December 1, 2021, Ajit started business with capital ₹ 4,00,000
2. December 3, he withdrew cash for business from the Bank ₹ 2,000.
3. December 5, he purchased goods making payment through bank₹ 15,000.
4. December 8, he sold goods₹ 16,000 and received payment through bank.
5. December 10, he purchased furniture and paid by cheque ₹ 2,500.
6. December 12, he sold goods to Arvind ₹ 2,400.
7. December 14, he purchased goods from Amrit ₹ 10,000.
8. December 15, he returned goods to Amrit ₹ 500.
9. December 16, he received from Arvind ₹ 2,300 in full settlement.
10. December 18, he withdrew goods for personal use ₹ 1,000.
11. December 20, he withdrew cash from business for personal use ₹ 2,000.

12. December 24, he paid telephone charges ₹ 110.
13. December 26, amo`unt paid to Amrit in full settlement ₹ 9,450
14. December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000.
15. December 31, goods distributed by way of free samples ₹ 2,000

P.4. [ICAI] Transactions of Ramesh for April are given below. Journalise them.

2020			₹
April	1	Ramesh started business with	10,00,000
"	3	Bought goods for cash	50,000
"	5	Drew cash from bank	10,000
"	13	Sold to Krishna- goods on credit	1,50,000
"	20	Bought from Shyam goods on credit	2,25,000
"	24	Received from Krishna	1,45,000
"		Allowed him discount	5,000
"	28	Paid Shyam cash	2,15,000
"		Discount allowed	10,000
"	30	Cash sales for the month	8,00,000
		Paid Rent	50,000
		Paid Salary	1,00,000

P.5. [ICAI & RTP May 2018, Nov. 2019 & Nov. 2021] Prepare Journal Entries for the following transactions in the books of Gamma Bros.

a) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
b) Wages paid for erection of Machinery ₹ 8,000
c) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.
d) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment

P.6. [RTP Nov. 2018 & Nov. 2020] Pass a journal entry in each of the following cases.

a) A running business was purchased by Mohan with following assets and liabilities:
Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.
b) Goods distributed by way of free samples, ₹ 1,000.
c) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

SUBSIDIARY BOOKS

P.7. [RTP May 2019 & Nov. 2020] 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.

P.8. **[ICAI]** Enter the following transactions in Sales Book and Post into the ledger of M/s. Pranat Engineers Ltd., Delhi. 2020

Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ ₹6,000/- each less Trade discount @ 10%.

8 Sold to M/s. Ajanta Electricals Plaza, 10 pieces of Tablets @ ₹ 8,000/- each less trade discount 5%.

15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ ₹3,500/- each less trade discount @ 10%

CASH BOOK

P.9. **[ICAI]** Enter the following transactions in a Simple Cash Book:

2020		₹
Jan.1	Cash in hand	1,200
“5	Received from Ram	300
“7	Paid Rent	30
“8	Sold goods for cash	300
“10	Paid to Shyam	700
“27	Purchased Furniture	200
“31	Paid Salaries	100
“31	Rent due, not yet paid, for January	30

P.10. **[ICAI]** Ganesh commenced business on 1st April, 2020 with ₹ 2,000 as capital. He had the following cash transactions in the month of April 2020:

		₹			₹
April			April 7	Paid for petty	15
1	Purchased furniture and paid cash	250	“ 8	expenses Cash	150
“2	Purchased goods	500	13	purchases	1,000
“4	Sold goods for cash	950	“”	Paid for labour	400
“5	Paid cash to Ram Mohan	560	“”	Paid Ali & Sons	8
	He allowed discount	10		They allowed discount	

"6 "6	Received cash from Krishna & Co. Allowed discount	600 20			

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2020.

P.11. [ICAI] Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2020		₹
Jan.1	Chandrika commences business with Cash	20,000
" 3	He paid into Current A/c	19,000
" 4	He received cheque from Kirti & Co. on account	600
" 7	He pays in bank Kirty & Co.'s cheque	600
" 10	He pays Rattan & Co. by cheque and is allowed discount ₹ 20	330
" 12	Tripathi & Co. pays into his Bank A/c	475
" 15	He receives cheque from Warshi and allows him discount ₹ 35	450
" 20	He receives cash ₹ 75 and cheque ₹ 100 for cash sale	
" 25	He pays into Bank, including cheques received on 15th and 20th	1,000
" 27	He pays for cash purchase	275
" 30	He pays sundry expenses in cash	50

P.12. [ICAI] Prepare a Petty Cash Book on the imprest System from the following:

2020		₹
Jan. 1	Received ₹100 for petty cash	
" 2	Paid bus fare	.50
" 2	Paid cartage	2.50
" 3	Paid for Postage & Telegrams	5.00
" 3	Paid wages for casual labourers	6.00
" 4	Paid for stationery	4.00
" 4	Paid tonga charges	2.00
" 5	Paid for the repairs to chairs	15.00
" 5	Bus fare	1.00
" 5	Cartage	4.00
" 6	Postage and Telegrams	7.00
" 6	Tonga charges	3.00
" 6	Cartage	3.00
" 6	Stationery	2.00
" 6	Refreshments to customers	5.00

P.13. [ICAI] Enter the following transaction in Cash Bank with Discount and Bank columns. Cheques are first treated as cash receipts -

2020		₹

March 1	Cash in Hand	15,000
	Overdraft in Bank	500
2	Cash Sales	3,000
3	Paid to Sushil Bros. by cheque	3,400
	Discount received	100
5	Sales through credit card	2,800
6	Received cheque from Srijan	6,200
7	Endorsed Srijan's cheque in favour of Adit	
9	Deposit into Bank	6,800
10	Received cheque from Aviral and deposited the same into Bank by allowing discount of ₹ 50	3,600
12	Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque	
15	Sales through Debit Card	3,200
24	Withdrawn from Bank	1,800
28	Paid to Sanchit by cheque	3,000
30	Bank charged 1% commission on sales through Debit/Credit Cards	

P.14. [RTP May 2018 & May 2020 & Similar in Nov. 2018 & Nov. 2020] Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	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

P.15. **[ICAI]** Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount ₹ 500. From the following information, show how his Petty Cash Book would appear for the week ended 12th September, 2020:

		₹
7-9-2020	Balance in hand	134.90
	Received Cash reimbursement to make up the imprest	365.10
	Stationery	49.80
8-9-2020	Miscellaneous Expenses	20.90
9-9-2020	Repairs	156.70
10-9-2020	Travelling	68.50
11-9-2020	Stationery	71.40
12-9-2020	Miscellaneous Expenses	6.30
	Repairs	48.30

P.16. **[RTP Nov. 2019 & Similar in RTP June 2022]** Prepare a Petty Cash Book on the Imprest System from the following:

2019			₹
Apri	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

LEDGER

P.17. **[ICAI]** Journalize the following transactions, post them in the Ledger and balance the accounts on 31stDecember

1. X started business with a capital of ₹ 20,000
2. He purchased goods from Y on credit ₹ 4,000
3. He paid cash to Y ₹ 2,000
4. He sold goods to Z ₹ 4,000

5. He received cash from Z ₹ 6,000
6. He further purchased goods from Y ₹ 4,000
7. He paid cash to Y ₹ 2,000
8. He further sold goods to Z ₹ 4,000
9. He received cash form Z ₹ 2,000

TRIAL BALANCE

P.18. [ICAI] One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2020. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance (₹)	Cr. Balance (₹)
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2019)		264
Rent and rates	463	
Sales return		98
	5,454	5,454

The closing inventory on 31st March, 2020 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

P.19. [ICAI] An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2020

	Dr. Balance (₹)	Cr. Balance (₹)
Provision For Doubtful Debts	200	-
Bank Overdraft	1,654	-
Capital	-	4,591
Trade payables	-	1,637

Trade receivables	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-
Office Furniture	2,155	-
General Expenses	-	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	-
	24,983	25,002

Draw up a 'Corrected' Trial Balance, debiting or crediting any residual errors to a Suspense Account.

2

Bills Exchange & Promissory Notes

Introduction:

It is general practice that when goods are sold or services are provided, the seller extends a credit period to buyer. In sometimes, the seller may not be in a position to offer credit period and the purchaser is not in a position to pay immediately. In such circumstances the seller would like that the purchaser should give a definite promise in writing to pay the amount of the goods on a certain date which he can use to generate immediate funds. Commercial practice has developed to treat these written promises into valuable instruments of credit that when a written promise is made in proper form and is properly stamped, it is expected that the buyer discharges his debt and the seller receives payment. This is because written promises are often accepted by banks and money is advanced against them. Also they can be endorsed, i.e., passed on from person to person. The written promise is either in the form of a bill of exchange or in the form of a promissory note.

One should not get an impression that against every credit transaction a bill or promissory note is made. It is a need based thing. Creditor may draw a bill either if it has:

- some doubt about recoverability or possibility of future disputes or
- if he intends to raise money by discounting or
- Wants to use it by endorsing it to others to whom he is liable to pay.

Meaning of Bills of Exchange

A bill of exchange has been defined as:

1. an " instrument in writing
2. containing an unconditional order
3. signed by the maker /drawer
4. directing a certain person (drawee)
5. to pay a certain sum of money only
6. to or to the order of a certain person or to the bearer of the instrument". (payee)

Parties to a bill of exchange:

There are three parties to a bill of exchange:

(i) **Drawer:** Drawer is a person, who draws the bill. He is the creditor who has right to receive the money;

(ii) **Drawee:** Drawee (acceptor), is the person to whom the bill is addressed or on whom it is drawn and who accepts the bill. He is the debtor; who is liable to pay and

(iii) **Payee:** Payee is the person who is to receive payment under the bill. The drawer in many cases is also the payee.

A Format of bill of exchange is given below:

To,
Mr. B
M.G Road
Pune

Accepted
Signed B

Stamp

Pay ₹10,000/- (Rupees Ten thousand only) to me or my order, 30 days after the date of bill, for value received.

15th April 2022
Nagpur

Signed by 'A'

In above bill of exchange 'A' is drawer as well as payee and 'B' is drawee.

When such an order is accepted by writing on the face of the order itself, it becomes a valid bill of exchange.

Meaning of Promissory Note:

A Promissory note is:

1. an instrument is writing,
2. not being a bank note or currency note,
3. containing an unconditional undertaking (promise)
4. signed by the maker (promissor)
5. to pay a certain sum of money only to or to the order of a certain person.

Parties to a promissory note:

There are two parties to promissory note.

(i) **Maker/ promissor:** He is the person, a debtor who makes the promissory note i.e. promises to pay.

(ii) **Promissee:** He is the person, a creditor in whose favor a promissory note is made. He is entitled to receive the money.

A Format of Promissory is given below:

To, Mr. A Baner, Pune Stamp I hereby promise (undertake) to pay you or your order a sum of ₹ 10,000/- (Rupees Ten thousand only) one month after the date of this note, for value received. 20th April 2022 Signed by 'B' Nagpur

In the above promissory note 'B' is promissory (same as drawee) 'A' is promissee (payee)

Differences - bill of exchange And Promissory Note

Bill of Exchange	Promissory Note
A Bills of Exchange needs acceptance	A promissory note needs no acceptance
There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and Payee) in promissory note
A bill is paid by Acceptor	A promissory note is paid by maker
A bill is drawn by creditor	A promissory note is made by debtor
The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee cannot be same person.

- Both are negotiable instruments, and can be transferred by endorsement.
- For accounting purposes both will be treated alike & both will be classified as bills payable & bills receivable.

[Nov. 2019] 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.
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

Types of Bill

a) Demand Bill

- Bill which is payable as and when demanded by payee is known as demand bill,
- that means no specific period is specified.

b) Time Bill

- time bill is a bill payable after a certain period specified in the bill.
- Say after 30 days or after 2 months etc.
- Such period is counted from
  - (i) the date of bill/date of drawing the bill or
  - (ii) date of acceptance/date of presentation, as may be mentioned in the bill.
- While calculating due date, 3 days of grace are added

Effect of holidays while ascertaining due date

- In case of Bills of Exchange & Promissory Notes if the due date falls on a Public Holiday (As per Negotiable Instrument Act) then the due date will be the preceding working day. Sunday is a public holiday.
- In case of other Emergency Holidays, subsequent working day will be taken as due date.

Accounting of Bills of Exchange or Promissory Note

For the purpose of accounting, it makes no difference whether it is a bill of exchange or promissory note.

After receiving the bill, the seller (drawer) can deal with the bill in either of the following ways:

1. Retain it and present on the due date for payment or
2. Can discount the bill with bank & get the amount immediately, then the Bank will present the bill for payment on due date or
3. Can transfer/Endorse the bill in favor of some other party to whom he may be liable to pay, who will present the bill for payment on due date or
4. Can send it for collection through bank & will get the payment through Bank on due date

The purchaser after accepting the bill is not concerned with the above treatments of bill i.e. it will not require any accounting entry in his books. On the due date whosoever will present the bill to him, purchaser will either pay (i.e. honored) or will not pay (i.e. dishonored) the bill.

1. When trade transaction takes place and bill is drawn:

Nature Of Transaction	In The Books Of Drawer (Mr.A)	In The Books Of Drawee (Mr.B)
1) When 'A' sales goods to 'B'	'B' a/c. Dr. To Sales a/c.	Purchase a/c. Dr. To 'A' a/c.
2) When the bills is drawn by 'A' on 'B' or P. N. is made by 'B'	B. R. a/c. Dr. To B a/c.	'A' a/c. Dr. To B. P. a/c.

2. Action which can be taken by the drawer after the receipt of accepted bill.

Nature Of Transaction	In The Books Of Drawer (Mr.A)	In The Books Of Drawee (Mr.B)
a. Bill is retained or	No transaction	No transaction

b. Bill is discounted or	Bank a/c. Dr. Discount a/c. Dr. To B.R. a/c.	No transaction
c. Bill is endorsed to 'C' or	'C' a/c. Dr. To B R a/c.	No transaction
d. Bill is sent for collection	Bill for collection a/c. Dr. To B R a/c.	No transaction

3. On the Maturity Date if bill is honored/ paid

Nature Of Transaction	In The Books Of Drawer (Mr.A)	In The Books Of Drawee (Mr.B)
a. If bill was retained	Cash or Bank a/c. Dr. To B R a/c.	B. P. a/c. Dr. To Cash or Bank a/c.
b. if bill was discounted	No transaction (because bank will get the money from B)	B. P. a/c. Dr. To Cash or Bank a/c.
c. If bill was endorsed to 'C'	No transaction (because 'C' will get the money from B)	B. P. a/c. Dr. To Cash or Bank a/c.
d. If bill was sent for collection	Bank a/c. Dr. Bank charges a/c. Dr. To Bill for collection a/c.	B. P. a/c. Dr. To Cash or Bank a/c.

4. On the Maturity Date if bill is dishonored i.e. not paid

Nature Of Transaction	In The Books Of Drawer (Mr.A)	In The Books Of Drawee (Mr.B)
a. If bill was retained	'B' a/c. Dr. To B.R. a/c To Cash or Bank a/c. (noting charges)	B.P. a/c. Dr. Noting charges a/c. Dr. To 'A' a/c.
b. if bill was discounted (Bank will recover the money from 'A')	'B' a/c. Dr To Cash or Bank a/c. (including noting charges)	B.P. a/c. Dr. Noting charges a/c. Dr. To 'A' a/c.
c. If bill was endorsed to 'C'	'B' a/c. Dr. To 'C' a/c. (including noting charges)	B.P. a/c. Dr. Noting charges a/c. Dr. To 'A' a/c.
d. If bill was sent for collection	'B' a/c. Dr. To Bills for collection a/c. To Cash or Bank a/c (noting charges)	B.P. a/c. Dr. Noting charges a/c. Dr. To 'A' a/c.

Notes:

1. Entries on maturity date will be dependent on what was done to the bill by the drawer after receipt i.e. retained, discounted, endorsed, etc.

2. BR a/c. (i.e. bill receivable a/c.) is an asset (debit balance) hence when in a transaction it increases, its account should be debited and when it decreases its account should be credited.
3. Similarly B.P. a/c. (bills payable a/c.) is a liability (credit balance) hence when it increases, its account should be credited and when it decreases its account should be debited.
4. No transaction for a party means it has no financial effect on that party hence no accounting entry.

Noting charges

It is necessary that the fact of dishonour and the causes of dishonour should be established. If the acceptor can prove that the bill was not properly presented to him for payment, he may escape liability. Therefore, if there is dishonour, or fear of dishonour, the bill will be given to a public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But if the bill is dishonoured they will note the fact of dishonour, with the reasons and give the bill back to their client. For this service they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party which is responsible for dishonour.

Renewal of a bill

- On the maturity date, if acceptor is unable to pay the amount of bill, then he can approach the Drawer, for renewal of the bill.
- Renewal means giving further time for the payment of bill.
- For this delay the Drawer will/may collect Interest from acceptor on the delayed amount [total amount (-) amount if any paid at the time of renewal] for delayed/extended period.
- Renewal will involve cancellation of the old bill, accruing the interest and preparing a new bill for balance amount with interest. (Some part amount may be paid immediately)

Journal Entries

Transaction	In the books of Drawer (Mr. A)	In the books of Acceptor(Mr. B)
1. Cancel the old bill	B's a/c. Dr. To B.R. a/c.	B.P. a/c. Dr. To A's a/c.
2. Interest due to A from B	B's a/c. Dr. To Interest a/c.	Interest a/c. Dr. To A's a/c.
3. Settlement of the dues partly cash and partly bill or full amount in bill	B.R.a/c.Dr (Amt.of new bill) Cash a/c. Dr.(Cash received) To B's a/c.(total amt due)	A's a/c. Dr.(total dues) To B.P.a/c.(Amt. of new bill) To Cash a/c.(cash paid)

Entry for cancellation of the old bill given above is assuming bill was retained, if it was discounted or endorsed etc then entry will be as explained earlier in model entry 4.

Retirement of Bill

- Retirement of the bill means that payment is made before the maturity date.
- Therefore, normally the receiver will allow some rebate/discount to the payer.
- Entry for payment/receipt will be recorded net of rebate.
- Thus retirement is the opposite of renewal. In retirement payment is made early whereas in renewal payment is delayed.

Nature of Transaction	In the Books of Drawer (Mr.A)	In the Books of Drawee (Mr.B)
Bill retired	Cash/Bank a/c Dr. xx Rebate a/c Dr. xx To B.R a/c xx	B.P a/c Dr. xx To Cash/Bank a/c Dr. xx To Rebate a/c xx

Accommodation Bill

Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. Suppose Patel needs finance for three months. In that case he may persuade his friend Kapoor to accept his draft. The bill of exchange may then be taken by Patel to his bank and get it discounted there. Thus, Patel will be able to make use of funds. When the three months period expires, Patel will send the requisite amount to Kapoor and Kapoor will meet the bill. Thus, Patel is able to raise money for his use. If both Patel and Kapoor need money, the same devise can be used. Either Patel accepts a bill of exchange or Kapoor does. In either case, the bill will be discounted with the bank and the proceeds divided between the two parties according to mutual agreement. The discounting charges must also be borne by the two parties in the same ratio in which the proceeds are divided. On the due date the acceptor will receive from the other party his share. The bill will then be met. When bills are used for such a purpose, they are known as accommodation bills.

However, it may so happen that the drawer is not able to remit the proceeds to drawee on the due date. In such a case, the drawee may draw a bill on the drawer, and get it discounted with the bank to honour the first bill. If the new drawer (drawee of the first bill) also remits some proceeds of the new bill to new drawee (drawer of the first bill), then the proportion of discount to be borne by the new drawee will be based upon the proceeds remitted as well as the benefit obtained by him on the first bill (i.e., by not paying the amount due to the original drawee on due date).

Entries are passed in the books of two parties exactly in the way already pointed out for ordinary bills. The only additional entry to be passed is for sending the remittance for one party to the other party and also debiting the other party with the shared amount of discount.

Foreign bill of exchange:

Sometimes, it may happen that a bill of exchange is drawn for foreign trade operations. Such a bill is known as "Foreign Bill of Exchange". A foreign bill of exchange is one which is drawn in one country and is payable in another. It is generally drawn up in triplicate wherein each copy is sent by separate post so that at least one copy reaches the intended party. Payment will be made only on one of the copies and when such payment is made the other copies become useless. Section 12 of the Negotiable Instruments Act provides that all instruments, which are not inland instrument, are foreign.

The following are examples of foreign bills:

1. A bill drawn in India on a person resident outside India and made payable outside India.
2. A bill drawn outside India on a person resident outside India.
3. A bill drawn outside India and made payable in India.
4. A bill drawn outside India and made payable outside India.

A specimen of foreign bill of exchange is given below:

₹11,50,000		New Delhi
		July, 2020
Ninety days after date of this First Bill of Exchange (Second and Third of the same tenure and date being unpaid) pay to the order of M/s. Vencent John & Associates, London the sum of Rupees Eleven lakh Fifty thousand only, value received.		
To,		
Wallis Sons	Accepted	
M/s. IONX	(Wallis Sons)	Stamp
Birmingham, UK.		

Drawee

CLASS QUESTIONS

TRADE BILL (GENUINE BILL)

C.1. (Calculation of maturity date)

a) Term of the bill is 3 month from the date of bill. Bill is drawn on 10.3.2020 and accepted on 14.3.2020. Calculate maturity date.

b) Term of the bill is 3 month from the date of acceptance. Bill is drawn on 10.3.2020 and accepted on 14.3.2020. Calculate maturity date.

c) Term of the bill is 90 days from the date of bill. Bill is drawn on 10.3.2020 and accepted on 14.3.2020. Calculate maturity date.

d) Term of the bill is 90 days from the date of acceptance. Bill is drawn on 10.3.2020 and accepted on 14.3.2020. Calculate maturity date.

C.2. (Journal Entries under different options) 'X' sales goods worth ₹ 900 to 'Y', X receives four promissory notes from Y, dated 1st January, 2020 for 3 months. 1st bill is for ₹ 150/-, the second is for ₹ 250/-, the third is for ₹ 300/- and the fourth is for ₹ 200/-. The second bill is endorsed to Z, The third bills is discounted with the Bank for ₹ 295/- on 4th January, and the fourth bill is sent for collection. Pass the entries in the journal of X & Y assuming

a) the bill are met on maturity and

b) Bills are dishonored on maturity.

C.3. (ICAI) Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2020 for 2 months. The first bill is for ₹ 10,200 and the second bill is for ₹ 15,000. The second bill was endorsed in favour of Mr. Sree on 3rd January 20. And the First bill is discounted immediately with the bank for ₹ 10,000. Pass the necessary journal entries in the books of Ms. Sujata.

C.4. (Renewal of a Bill) Saurabh holds a bill receivable for ₹ 2,000 accepted by Ankit for goods sold to him by Saurabh. On due date, Ankit requests Saurabh for the renewal of the bill for a further period of three months agreeing to the addition of interest @ 10% per annum in the new bill. Saurabh agrees. Give the necessary journal entries in the books of Saurabh for the renewal of the bill.

C.5. (Renewal of endorsed Bill) X draws on Y a bill of exchange for 3 months for ₹ 1000/- which Y accepts on 1st January, 2020. X endorses the bill in favor of Z. Before maturity Y approaches X with the request that the bill be renewed for a further period of 3 months at six per cent per annum interest. A pays the sum to Z on that due date and agrees to the proposal of Y. Pass journal entries in the books of X, assuming that the second bill is duly met.

C.6. (Renewal of discounted Bill) Bhavesh owes Chintu a sum of ₹ 600/-. On 1st April, 2020 he gives promissory note for the amount for 3 months to Chintu who gets it discounted with his bankers for

₹ 590/-. On the due date the bill is dishonored the bank paying ₹ 5/- as noting charges. Bhavesh then pays ₹ 200/- in cash and accepts a bill of exchange drawn on him for the balance together with ₹ 10/- as interest. This bill of exchanges is for 2 months and on the due date the bill is again dishonored, Chintu paying ₹ 5/- for noting charges. Draft the journal entries to be passed in Chintu's books.

C.7. **(Retirement of the bill)** On 1st January, 2020, X sells goods for ₹10,000 to Y and draws a bill at three months for the amount. Y accepts it and returns it to X. On 1st March, 2020. Y retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of X and Y.

C.8. **(Renewal & Retirement of the bill - ICAI)** Mr. David draws two bills of exchange on 1-1-20 for ₹ 6,000 and ₹ 10,000. The bills of exchange for ₹ 6,000 is for two months while the bill of exchange for ₹ 10,000 is for three months. These bills are accepted by Mr. Thomas. On 4-3-20 Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20-3-20 Mr. Thomas retires the acceptance for ₹ 10,000, the interest rebate i.e. discount being ₹ 100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate. You are to give the journal entries in the books of Mr. David.

C.9. **(Insolvency - ICAI)** Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹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.

C.10. **(Miscellaneous – ICAI & Similar in RTP Dec. 2021)** Journalise the following transactions in K. Katrak's books.

a) Katrak's acceptance to Basu for ₹2,500 discharged by a cash payment of ₹1,000 and a new bill for the balance plus ₹50 for interest.

b) G. Gupta's acceptance for ₹4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹20 noting charges. Bill withdrawn against cheque.

c) D. Dalal retires a bill for ₹2,000 drawn on him by Katrak for ₹10 discount.

d) Katrak's acceptance to Patel for ₹5,000 discharged by Patel. Mody's acceptance to Katrak for a similar amount.

C.11. **(Miscellaneous)** Journalise the following transactions in the books of Akshay:

a) Our acceptance to Mathew for ₹ 5000/- retired before due date, rebate allowed ₹ 10/-.

b) Saurabh's acceptance for ₹ 400/- renewed for a further period of 3 months, interest charged at 15 percent.

c) Our acceptance to Paresh for ₹ 800/- renewed for 3 months on the condition that ₹ 200/-is paid in cash immediately and the remaining balance to carry interest at 12 per cent.

d) Sameer's promissory note for ₹ 700/- which we had endorsed in favour of Pramod dishonored. Pramod paid ₹10/- as noting charges. We pay Pramod by cheque and accept from Sameer another bill for the amount due plus interest ₹ 15/-.

e) Our promissory note for ₹ 500/- in favour of Ameen returned unpaid due to lack of instructions to the bank. Ameen claim ₹ 510/- which we pay by cheque.

f) Our promissory note for ₹ 500/- in favor of Jignesh settled by sending him Tina's acceptance of ₹ 500/-.

C.12. **(ICAI)**Journalize the following in the books of Don:

(i) Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹ 40. Bob accepts ₹ 1,000 cash and the balance as bill at three months at interest of 10%.Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.

(ii) James owes Don ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹ 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.

(iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

C.13. Pass journal entries for the following bill in each parties book

Drafts of a bill of exchange

To,

Accepted

Stamp

Mr. B

Signed B

Pay ₹ 10,000/- after 3 months to 'C' or his order for value received

Signed by 'A'

Nagpur

2/4/22

C.14. Calculate interest /discount/rebate @ 12% in following cases

a) A bill of ₹ 10,000 for 3 months discounted after one month.

b) A bill of ₹ 5,000 for 3 months retired one month before the due date.

c) A 3 month bill of ₹ 10,000 renewed for 2 month on the condition that 30% is paid immediately.

d) A 3 month bill of ₹ 5,000 was dishonoured, noting charges were ₹ 100 & bill is being renewed for 4 month.

C.15. From the following details of M/s Atul prepare Bills payable book & explain the posting from it.

1.1.20	Bill drawn by X for ₹ 5,000 for 2 month
10.1.20	Bill drawn by L for ₹ 6,000 for 3 month
16.1.20	Bill drawn by M for ₹ 4,000 for 60 days
25.1.20	Bill drawn by Z for ₹ 10,000 for 90 days.

C.16. From the following details of M/s Hindustan prepare Bills Receivable book for March 2020 & explain posting from it.

06.3.20.1	Bill drawn on P for ₹ 6000 for 3 month
13.3.20.1	Bill drawn on Q for ₹ 8000 for 2 month
18.3.20.1	Bill drawn on R for ₹ 4000 for 90 days
26.3.20.1	Bill drawn on S for ₹ 12000 for 60 days.

ACCOMMODATION BILL

C.17. A draws a bill on B for ₹ 1,00,000/- for his accommodation B accept it. A discounts it for ₹ 95,000/. On due date 'A' remits the amount and bill is honored. Account the above transaction in books of both the parties.

C.18. Amit draws on Yogesh a bill of exchange for ₹ 1500/- on 1st April, 2020 for 3 months. Yogesh accepts the bill and send it to Amit who gets it discounted for ₹ 1470/-. Amit immediately remits ₹490/- to Yogesh. On the due date, Amit, remits the amount due, and Yogesh honors the bill. Give the journal entries in the books of Amit and Yogesh.

C.19. **(ICAI)** On 1st July, 2019 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2019, Jack purchased goods worth ₹ 1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2019, Harry purchased goods worth ₹ 2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

C.20. **(Nov. 2020)** Suresh draws a bill for ₹15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2020.

Pass necessary Journal entries for the above transactions in the books of Suresh.

C.21. **(ICAI)** For the mutual accommodation of 'X' and 'Y' on 1st April, 2019, 'X' drew a four months' bill on 'Y' for ₹4,000. 'Y' returned the bill after acceptance of the same date. 'X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'Y'. On due date 'X' is unable to send the amount due and therefore 'Y' draws a bill for ₹ 7,000, which is duly accepted by 'X'. 'Y' discounts the bill for ₹6,600 and sends ₹1,300 to 'X'. Before the bill is due for payment 'X' becomes insolvent. Later 25 paise in a rupee received from his estate. Record Journal entries in the books of 'X'.

C.22. **(ICAI)** X draws on Y a bill of exchange for ₹ 30,000 on 1st April, 2020 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹ 28,800. X immediately remits ₹ 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹ 42,000 for three months which is discounted by Y for ₹ 40,110. Y sends ₹ 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

PRACTICE QUESTIONS

TRADE BILL (GENUINE BILL)

P.1. **(ICAI)** Vijay sold goods to Pritam on 1st September, 2019 for ₹ 1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

P.2. **(ICAI)** On 1st January, 2020, Ankita sells goods for ₹5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 1st March, 2020, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

P.3. **(ICAI)** On 1st January, 2020, Vilas draws a bill of exchange for ₹10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2020 Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath.

P.4. **(ICAI)** On 1st January, 2020, Vilas draws a bill of exchange for ₹10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2020. Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Vilas.

P.5. **(Rebate - ICAI)** On 1st January, 2020, A sells goods for ₹10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2020, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

P.6. **(RTP July 2021)** Prepare Journal entries for the following transactions in Samarth's books.

1. Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.
2. G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.
3. Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.
4. Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

P.7. **[RTP May 2018 & Nov. 19]** Mr. B accepted a bill for ₹ 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 ₹ 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 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

P.8. **[May 2019 & RTP May 2020 & Similar in RTP June 2022]** On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 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 ₹ 25,000, the interest rebate i.e. discount being ₹ 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.

P.9. **(ICAI)** A draws upon B three Bills of Exchange of ₹ 3,000, ₹ 2,000 and ₹ 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest ₹100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for ₹1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (nothing charge being ₹30). The third bill was retained till maturity when it was duly met. Give the necessary journal entries recording the above transactions in the books of A.

ACCOMMODATION BILL

P.10. **(ICAI)** Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2019 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ₹ 8,820 on 8th April, 2019 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 discounts it for ₹ 12,330 and remits ₹ 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2019. Pass necessary Journal entries for the above transactions in the books of Anil.

P.11. **(Dec. 2021)** On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.
On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honor the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonored bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

3

Rectification of Errors

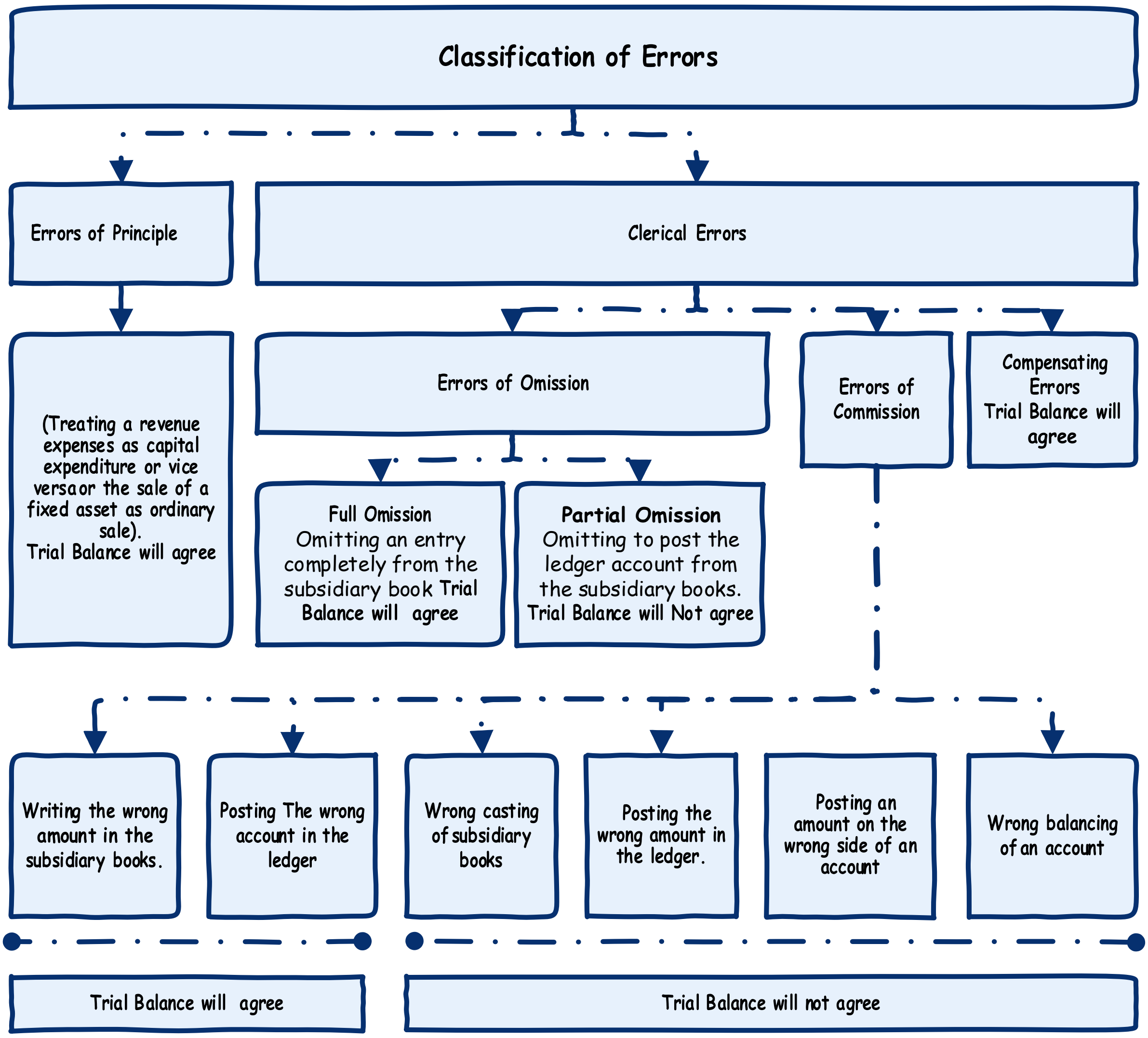
Introduction:

Unintentional omission or commission of amounts and accounts in the process of recording the transactions are commonly known as errors. These various unintentional errors can be committed at the stage of collecting financial information/data on the basis of which financial statements are drawn or at the stage of recording this information. Also errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight. To check the arithmetic accuracy of the journal and ledger accounts, trial balance is prepared. If the trial balance does not tally, then it can be said that there are errors in the accounts which require rectification thereof. Some of these errors may affect the Trial Balance and some of these do not have any impact on the Trial Balance although such errors may affect the determination of profit or loss, assets and liabilities of the business.

Basic elements of the correct accounting

1. All transactions & events must be recorded/entered
2. Transactions & events must be recorded in correct books of entry
3. Transactions & events must be recorded by Double entry system & by following proper accounting Principles (Concepts & conventions/norms)
4. All entries must be fully & correctly posted to ledger accounts.
5. There must be arithmetical accuracy:
   - in Recording i.e. passing entry,
   - in Posting figures in accounts,
   - in totaling & balancing of books of Entry &
   - in totaling & balancing of ledger accounts.

Classification or Types of Errors



Basically errors are of two types:

(a) **Errors of principle:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account.

Example: Treating a revenue expense as capital expenditure or vice versa or the recording of sale of a fixed asset as ordinary sale.

(b) **Clerical errors:** These errors arise because of mistake committed in the ordinary course of the accounting work. These are of three types:

(i) **Errors of Omission:**

1. Full Omission: Omitting an entry completely from the subsidiary book. Full omission hence Trial Balance will agree. Example: Sale of ₹ 5,000 to A on 30.3.20 is not recorded.

2. Partial Omission: Omitting to post the ledger account from the subsidiary books. Partial omission hence Trial Balance will not agree. Example: A sale entry of ₹ 10,000 not posted to A's a/c.

(ii) Errors of Commission:

1. Writing wrong amount in the Subsidiary book. Trial Balance will agree. Example : A purchase of Rs.5,000/- from 'X' is entered in purchase book as ₹ 500/-
2. Posting the wrong account in the ledger. Trial Balance will agree. Example: From Sales book A's account is debited by ₹ 8000 instead of B's account.
3. Wrong casting of subsidiary books. Example: Total of Bills Receivable book is taken as ₹ 1,05,000/- instead of ₹ 1,00,500/-
4. Posting the wrong amount in the ledger. Example: From Sales Return book A's account is Credited by ₹ 8,000 instead of ₹ 8,800/-
5. Posting an amount on the wrong side of an account. Example: From Sales Book L's account is credited
6. Wrong balancing of an account. Example: Balance of Furniture account is taken as ₹ .7,000/- instead of ₹ 3,000/-

Note. In case of errors described in (3) to (6) above, Trial Balance will not agree.

(iii) Compensating Errors:

If the effect of errors committed cancel out, the errors will be called compensating errors. The trial balance will agree. Example: Excess debit ₹ 1,000 to Furniture a/c & Excess credit of ₹ 1,000 to Sales a/c

Alternative Classification of errors from accounting point of view

1) One Sided Errors: Errors which affects the agreement of trial balance i.e. it will cause difference in trial balance (one sided errors). In this the amount of debit & credit effect given in accounts does not tally.
2) Double Sided Errors: Errors which doesn't affect the agreement of trial balance i.e. Inspite of such errors the trial balance will tally. (Double sided errors).In this the amount of debit & credit is equal.

Time of Rectification:

The errors should be rectified in the same year's books of accounts. But if the books of accounts are already closed i.e. financial statements have been prepared & used then it will have to be rectified in the next financial year's books of accounts.

1. Rectification in the same year can be:

a) Before preparation of Trial Balance i.e. without opening a Suspense a/c. or
b) After preparation of Trial Balance i.e. after opening a Suspense a/c.

2. Rectification in subsequent years books

Time of Rectification of Errors

Rectification in the Same Year

Before the preparation of Trial Balance i.e. Without opening a Suspense A/c

Accounting Process

Entity
↓
Transaction
↓
Recording
↓
Account [Ledger]
↓
Posting
↓
Totaling & Balances
↓
Trial Balance
↓
Additional Information
↓
Financial Statement

After the preparation of Trial Balance i.e. After opening a Suspense A/c

Suspense Account

1. When trial balance does not tally, the difference is put to an account named as Suspense A/c. Difference is debited (if debit side of trial balance is short) or credited (If credit side of trial balance is short) to suspense A/c.

2. Thus with the help of suspense a/c trial balance is artificially tallied.

3. While passing rectification entry for one sided errors, the one effect Dr. or Cr. Will go into the account in which mistake is committed & the other effect will be given to suspense a/c.

4. When all such one sided errors are rectified the suspense a/c will become Nil.

5. While rectifying double sided errors, suspense account will not get affected.

Rectification in Subsequent Years Books

When the errors could not be traced & accounts need to be finalized, then Annual Financial Statements are prepared & books of account is closed by putting difference if any to suspense a/c. Later on the search for errors may continue & if errors as & when identified will be rectified in subsequent years books of account

Rectification in the Next Year

1.If errors are located after finalizing the accounts then it should be rectified in the next years.

2.The difference of trial balance will also get transferred to next years books under the name Suspense A/c.

3.This will involve Preparation of **Profit & Loss Adjustment A/c.**

Profit & Loss Adjustment Account

The Rectification entry will same as passed in case of rectification of errors in same year except that wherever any Income or Expenses A/c is involved, the Debit/Credit will be made in **P&L Adjustment A/c.** and not in the Income or Expenses A/c. The balance in the account should be transferred to **the Capital A/c.**

Whenever required by the question, amount & nature of difference in Trial balance can be ascertained by preparing a Suspense a/c. The balancing figure of suspense account after all rectification, would be the difference of trial balance.

Comparison between the One sided & Double sided Error

One sided error (When ultimately double entry is not completed in the accounts)	Double Sided Error (When double entry gets completed even though there are errors.)
1. This does affect the agreement of Trial balance.	1. This does not affect the agreement of Trial balance. That means inspite of such errors trial balance can steel agree.
2. Difference of Trial balance is put in to Suspense a/c	2. No difference arises because of such errors.
3. Hence in rectification of such errors one effect (debit or credit) will go to Suspense a/c	3. Debit & Credit will both go to regular accounts which were affected, suspense account will not be involved in such rectification entry.
4. When all this errors are rectified Suspense account will get closed.	4. No relationship with suspense account hence even when suspense a/c is nil, such errors may exist.
5. Ex.: It will include Errors of commission & Errors of partial omission.	5. Ex.: It will include Errors of Principle, Errors of full omission & compensating errors.

Hence agreement of Trial Balance does not guarantee that it is error free it only gives reasonable assurance of arithmetical accuracy. But non-agreement of Trial balance certainly confirms existence of arithmetical inaccuracy.

Forming Rectification Entry

Steps to be followed for solving a rectification problem are as follows:

1. After reading the particular item of question about errors
   (a) Decide what should be the correct accounting (debit & credit) of that item.
   (b) Ascertain what is the effect (debit, credit) given to accounts (in ledger) &
2. Remember that account is ultimate for us & debit – debit in same account gets added, similarly credit – credit in same account gets added but debit & credit in the same account gets subtracted. Apply this in point(iii)
3. By comparing item (a) & (b) of (1) above you may come across following situations & treat the same as mentioned there against
   - An account is not debited or less debited ← debit it
   - An account is not credited or less credited ← credit it
   - An account is wrongly debited or more debited ← credit it
   - An account is wrongly credited or more credited ← debit it
   - After making above if double entry is not yet completed, then make it double entry by debiting or crediting the difference to suspense a/c.

- If rectification is being done in subsequent year then in place of income & expenses account, P & L adjustment account will be debited or credited as the case may be

4. If difference of trial balance was known & was first written in Suspense a/c then after all rectification, the suspense account will become nil (i.e. closed), if it still has some balance, that will mean that someone sided errors still exist. If difference was not known, then after rectifying all errors given, the balance of suspense account will indicate the difference of trial balance.
5. In case of rectification in subsequent year, the balance of P&L adjustment account should be transferred to P&L a/c as prior period adjustment as per 'Accounting Standard 5: "Net profit or loss for the period, period items & changes in Accounting Policy". Many times it is directly transferred to Capital account just to show its ultimate effect because in Proprietary & Partnership concern the balance of P&L is usually transferred to Capital a/c

Interpretation

Interpretation: While interpreting the question on rectification of error, should follow the following norms:

1. Whatever is stated (mentioned) as wrong is wrong, whatever follows from it is also wrong, but rest of the accounting (on which question is silent) is correct.
2. Posting follows from entry but not the other way, hence if entry is wrong, consequent posting will also be generally wrong. But if posting is given as wrong, that doesn't mean entry is wrong.
3. Posting from Sales book, Purchase book, Returns book. Bills Receivable book, Bills Payable book etc. to party account is made from individual figures, whereas total of such book is posted to Sales, Purchase, Sales Return, Purchase return, Bills Receivable, Bills Payable a/c. Hence wrong recording of individual figure will affect both posting, whereas totalling error will affect only posting to sale, purchase a/c etc.

CLASS QUESTIONS

CLASSIFICATION OF ERRORS

C.1. **[RTP Nov. 2018 & Similar in Dec. 2021]** Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

a. Sale of furniture credited to Sales Account.
b. Purchase worth ₹ 4,500 from M not recorded in subsidiary books.
c. Credit sale wrongly passed through the Purchase Book.
d. Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
e. Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

C.2. **(Nov. 2020)** State with reasons, whether the following statements are True or False.

- Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.

RECTIFICATION IN SAME YEAR BEFORE TRIAL BALANCE

C.3. Correct the following errors unearthed before preparation of the Trial Balance.

a) A welding machine purchased for ₹ 5600 from the Oxygen Co. Ltd., has been entered in the purchase Day Book.
b) The total of the Returns outwards Book is ₹ 100 short.
c) A sale of ₹ 175 to M/s Gupta & Mukherjee has been entered in the sales Book as ₹ 157.
d) A purchase of ₹ 215 from M/s Guha & Roy had been posted to the debit of their account.
e) Discount allowed to D. Majhail, Rs.15, had not been entered in the Cash Book, but the full amount (including discount)has been credited to D. Majhail's account.
f) Licence fee for proprietor's gun, ₹ 30, had been debited to General Expenses Account.
g) A sale of ₹ 200 for old furniture has been has been passed through the sales book.

C.4. **(ICAI)** How would you rectify the following errors in the book of Rama & Co.?

1. The total to the Purchases Book has been undercast by ₹100.
2. The Returns Inward Book has been undercast by ₹ 50.
3. A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.
4. A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.
5. The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.
6. An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.
7. Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book.

the amount has been posted correctly to the credit of his personal account.

C.5. (ICAI) The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense pending investigation which disclosed that:

(i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.

(ii) Discounts received ₹1,320 had been debited to discounts allowed.

(iii) The Sales account had been under added by ₹10,000.

(iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.

(v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

(vi) An accrual of ₹560 for telephone charges had been completely omitted

(vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.

(viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.

(ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

C.6. [Nov. 2019 & Similar in ICAI] Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

1. The sales book has been totalled ₹ 2,100 short.
2. Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.
3. Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.
4. Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.
5. Discount received from Black and White ₹ 1,200 has not been entered in the books.
6. Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

RECTIFICATION IN SAME YEAR AFTER TRIAL BALANCE

C.7. Ganesh drew a Trial Balance of his operations for the year ended 31.03.2020. There was a difference in the Trial Balance which he closed with a Suspense Account. On a scrutiny by the Auditors, the following errors were found:

a) Purchases day book for the month of April, was undercast by ₹ 1000
b) Sales day book of October, was overcast by ₹ 10,000
c) A furniture purchased for ₹ 8,100 was entered in the Furniture Account as ₹ 810.
d) A bill for ₹ 10,000 drawn by Ganesh was not entered in the Bills Receivable Book.
e) A machinery purchased for ₹ 10,000 was entered in the purchased day book.

Pass necessary Journal Entries to rectify the same and ascertain the difference in the Trial Balance that was shown under the Suspense Account in respect of the above items.

C.8. The accountant of X prepared the Trial Balance for the year ended 31st March, 2020. But there was a difference and the accountant put the difference in Suspense Account. Rectify the following errors found and prepare the Suspense Account:

a) The total of the Returns outward book, ₹ 420 has not been posted in the ledger.
b) Purchase of ₹ 350 from Y has been entered in the sales book. However Y's a/c has been correctly entered.
c) A sale of ₹ 390 to Z has been credited to his account as Rs.290.
d) Old furniture sold for ₹ 5,400 had been entered as ₹ 4,500 in sales account.
e) Goods taken by proprietor, ₹ 500 have not been entered in the books at all.

C.9. A book-keeper finds the difference in the Trial Balance amounting to ₹ 1,000 and puts it in the Suspense Account. Later on he detects the following errors.

a) Purchased goods from Ravi ₹ 15,000 but entered into Sales Book.
b) Received one bill for ₹ 25,000 from Arun but recorded in Bills Payable Book.
c) An item of ₹ 3,500 relating to prepaid rent account was omitted to be brought forward.
d) An item of ₹ 2,000 in respect of purchase returns, had been wrongly entered in the purchase book, party a/c was correctly posted.
e) ₹ 25,000 paid to Hari against our acceptance were debited to Harish Account.
f) Bills received from Janki for repairs done to Machine ₹ 2,500 and Machine supplied for ₹ 45,000 were entered in the Purchase Book as ₹ 46,000. Janki a/c was credited with ₹ 47,500/-

Give rectifying journal entries with full narration and prepare Suspense Account

C.10. **(ICAI)** The following errors, affecting the account for the year 2020 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture ₹150 treated as sale of goods.
(2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.
(3) Goods worth ₹100 brought from Mohan Narain have remained unrecorded so far.
(4) A return of ₹120 from Mukesh posted to his debit.

(5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.
(6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.
(7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹125.
(8) Sales Book added ₹ 900 short.
(9) The total of Bills Receivable Book ₹ 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors

C.11. The trial balance of a firm is out. The following errors were found subsequently, to have been committed. Pass journal entries to correct them, and ascertain the difference in the Trial Balance.

a) An amount of ₹ 100 was received from D. Das on 31st December 2019, but had been entered in the Cash Book on 3rd January 2020.
b) The Returns Inwards Books for December has been cast ₹ 100 short.
c) The purchase of an office table costing Rs.300 had been passed through the Purchase Day Book.
d) ₹ 375 paid for wages to workmen for making show cases had been charged to wages account.
e) A purchase of ₹ 671 had been posted to the debit of the creditor's account as ₹ 617.The creditor is P.Panna & Co.
f) A cheque for ₹ 200 received from P.C Joshi has been dishonoured on maturity and was passed to the debit of Allowances Account.
g) Goods amounting to ₹ 100/- had been returned by a customer and were taken into stock but no entry in respect thereof was made in the books.
h) ₹ .2,000 paid for the purchase of a motor-cycle for Mr. Dutt (a partner) had been charged to Miscellaneous Expenses Account.
i) A sale of ₹ 200 to Singhani & Co. was credited to their account.
j) A sale of ₹ 1,000 had been passed through the Purchase Day Book. The customer's account has, however, been correctly debited.
k) While carrying forward the total of the sales book from one page to the next, the amount was written as ₹ 1,76,658 instead of ₹ 1,67,568

C.12. Pass necessary journal entries to rectify the following errors:

a) An amount of ₹ 200 withdrawn by the proprietor for his personal use has been debited to trade expenses account.
b) A purchase of goods from Nathan amounting to ₹ 300 has been wrongly entered through the sales-book.
c) A credit sale of ₹ 100 to Santhanam has been wrongly passed through the purchases-book.
d) ₹ 150 received from Malhotra have been credited to Mehrotra.
e) ₹ 375 paid on account of salary to the cashier Dhawan stands debited to his personal account.

f) A contractor's bill for extension of premises amounting to ₹ 2,750 has been debited to building repairs account.
g) On 25th June, goods of the value of ₹ 500 were returned by Akash Deep and were taken into stock but the returns were entered in the books under date 3rd July, i.e., after the expiration of the financial year on 30th June.
h) A bill of ₹ 200 for old office furniture sold to Sethi were entered in the sales-day-book.
i) The periodical total of the sales-book was cast short by ₹ 100.
j) An amount of ₹ 80 received on account of interest was credited to commission account.

RECTIFICATION IN SUBSEQUENT YEARS BOOKS

C.13. A book-keeper while preparing his trial balance finds that the debit exceeds by ₹ 7,250. Being required to prepare the final account for the year 2019, he places the difference to a Suspense Account. In the next year i.e. 2020 the following mistakes were discovered:

a) A sale of ₹ 4,000 has been passed through the Purchase Day-book. The entry in customer's account has been correctly recorded.
b) Goods worth ₹ 2,500 taken away by the proprietor for his use has been debited to Repairs Account.
c) A Bill receivable for ₹ 1,300 received from Krishna has been dishonoured on maturity but no entry passed.
d) Salary ₹ 650 paid to a clerk has been debited to his Personal Account.
e) A Purchase of ₹ 750 from Raghubir has been debited to his account. Purchases Account has been correctly debited.
f) A sum of ₹ 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

C.14. 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.

a) Sales Day Book was over cast by ₹ 100.
b) A sales of ₹ 50 to X was wrongly debited to the account of Y.
c) General Expenses of Rs.18 was posted in the General Ledger at ₹ 80.
d) A bill receivable for ₹ 155 was passed through Bills payable Day Book - This bill was given by Z.
e) Legal expenses ₹ 119 paid to Mr. Dufty was debited to his personal account.
f) Cash received from C. Dass was debited to G. Dass ₹ 150.
g) While carrying forward the total of one page of the Purchases Book to the next the amount of ₹ 1235 was written as ₹ 1325.

Find out the nature and amount of the Suspense Account and pass entries for the rectification of the above errors in the subsequent year's books.

C.15. In 2020 Sen found accidentally that his books for 2019 contained some errors. The errors were:

a) An invoice for ₹ 1,000 for goods purchased from Basu was entered in Sales Returns Book.
b) Goods bought on credit from Ramlal for ₹ 1,500 were entered in the Sales Book as ₹ 1,050.
c) A Cash Discount of ₹ 50 allowed to G. Gupta remained un-posted to his account.
d) The Sales Book for the month of April was overcast by Rs.100. It was also found that a sale of ₹ 456 to Kabir was entered in the Sales Book as Rs.645 from where he was debited by ₹ 615.
e) A machine purchased on 1st January, 2017 for Rs.10,000 (on which ₹ 2,000 depreciation had been written off for the two years 2017 and 2018) had been sold on 1st July, 2019 for ₹ 8,500 but the sale was entered in the sales Day Book.
f) ₹ 460 paid for freight on machinery purchased on Oct.1, 2019 was debited to Freight Account as Rs.640.

Give journal entries to rectify the errors. Your entries must not affect current year's profit or loss. Have you any comments to offer?

C.16. Nitish closes his books on 31st December. In 2020, his books showed a difference which he transferred to the debit of his Capital Account and prepared the Profit and Loss Account and Balance Sheet after doing so he found that the under mentioned errors had been committed in 2020.

a) A machine, book value ₹ 8200 was sold on credit to Mehtani for ₹ 7500. The amount was posted to the credit of Mehta.
b) A cheque for ₹ 2,100 was received from Kapoor and was correctly dealt with. It was, however, returned dishonoured and was then posted to the debit of Trade Expenses A/C.
c) The closing stock sheets for 2020 were found to be totaled ₹ 10,000 in excess.
d) The income tax paid on behalf of the proprietor, Rs.2370 was debited to Income Tax Account as ₹ 3720.
e) A steel cupboard was purchased for ₹ 1250, it was debited to General Expenses Account as ₹ 2150.

Give journal entries to carry out the corrections required. How much was the difference in the books on December 31, 2020?

C.17. The books of accounts of B. Quick for the year ending 31st March, 2020 were closed with a difference in books carried forward. The following errors were detected subsequently:

a) Goods ₹ 125 returned to Mita Bros. were recorded in the Returns Inward Book as ₹ 251 and from there it was posted to the debit of Mita Bros. Account.
b) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customer account in the Sales ledger.
c) Closing Stock was overstated by ₹ 5,000 being casting error in the schedule of inventory.
d) Paid acceptance to Bala Ram for ₹ 7,600 was posted to the debit of Sita Ram as ₹ 6,700.

e) Goods purchased from A & Co. ₹ 3,250 entered in the Sales Day Book for ₹ 3,520.

f) ₹ 1,500 being the total of the discount column on the credit side of the Cash Book was not posted. Pass rectification entries in the next year.

C.18. [Jan. 2021] Mr. Joshi's trial balance as on 31st March, 2020 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 Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) ₹ 600 due from Mr. Q was omitted to be taken ·to the trial balance.

(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

C.19. (ICAI) On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

(1) The totals of debit side of "Expenses Account" have beeen cast in excess by ₹ 50.

(2) The "Sales Account" has been totalled in short by ₹100.

(3) Supplier account has been overcast by 225.

(4) The sale return of ₹100 from a party has not been posted to that account though the Party's account has been credited.

(5) A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.

(6) A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

(i) Pass necessary journal entries for correcting the above;

(ii) Show how they affect the Profits; and

(iii) Prepare the "Suspense Account" as it would appear in the ledger.

C.20. **(ICAI)** Mr. A closed his books of account on September 30, 2020 in spite of a difference in the trial balance. The difference was ₹830 the credits being short; it was carried forward in a Suspense Account. In 2021 following errors were located:

(i) A sale of ₹2,300 to Mr. Lala was posted to the credit of Mrs. Mala.

(ii) The total of the Returns Inward Book for July, 2020 ₹1,240 was not posted in the ledger.

(iii) Freight paid on a machine ₹5,600 was posted to the Freight Account as ₹6,500. 10% Depreciation is charge on this machines.

(iv) White carrying forward the total in the Purchases Account to the next page, ₹65,590 was written instead of ₹56,950.

(v) A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th sept. 2020 was not entered in the books at all. The book value of the machine was ₹6,750.

Pass journal entries to rectify the errors. Have you any comments to make?

C.21. **(ICAI)** A merchant's trial balance as on June 30, 2020 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 Purchases Book of one page, ₹4,539 was carried forward to the next page as ₹4,593.

(ii) A sale of ₹573 was entered in the Sales Book as ₹753 and posted to the credit of the customer.

(iii) A return to a creditor, ₹510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from C. Dass, ₹620 was posted to the debit of G. Dass.

(v) Goods worth ₹840 were despatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

PRACTICE QUESTIONS

RECTIFICATION IN SAME YEAR BEFORE TRIAL BALANCE

P.1. **(ICAI)** The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

1. ₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.
2. Repairs made were debited to Building Account for ₹ 50.
3. An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
4. ₹100 paid for rent debited to Landlord's Account.
5. Salary ₹125 paid to a clerk due to him has been debited to his personal account.
6. ₹100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
7. ₹ 700 paid in cash for a typewriter was charged to Office Expenses Account.

P.2. **(ICAI)** Give journal entries to rectify the following:

1. A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.
2. A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.
3. On 31st December, 2020 goods of the value of ₹300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.
4. An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.
5. A Cheque for ₹100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

RECTIFICATION IN SAME YEAR AFTER TRIAL BALANCE

P.3. **(ICAI)** Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹ 493 excess credit. The difference thus has been posted to a Suspense Account.

1. An amount of ₹100 was received from D. Das on 31st December, 2020 but has been omitted to enter in the Cash Book.
2. The total of Returns Inward Book for December has been cast ₹100 short.
3. The purchase of an office table costing ₹ 300 has been passed through the Purchases Day Book.
4. ₹ 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
5. A purchase of ₹ 67 had been posted to the trade payables' account as ₹ 60.

6. A cheque for ₹ 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account"
7. ₹ 1,000 paid for the purchase of a motor cycle for Mr. Dutt had been charged to "Miscellaneous Expenses Account"
8. Goods amounting to ₹100 had been returned by customer and were taken in to inventory, but no entry in respect there of, was made into the books.
9. A sale of ₹ 200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

P.4. **[RTP May 2019 & Similar in ICAI]** Write out the Journal Entries to rectify the following errors, using a Suspense Account.

1. Goods of the value of ₹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 ₹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 ₹20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹2,000;
4. Bad Debts aggregating ₹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 ₹25,000 was not posted.

P.5. **[RTP May 2021]** Write out the Journal Entries to rectify the following errors, using a Suspense Account.

1. Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2. An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;
3. A sale of ₹20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 2,000;
4. Bad Debts aggregating ₹15,000 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, 2020 amounting to ₹12,500 was not posted.

P.6. **[May 2019]** Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:

1. An amount of ₹ 4,500 received on account of Interest was credited to Commission account.
2. A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹ 2,670
3. ₹ 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.

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

P.7. Write out the Journal Entries to rectify the following errors, using a Suspense Account.

1. Goods of the value of ₹100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2. An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
3. A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20;
4. Bad Debts aggregating ₹450 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, 2020 amounting to ₹ 250 was not posted.

RECTIFICATION IN SUBSEQUENT YEARS BOOKS

P.8. **(ICAI)** 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 ₹3,000.
2. Purchase account was over-cast by ₹10,000.
3. A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.
4. Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.
5. Receipt of cash from Mr. C was posted to the debit of his account, ₹500.
6. ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.
7. Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.
8. Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.

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

P.9. **[Nov. 2018 & RTP May 2020]** 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:

1. Sales Day Book was overcast by ₹ 1,000.
2. A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
3. General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
4. A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.
5. Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
6. Cash received from Ram was debited to Shyam ₹ 1,500.
7. While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 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

P.10. **[Nov. 2020]** M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered:

1. Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.
2. The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.
3. Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.
4. Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.
5. A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes

P.11. **[May 2018, Nov. 2019 & Nov. 2020]** The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240.

How would you rectify the errors assuming that :

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

P.12. **(December 2021)** Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

a. Wages paid for construction of office building debited to wages account ₹ 20,000.

b. A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.

c. An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

d. Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples amount prospective customers were not recorded anywhere.

e. Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.

P.13. **(July 2021)** Mr. Ratan 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:

a. Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.

b. Purchase account was over cast by ₹ 1,00,000.

c. A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.

d. Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.

e. Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.

f. ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.

g. Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.

h. Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries.

P.14. **(RTP June 2022)** The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(i) Return outward book was under cast by ₹ 100.

(ii) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.

(iii) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.

(v) The Sales of ₹ 10,000 was omitted to be recorded. Pass rectification entries in the next year.

4

Bank Reconciliation Statement

Introduction:

Banks are essential institutions in a modern society. With the increase in volume of trade, commerce and business, business entities faced difficulty in transacting in cash for each business activity. They discovered that dealing through bank, on regular basis, would be the better and safer option and finally large business entities switched over to banking transactions instead of dealing in cash. Now-a-days, most of the transactions of the business are done through bank whether it is a receipt or a payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit.

A bank a/c is maintained by us to record the transactions with bank. Similarly Bank maintains our a/c in their books. A copy of which is given to us known as Bank statement or passbook. All the transactions recorded by us will be recorded by bank also, therefore normally the balance shown by the two books must be same and should be opposite balance. But practically this balances at a particular time (i.e. on a particular date) doesn't tally because there is always some time gap between recording of the same transaction by us and by bank. To find out the causes of difference, we prepare a Bank Reconciliation Statement (BRS).

Meaning:

Bank Reconciliation Statement (BRS):

- is a statements
- on any particular date
- which reconciles the cash book (bank column) balance & pass book (Bank statement) balance,
- By writing the items causing difference between the two balances.

Causes of Differences in the Cash Book and Pass Book Balance

The difference may arise on account of the following reasons:

a) Differences caused by Time gap in recording transactions.

  i. Recorded by us but not recorded by bank. (Bank will record at a later date).

  ii. Items recorded by bank but not recorded in our books.

b) Differences caused by errors committed in recording transactions.
   i. Errors committed in our books (i.e in cash book - bank column).
   ii. Errors committed by bank (i.e. in pass book).

a) Differences caused by Time gap in recording transactions:

The difference between the Cash Book and Pass Book balance is caused by the time gap in recording the transactions.

i. Recorded by us but not recorded by bank. (Bank will record at a later date). - The reason for time gap are as follows:
   1. Cheques issued but not yet presented for payment in the Bank
   2. Cheques paid into the bank for collection but not yet credited by the bank.

ii. Items recorded by bank but not recorded in our books.
   3. Interest and dividend collected or allowed by the bank
   4. Interest charged by the bank
   5. Bank Charges and Commission charged by the bank
   6. Direct deposit by customers into the bank
   7. Direct payment made by the bank on behalf of customers
   8. Dishonour of cheque

Following is the table summarising in brief the timings of different transactions:

Sl. No.	Transaction	Time of recording in cash book	Time of recording in pass book
1.	Payment done by the account holder through issuing a cheque	At the time of issuing the cheque	At the time presenting the cheque to the bank for payment or clearing of funds.
2.	Receipt by the account holder through a cheque	At the time of depositing the cheque into the bank comes into notice.	At the time of collection of amount from the account of the issuing party.
3.	Interest and dividend credited by the bank	When the entry posted in the pass book comes into notice.	When interest or dividend is allowed or collected by the bank.
4.	Interest debited by the bank	When the entry is posted in the pass book comes into notice.	When interest is charged by the bank
5.	Bank charges and commission charged by the bank	When the entry posted in the pass book comes into notice.	When charges are levied by the bank
6.	Collection of bills/cheque directly on behalf of the account holder	When the entry posted in the pass book comes into notice.	When the amount is collected by the bank.

7.	Direct payment to the third party on behalf of the account holder	When the entry posted in the pass book comes into notice.	When the amount is paid by the bank
8.	Dishonour of cheque	When the entry posted in the pass book comes into notice.	When the cheque dishonoured.

b) **Differences caused by Errors Committed in Recording Transactions:** Sometimes the difference between the Cash Book and Pass Book balance may arise due to errors committed in recording transactions in the Cash Book or in the Pass Book. Hence, such errors may be of two types:

i. **Errors committed in recording transactions by the firm:** Sometimes the firm may commit errors while recording entries in the Cash Book. Such errors may be:
   1. Cheques issued to a creditor but omitted to be recorded in the Cash Book.
   2. Cheques deposited into the bank but omitted to be recorded in the Cash Book.
   3. Error in totalling or balancing the bank column of the Cash Book.

ii. **Errors committed in recording transactions by the bank:** Sometimes the bank commits an error and records a wrong entry in the customer's account which causes a difference between the bank balance shown by the cash book and the balance shown by the pass book.

Bank Pass book/Bank statement:

Bank Pass Book or Bank statement is the
- copy of our (customers) a/c maintained in the Banks account book.
- It is periodically given by the Bank to customer.
- With this customer compares its own record & prepare BRS

Format of Pass book/Bank Statement

Date	Particulars	Withdrawal (Debit)	Deposit (Credit)	Balance

Cash book & Bank account in the context of BRS
- When cash book is referred in the context of BRS it means Bank column of cash book & not cash column.
- This Bank Column of cash book is nothing but a Bank account.
- Therefore those Bank accounts which are made in ledger will be similarly treated for BRS

Format of Cash book (bank Column) or Bank a/c

Dr. **Cr**

Date	Particulars (Receipt)	Amount	Date	Particulars (Payment)	Amount

Balances of Pass Book & Cash Book:

- When we deposit cash, Cheque, D.D. etc. we record on the debit side of Cash Book whereas Bank records it on the Credit Side of Pass book.
- Similarly when payment is made from Bank a/c we credit it in Cash Book whereas Bank debits in Pass book.
- Thus Cash book & Pass book will have opposite effect for same item.

Comment on format of Pass Book & Cash Book:

- Usually customers of bank (i.e. the enterprise) prepares an account in T form i.e. debit on left side and credit on right side.
- But the above shown Dr., Cr., Balance format of account followed in pass book can be used by the customer as well.
- This 'Dr, Cr, Balance' format is more useful when account balance is needed after every transaction.

Pass book as per bank's record and bank account as per our record are personal account hence apply the rule: Debit the receiver and Credit the Giver

Preparation of Bank Reconciliation Statement

A bank reconciliation statement can be prepared by taking the balance either as per cash book or as per pass book as a starting point. If the statement is started with the balance as per bank column of the cash book, the answer arrived at in the end will be the balance as per pass book. Alternatively, if the statement is started with the balance as per pass book, the answer arrived at in the end will be the balance as per cash book.

Nature of balances in the cash book & Pass book

Particulars	Nature of Balance	
Wording Used	As per Cash book	As per Pass book
1. Deposits with Bank, Balance with Bank, Cash with Bank etc.	Debit (Asset)	Credit (Liability)
2. Overdraft balance, loan balance, Excess withdrawn etc.	Credit (Liability)	Debit (Asset)

Think for a Moment that:

- Our deposit with bank is an Asset for us but a liability for Bank.
- Similarly loan/overdraft from bank is a liability for us but an asset for Bank.

Also recall from what you have studied in Accounting Process Chapter that all assets have debit balance and all liabilities have credit balance

Presentation of BRS: Add-less pattern or Dr.-Cr. pattern

- No particular form/pattern of BRS is necessary.
- In most of the text book it is presented in Add –less form

Add-Less Pattern:

Starting Point of Bank Reconciliation Statement

A bank reconciliation statement can be started from any of the balances mentioned below:

1. Dr. Balance as per Cash Book. - Favourable balance.
2. Cr. Balance as per Cash Book. (overdraft) – Unfavourable balance.
3. Dr. Balance as per Pass Book. (overdraft) - Unfavourable balance.
4. Cr. Balance as per Pass Book. - - Favourable balance

Notes:

1. If cash book balance is given in the question at the start, but it is not clearly stated that this balance is debit or credit, it will be treated as a debit balance.
2. If pass book balance is given in the question at the start, but it is not clearly stated that this balance is debit or credit, it will be treated as a credit balance.

If Bank Reconciliation is To Be Made by Add/Less Pattern

Causes of differences	Favourable balance (Dr.) as per cash- book	Unfavourable balance (Cr.) as per cash-book	Unfavourable balance (Dr.) as per pass-book	Favourable balance (Cr.) as per pass-book
Cheque deposited but not cleared	Subtract	Add	Subtract	Add
Cheque issued but not presented to bank	Add	Subtract	Add	Subtract
Cheque directly deposited in bank by a customer	Add	Subtract	Add	Subtract
Income (e.g., interest from UTI) directly received by bank	Add	Subtract	Add	Subtract
Expenses (e.g., telephone bills, Insurance charges) directly paid by bank on standing instructions	Subtract	Add	Subtract	Add
Bank charges levied by bank	Subtract	Add	Subtract	Add

Locker rent levied by bank	Subtract	Add	Subtract	Add
Wrong debit in the cash book	Subtract	Add	Subtract	Add
Wrong credit in the cash book	Add	Subtract	Add	Subtract
Wrong debit in the pass book	Subtract	Add	Subtract	Add
Wrong credit in pass book	Add	Subtract	Add	Subtract
Undercasting of Dr. side of bank account in the cash book	Add	Subtract	Add	Subtract
Overcasting of Dr. side of bank account in cash book	Subtract	Add	Subtract	Add
Undercasting of Cr. side of bank account in cash book	Subtract	Add	Subtract	Add
Overcasting of Cr. side of bank account incash book	Add	Subtract	Add	Subtract
Bill receivable collected directly by bank	Add	Subtract	Add	Subtract
Interest on bank overdraft charged	Subtract	Add	Subtract	Add

If Bank Reconciliation is To Be Made by Debit - Credit Pattern

Starting Point of Bank Reconciliation Statement

A bank reconciliation statement can be started from any of the balances mentioned below:

1. Dr. Balance as per Cash Book. - Favourable balance.
2. Cr. Balance as per Cash Book. (overdraft) – Unfavourable balance.
3. Dr. Balance as per Pass Book. (overdraft) - Unfavourable balance.
4. Cr. Balance as per Pass Book. - - Favourable balance

Preparation of Amended or Adjusted Cash Book

The adjusted or amended Cash book Balance can be ascertain by passing

1. Adjusting entries in respect items recorded by bank but not recorded in our books. Example:
   a) Bank charges charged by Bank
   b) Interest credited by Bank.
2. Rectifying entries in respect of Errors committed in our books (i.e. in cash book – bank column). e.g. cheque issued but recorded in cash column /discount column, cheque issued recorded in bank column with wrong amount, over/under cast of bank column, error in balancing the bank column, error in carry Forward / brought forward of bank balance

Key Point: Items recorded by us but not recorded by bank & errors committed by bank, will not be recorded in amended cash book.

CLASS QUESTIONS

C.1. **[ICAI]** From the following particulars, prepare a Bank Reconciliation Statement for Jindal offset Ltd.

1. Balance as per cash book is ₹ 2,40,000
2. Cheques issued but not presented in the bank amounts to ₹ 1,36,000.
3. Cheques deposited in bank but not yet cleared amounts to ₹ 90,000.
4. Bank charges amounts to ₹ 300.
5. Interest credited by bank amounts to ₹ 1,250.
6. The balance as per pass book is ₹ 2,86,950

C.2. **[ICAI]** From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2019.

1. The bank overdraft as per Cash Book on 31st December, 2019 ₹6,340
2. Interest on overdraft for 6 months ending 31st December, 2019 ₹160 is entered in Pass Book.
3. Bank charges of ₹ 400 are debited in the Pass Book only.
4. Cheques issued but not cashed prior to 31st December, 2019, amounted to ₹11,68,000.
5. Cheques paid into bank but not cleared before 31st December, 2019 were for ₹ 22,17,000.
6. Interest on investments collected by the bank and credited in the Pass Book ₹12,00,000.

C.3. **[Nov. 2018, RTP May 2020 & Similar in ICAI]** 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

C.4. [Similar in ICAI] From the following particulars prepare a Bank Reconciliation Statement as on 31st December, 2020:

a) On 31st December, 15 the Cash-book of a firm showed deposit with bank Dr. Balance of ₹ 6,000.
b) Cheques had been issued for ₹ 5,000, out of which cheques worth ₹ 4,000 only were presented for payment.
c) Cheques worth ₹ 1,400 were deposited in the bank on 28th December, 2020 but had not been credited by the bank. In addition to this, one cheque for ₹ 500 was entered in the Cash-book on 30th December, 2020 but was banked on 3-1-2021.
d) A cheque from Susan for ₹ 400 was deposited in the bank on 26th December, 2020 but was dishonored and the advice was received on 2-1-2021.
e) Pass-book showed bank charges of ₹ 20 debited by the bank.
f) One of the debtors deposited a sum of ₹ 500 in the bank account of the firm on 20th December, 2020 but the intimation in this respect was received from the bank on 2-1-2021.
g) Bank Pass-book showed a credit balance of ₹ 5,180 on 31st December, 2020.

C.5. **[ICAI]** From the following information, prepare a Bank reconciliation statement as at 31st December, 2019 for Messrs New Steel Limited :

Particulars	(₹)
(1) Bank overdraft as per Cash Book on 31st December, 2019	22,45,900
(2) Interest debited by Bank on 26th December, 2019 but no advice received	2,78,700
(3) Cheque issued before 31st December, 2019 but not yet presented to Bank	6,60,000
(4) Transport subsidy received from the State Government directly by the Bank but not advised to the company	14,25,000
(5) Draft deposited in the Bank, but not credited till 31st December, 2019	13,50,000
(6) Bills for collection credited by the Bank till 31st December, 2019 but no advice received by the company	8,36,000
(7) Amount wrongly debited to company account by the Bank, for which no details are available	7,40,000

C.6. **[ICAI]** The bank column of cash book of Mukesh was balanced on 31st March, 2019. It showed an overdraft of ₹ 5,000. This did not agree with the balance shown by bank statement of Mukesh. You are required to prepare a bank reconciliation statement taking the following into account :

(1) Cheques issued but not presented for payment till 31.3.2019 ₹12,00,000.

(2) Cheques deposited but not collected by bank till 31.3.2019 ₹ 20,00,000.

(3) Interest on term-loan ₹ 10,00,000 debited by bank on 31.3.2019 but not accounted in Mukesh's book.

(4) Bank charges ₹ 2,500 was debited by bank during March, 2019 but accounted in the books of

Mukesh on 4.4.2019.

(5) An amount of ₹ 30,68,000 representing collection of Remesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

C.7. **[ICAI]** When Nikki & Co. received a Bank Statement showing a favourable balance of ₹10,39,200 for the period ended on 30th June, 2019, this did not agree with the balance in the cash book. An examination of the Cash Book and Bank Statement disclosed the following :

1. A deposit of ₹3,09,200 paid on 29th June, 2019 had not been credited by the Bank until 1st July, 2019.
2. On 30th March, 2019 the company had entered into hire purchase agreement to pay by bank order a sum of ₹3,00,000 on the 10th of each month, commencing from April, 2019. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of ₹4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to ₹3,000 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.
6. ₹11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2019.

Prepare Bank Reconciliation Statement on 30 June, 2019.

C.8. The cash book of a firm showed an overdraft (Cr) of ₹ 30,000 on 31st March, 2021. A comparison of the entries in the cash book and pass book revealed that –

a) On 22nd March, 2021, cheques totaling ₹ 6,000 were sent to bankers for collection. Out of these, a cheque for ₹ 1,000 was wrongly recorded on the credit side of the cash book and cheques amounting to ₹ 300 could not be collected by bank before 1st April, 2021.
b) A cheque for ₹ 4,000 was issued to a supplier on 28th March, 2021. The cheque was presented to bank on 4th April, 2021.
c) There were debits of ₹ 2,600 in the pass book for interest on overdraft and bank charges, but the same had not been recorded in the cash book.
d) A cheque for ₹ 1,000 was issued to a creditor on 27th March, 2021 but by mistake the same was not recorded in the cash book. The cheque was, however, duly encashed by 31st March, 2021.

e) As per standing instructions, the banker collected dividend of ₹ 500 on behalf of the firm and credited the same to its account by 31st March, 2021. The fact was, however, intimated to the firm on 3rd April, 2021.
You are required to prepare a bank reconciliation statement as on 31st March, 2021.

C.9. **[Similar RTP Dec. 2022]** On 31st March, 2021 the Pass-book of a trader showed a credit Balance (deposit) of ₹ 1,565, but the pass-book balance was different for the following reasons from the Cash Book Balance.

a) Cheques issued to 'X' for ₹ 600 and to 'Y' for ₹ 384 were not yet presented for payment.
b) Bank charged ₹ 35 for Bank charges and 'Z' directly deposited ₹ 816 into the Bank account, which were not entered in the Cash Book.
c) Two cheques one from 'A' for ₹ 515 and another from 'B' for ₹ 1,250 were collected in the first week of April, 2021 although they were banked on 25-03-2021.
d) Interest allowed by Bank ₹ 45.

Prepare Bank Reconciliation Statement as on 31st March, 2021.

C.10. From the following information (as on 31.3.2021), prepare a Bank Reconciliation Statement after making necessary amendments in the Cash-book:

Particulars	₹
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 31.3.2021.

C.11. **[May 2018]** The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. Ongoing through the Pass Book, the accountant found the following:

(i) A Cheque of ₹ 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 15 th April 2018.

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

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

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

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

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

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

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

(ix) A Cheque for ₹ 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.

C.12. **[ICAI]** According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2019. On investigation you find that :

1. Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till the date.
2. Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2019.
3. A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book
4. Insurance premium (up to 31st December, 2019) paid by the bank ₹ 27,000 not entered in the cash book.
5. The payment side of the cash book had been under casted by ₹ 5,000.
6. Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.
7. A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

C.13. **[Nov.2020]** On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued

to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

(7) The bank allowed interest on deposit ₹ 1,000

(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020.

C.14. [Dec. 2021] According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2021 On investigation you find that :

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

(ii) Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2021

(iii) A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2020) paid by the bank ₹ 2,700 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 500

(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book.

C.15. **[May 2019]** Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:

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

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

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

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

(v) Cheques worth ₹ 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, ₹ 14,000

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

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

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

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

(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 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 ₹ 2,000.

C.16. Perfect Pvt. Ltd., has two accounts with Ever Bank Ltd. The account were known as 'Account-I' and 'Account-II'. As at December, 31, 2020 the balance as per A/c. books reflected the following : Account-I ₹ 1,25,000/- Regular balance. Account-II ₹ 1,11,250/- Overdraft balance. The accountant failed to tally the balance with the Pass Book and the following information was available:

1. The Bank has charged Interest on Account-II, ₹ 11,375/- and credited Interest on Account-I, ₹ 1,250/-. These were not recorded by the accountant.
2. ₹12,500/- drawn on Dec.10, 2020, from Account-I was recorded in the books of Account-II.
3. Bank charges of ₹ 150/- and ₹ 1,125/- for Account-I and Account-II were not recorded in the books.
4. A deposit of ₹ 17,500/-in Account-I was wrongly entered in Account-II in the books.
5. Two cheques of ₹ 12,500/-and ₹ 13,750/- deposited in Account-I, but entered in Account-II in books, were dishonored. The entries for dishonored cheques were entered correctly in Account-II.
6. Cheques issued for ₹ 1,50,000/- and ₹15,000/-from Account-I and II respectively, were not presented till 5th January, 2021.
7. Cheques deposited ₹ 1,25,000/- and ₹ 1,17,500/- in Account-I and II respectively, were credited by bank only on February, 2, 2021.

You are required to prepare the Bank Reconciliation Statement for Account-I and II.

C.17. Based on the following extracts from the Cash Book and the Pass Book for the month of January, 2021, prepare the Bank Reconciliation Statements as on 31st Jan., 2021.

Cash Book (Bank Columns Only)

Date	Particulars	₹	Date	Particulars	₹
2021			2021		
Jan 3	To Cash	300	Jan 1	By Balance b/d	5,000
Jan 4	To Ram	1,300	Jan 16	By Cash	300
Jan 5	To Shyam	250	Jan 17	By Bharat	1,350
Jan 6	To Krishna	500	Jan 18	By Charat	500
Jan 10	To Bill of Exchange	1,900			
	(Discount of ₹ 100)				
Jan 31	To Balance c/d.	2,900			
		7,150			7,150

Pass Book

Date	Particulars	Withdrawal	Deposits	Dr./ Cr.	Balance
2021		₹	₹		₹
Jan 1	To Balance b/d	--	--	Dr.	5,000
Jan 3	By Cash	--	300	Dr.	4,700
Jan 8	By Shyam	--	250	Dr.	4,450
Jan 9	By Krishna	--	500	Dr.	3,950
Jan 10	To Krishna's Cheque Dishonoured	500	--	Dr.	4,450
	By Bills of Exchange (Discounted)	100	2,000	Dr.	2,550
	To Bills of Exchange (Dishonoured)	2,000	--	Dr.	4,550
Jan 16	To Cash	300	--	Dr.	4,850
Jan 18	To Charat	500	--	Dr.	5,350
Jan 31	To Bank Charges	20	--	Dr.	5,370
Jan 31	To Life Insurance premium as per instruction	250	--	Dr.	5,620
Jan 31	By Dividend and interest collected as per instruction	--	1,150	Dr.	4,470

PRACTICE QUESTIONS

P.1. **[RTP May 2021]** From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	₹
Bank balances as per the cash book (Dr.)	32,50,000
Cheques deposited, but not yet credited	44,75,000
Cheques issued but not yet presented for payment	35,62,000
Bank charges debited by bank but not recorded in the cash-book	12,500
Dividend directly collected by the bank	1,25,000
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	2,55,000
Customer's cheque dishonoured by bank not recorded in the cash-book	1,30,000
Wrong credit given by the bank	1,50,000

Also show the bank balance that will appear in the trial balance as on 31.3.2020.

P.2. **[Nov. 2019 & Similar in Nov. 2019 RTP & ICAI]** On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

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

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

(iii) On 29th September, 2018, the bank credited an amount of ₹ 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 ₹ 280 had not been entered in the cash book.

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

(vi) A bill of exchange for ₹ 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 ₹ 13,46,000.

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

P.3. **[July 2021]** From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:

a. Debit balance as per Bank Pass Book ₹ 3,500.

b. A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.

c. During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.

d. A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonoured. The Bank debited the account, but no entry was passed in the Cash Book.

e. A Cheque for ₹ 1,500 was debited twice in the cash book.

P.4. **[Jan. 2021]** Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020 :

Particulars	₹
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	4,000

P.5. **[ICAI]** On 30th December, 2019 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2019 were not presented for payment until that date.

2. Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2019, but were entered in the bank statement on1st January, 2020.

3. A cheque for ₹ 73,000 had been dishonoured prior to 30th December, 2019, but no record of this fact appeared in the cash book.

4. A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2019.

P.6. **[RTP May 2018]** The Cash-book of M/s ABC shows ₹ 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 ₹ 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 ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 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 ₹ 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 ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

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

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

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 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 ₹ 1,550 as ₹ 1,505. Prepare Bank Reconciliation Statement on 31st March, 2017.

P.7. **[RTP Nov.2018 & Nov. 2020]** Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

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

(ii) Bank collected a cheque of ₹ 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 ₹ 1,589 as ₹ 1,598.

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

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

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

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

P.8. **[RTP May 2019]** On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

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

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

(iv) A cheque for ₹ 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 ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

(viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

(ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

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

P.9. **[RTP June 2022]** From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

(1) Bank overdraft as per Pass Book as on 31st March, 2021 was ₹ 8,800

(2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.

(3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.

(4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.

(5) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass Book

(6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2021.

(7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.

(8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

P.10. **[ICAI]** The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2019, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2019 the payment side of the Cash Book was undercast by ₹10,000.

(2) A cheque for ₹1,31,000 issued on 25th December, 2019 was not taken in the bank column.

(3) One deposit of ₹1,50,000 was recorded in the Cash Book as if there is no bank column therein.

(4) On 18th December, 2019 the debit balance of ₹15,260 as on the previous day, was brought forward as credit balance.

(5) Of the total cheques amounting to ₹11,514 drawn in the last week of December, 2019, cheques aggregating
₹7,815 were encashed in December.

(6) Dividends of ₹25,000 collected by the Bank and subscription of ₹1,000 paid by it were not recorded in the Cash Book.

(7) One out-going Cheque of ₹3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

P.11. **[ICAI]** The following are the Cash Book (bank column) and Pass Book of Jain for the months of March, 2019 and April, 2019

Date	Particulars	Amount Dr. ₹	Date	Particulars	Amount Cr. ₹
01/3/2019	To Balance b/d	60,000	03/3/2019	By Cash A/c	2,00,000
06/3/2019	To Sales A/c	3,00,000	07/3/2019	By Modi	60,000
10/3/2019	To Ram	65,000	12/3/2019	By Patil	30,000
18/3/2019	To Singhal	2,70,000	18/3/2019	By Suresh	40,000
25/3/2019	To Goyal	33,000	24/3/2019	By Ramesh	1,50,000
31/3/2019	To Patel	65,000	30/3/2019	By Balance c/d	3,13,000
		7,93,000			7,93,000

Pass Book

Date	Particulars	Amount Dr. ₹	Amount Cr. ₹	Dr. or Cr.	Balance ₹
1/4/2019	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/2019	By Goyal		33,000	Cr.	3,98,000
5/4/2019	By Patel		65,000	Cr.	4,63,000
7/4/2019	To Naresh	2,80,000		Cr.	1,83,000
12/4/2019	To Ramesh	1,50,000		Cr.	33,000
15/4/2019	To Bank Charges	200		Cr.	32,800
20/4/2019	By Usha		17,000	Cr.	49,800
25/4/2019	By Kalpana		38,000	Cr.	87,800
30/4/2019	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2019.

5

Depreciation

Introduction:

An expenditure which results into enduring benefit [long term benefit] are treated as capital expenditure/ fixed assets. Fixed assets [Property, Plant & Equipment] are those assets which are held for use in the business and not for sale or consumption in the course of production.

Fixed assets which have a limited useful life are known as depreciable asset like, building, plant and machinery, etc. land is a non-depreciable asset. Revenue expenses are charged to the years P&L a/c similarly depreciable fixed assets should be charged over [written off] over its useful life. This process of systematically allocating depreciable amount [cost less estimated scrap value] to the P&L accounts over its useful life is known as depreciation accounting. Amortization of assets which has specific life like patents etc. is also included in it.

The Institute of Chartered Accountants of India [ICAI] has issued an Accounting Standard [AS-10] 'Property, Plant & Equipment, which also contains norms regarding Depreciation Accounting, which needs to be followed.

Depreciation though accrues every day but for convenience it is calculated and accounted annually.

Meaning:

1. **Fixed asset/Depreciable asset:**
   As per AS-10: Property, plant and equipment [commonly referred as Fixed Asset] are tangible items that:
   - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   - are expected to be used during more than a period of twelve months.

   Fixed assets which have a limited useful life are known as depreciable asset like, building, plant and machinery, furniture etc. Land is a non-depreciable asset.

2. **Depreciation**
   Depreciation is the reduction in the value of fixed assets due to:

- its use,
- passage [effluxion] of time
- obsolescence through technology and market changes

Depreciation is the apportionment of cost of asset net of estimated scrap value over its estimated useful life.

Factors taken into consideration for calculation of depreciation.

[Nov. 2020] Discuss the factors taken into consideration for calculation of depreciation.

Solution:

Following factors are taken into consideration for calculation of depreciation.

(a) **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

(b) **Estimated useful life of the asset** - Useful Life' is either [i] the period over which a depreciable asset is expected to be used by the enterprise or [ii] the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

(c) **Estimated scrap value** [if any] is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Need of depreciation

- The assets are shown at proper [reduced] value at every balance sheet.
- The profit & Loss account shows true/proper profit or loss because some portion of fixed asset [in the form of depreciation] which are used for earning the income are debited to P & L A/c
- The depreciation reduces the profit, hence to that extent amount [funds] gets retained in the business, which can be used for replacement of this asset.

When depreciation starts:

- Depreciation starts once an asset is ready for use,
- even if it is not yet put to use,
- it is because depreciation is the reduction in value due to use, efflux [passage] of time and obsolescence etc.

Depreciation is a non-cash expenditure:

- Depreciation is charged/ debited to profit and loss account like any other expenses.
- But other expenses results [sooner or later] into payment [credit to cash/bank]
- where as depreciation results into reduction in value of fixed assets [credit to fixed asset a/c and not to cash/bank a/c], hence known as non-cash expenditure.

Cash outflow results only once when fixed asset is purchased and later on every year it is written off to P&L a/c as depreciation.

[Nov. 2018] Depreciation is a non-cash expense and does not result in any cash outflow.
Solution: True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

Method of Depreciation Calculation

The common methods of calculating depreciation:

1. Straight line/ fixed installment/ original cost method and
2. Written down value/ diminishing/ reducing balance method.

Fixed installment/straight line method:

- The amount of annual depreciation on a fixed asset are same every year.
- If the life of assets is given the depreciation will be calculated as Follows.

$$\text{Depreciation p.a.} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Life (in years)}}$$

- If the % of Depreciation is given then every year that % will be applied on original cost of the assets.

Reducing Balance Method/Written down value method.

The % of depreciation will be applied in 1st year on original cost & thereafter every year on the written down value at the beginning of that year. W.D.V. Rate for charging depreciation can be worked out by following formula, to be solved with the help of log tables. [It is not expected that such calculation can be asked in exam at CA Foundation level]

- W.D.V. Rate = 1 [-] $\sqrt[N]{\frac{\text{Scrap Value}}{\text{Cost}}}$
- Where 'N' is life of Asset in years.
- If Scrap value is not given it can be taken as 5% of cost or a token amount like Rs.100, etc. for calculating rate because otherwise this formula cannot work.

- Remember that while calculating WDV rate the scrap value has already been considered now while applying that rate don't deduct scrap value from the cost of that asset.

Period of depreciation:

Depreciation is calculated on the basis of time for which the asset was used in that year. Therefore in case of opening balance of Assets, depreciation is calculated for whole year. Whereas on the Assets which are added during the year depreciation is calculated for the period from the date of purchase to the end of the year. If the date of purchase is not given then we assume the middle of year & accordingly depreciation is taken for 6 months only. On assets sold during the year depreciation is calculated from the beginning of the year to the date of sale.

Methods of Depreciation Accounting

1. The Depreciation is calculated as above [i.e. by SLM or WDV method] and
2. is accounted at the end of every financial year, in either of the following ways.
   (a) Depreciation is credited to the assets account.
   (b) Depreciation is credited to Depreciation reserve account.

a) Depreciation is credited to the assets account:
   - Depreciation is credited to the assets concerned every year & hence the balance of asset will reduce from year to year.
   - Journal Entry

Date	Particulars	LF	Debit	Credit
	Depreciation a/c Dr. To Assets a/c			

b) Depreciation is credited to Depreciation reserve account:
   - Depreciation will be credited to Depreciation reserve a/c/Depreciation fund a/c/ depreciation provision a/c & not to Assets A/c
   - Hence the assets will always appear in the books at its original cost & the Depreciation Reserve a/c will show the accumulated Depreciation till that year.
   - While preparing Balance-Sheet we show on the assets side Fixed assets less depreciation reserve.
   - Journal Entry

Date	Particulars	LF	Debit	Credit
	Depreciation a/c Dr. To Depreciation Reserve a/c			

Depreciation a/c represents an expense hence it will be transferred [Debited] to P & L A/c in both the above cases

Depreciation reserve/ depreciation provision/ deprecation fund account:

Every year when depreciation is charged it is credited to depreciation provision account. Thus it keeps on increasing every year. At the end of every year this accumulated balance is shown as a deduction from the cost of asset in the balance sheet. When an asset is sold, discarded or retired the accumulated depreciation of that asset is transferred from depreciation provision account to that asset account [or asset disposal a/c if prepared] and then profit/loss on that asset's disposal is ascertained.

- Clearly identify the distinction that SLM and WDV are **methods for calculating** depreciation [i.e. it tells how much to write off]
- Whereas crediting to asset a/c or depreciation provision a/c are the **methods of accounting** [i.e. it tells how to account]

Accounting treatment of the asset sold:

- When the fixed Asset is sold, sale value is credited to asset A/c and the profit or loss on sale is ascertained.
- The accumulated depreciation of the asset sold is transferred from depreciation provision account [if you are maintaining asset account at its original cost] to that asset account.
- The profit or loss is the difference between sale value & written down value of that asset.
- This profit or loss is transferred as follows.
  a) If profit entry will be –

Date	Particulars	LF	Debit	Credit
	Assets a/c Dr. To Profit on sale of asset a/c / P & L a/c			

  b) If loss entry will be –

Date	Particulars	LF	Debit	Credit
	Loss on sale of asset a/c / P & L a/c Dr. To Assets a/c			

- On the Assets sold, depreciation will be calculated for the period from the beginning of the year to the date of sale & then profit or loss will ascertained.
- This whole accounting can alternatively be done by preparing asset disposal a/c explained below.

Accounting of the asset sold through Asset Disposal Account

- When the fixed Asset is sold, we can account it through Asset account itself as explained above or by preparing an Asset Disposal A/c [Asset Sold A/c].
- Cost of the asset sold/balance of asset sold is transferred from asset a/c to asset disposal a/c.

- The accumulated depreciation of the asset sold is transferred from depreciation provision account [if you are maintaining asset account at its original cost] to asset disposal a/c.
- Sale value is credited to asset disposal A/c and the profit or loss on sale is ascertained.
- The balance in the asset disposal a/c is the profit [if credit balance] or loss [if debit balance].
- This profit or loss is transferred as follows.

(i) If profit entry will be –

Date	Particulars	LF	Debit	Credit
	Assets Disposal a/c Dr. To Profit on sale of asset a/c / P & L a/c			

(ii) If loss entry will be –

Date	Particulars	LF	Debit	Credit
	Loss on sale of asset a/c / P & L a/c Dr To Assets Disposal a/c			

Change In: Method of Depreciation, Cost or Life of Asset

The principle of consistency requires that same methods should be followed from year to year. But in case of permissible situation an enterprise can change the method. We will see how such change should be dealt with similarly we will also study how to deal with when cost of asset, life of asset changes or if an asset is revalued. AS-10 Property Plant & Equipment covers provision on this matters the same are also covered herein below.

1. Change in the method of depreciation:

a) Prospective change:

Whenever a change is having prospective effect i.e., the change is applicable from the year in which change is decided, then from that year onwards depreciation should be calculated by new method at new rate. For example in the year 2021 SLM method is changed to WDV w.e.f. 2021

b) Retrospective change: [Now AS-10 does not allow retrospective change]

2. Change in cost of asset:

a) The cost of a depreciable asset may change [increase or decrease] due to
   - charge or refund of duties, taxes etc,
   - receipt or refund [cancellation] of Govt. grants,
   - change in foreign exchange liability etc.

b) As per AS-10 the revised un-amortized balance should be written off over its remaining useful life i.e. prospective adjustment is required.

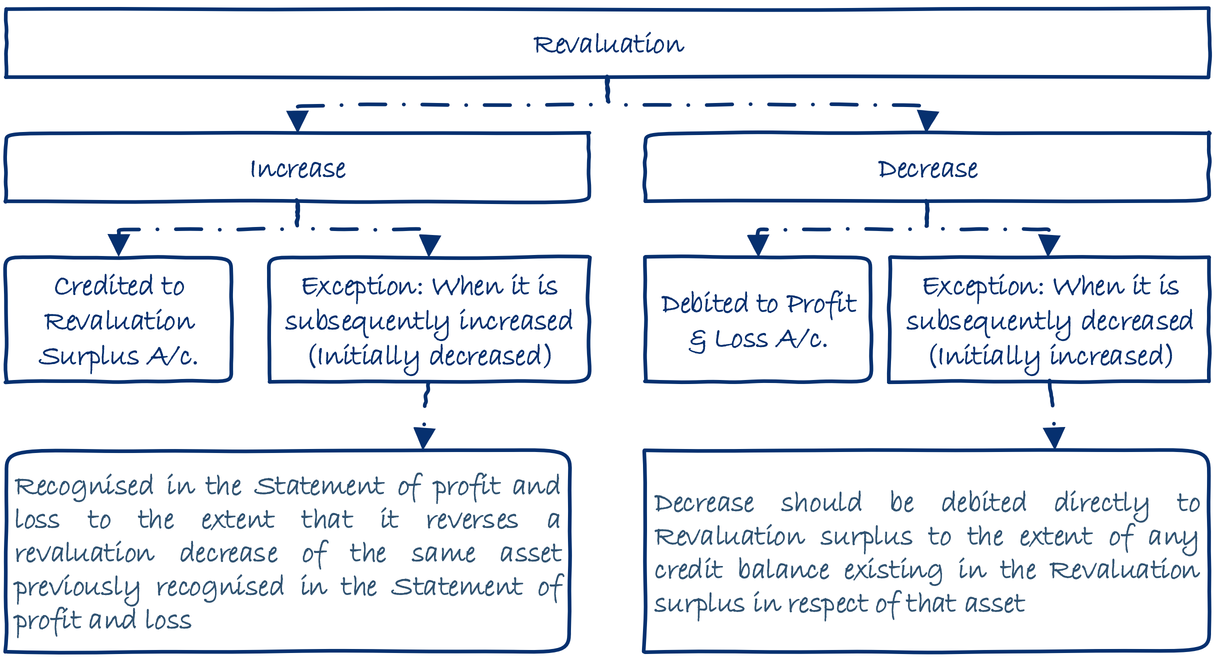
3. Change in life of asset & residual value:

The depreciation is calculated by estimating its useful life & residual value, both of which must be reviewed at least at the end of each financial year end and if required the same be changed. If the life of assets is revised [the life may increase or decrease] then the unamortized balance should be written off over its remaining [revised] useful life i.e. prospective adjustment.

Accounting Treatment of Revaluation

a) **An increase in the carrying amount** of an asset arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss.

b) **A decrease in the carrying amount** of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.



Accounting for revaluation and subsequent revaluation of an asset can be understood with the help of following alternatives. [+] represents increase and [-] represents decrease on revaluation.

Sr.	Previous revaluation [1st]		Subsequent revaluation [2nd]

	₹	Accounting treatment	Balance left in revaluation reserve if any	₹	Accounting treatment	₹
1	+5	Cr. To Revaluation surplus	5	+4	Cr. To Revaluation surplus	4
2	+5	Cr. To Revaluation surplus	5	-4	Dr. To Revaluation surplus	4
3	+5	Cr. To Revaluation surplus	5	-7	Dr. To Revaluation surplus Dr. P & L a/c	5 2
4	-5	Dr. To P & L a/c	-	-4	Dr. P & L a/c	4
5	-5	Dr. To P & L a/c	-	+4	Cr. P & L a/c	4
6	-5	Dr. To P & L a/c	-	+7	Cr. P & L a/c Cr. To Revaluation surplus	5 2

In above table the effect on P &L or revaluation surplus is specified, the other effect will be [either Dr. or Cr.] to fixed asset account.

Other Methods of Depreciation

1. Depletion Method.
2. Machine Hour Method
3. Sum of Digits Method.
4. Production Units Method

1. Depletion method:

- This method is followed in case of exhaustive[wasting] assets e.g., Mines.
- For charging depreciation on such item the life of the Asset [lease period] is not very important because it can be used [i.e., Mineral can be extracted] only till it contains minerals.
- As soon as the mineral is exhausted the mine becomes useless.
- Therefore depreciation is calculated in proportion of the mineral extracted in a particular year to the total extractable mineral contained in it.

$$Depreciation\ (per-ton,\ etc.) = \frac{Cost\ of\ \ Asset}{Extractable\ \ Quantity\ of\ \ Mineral}$$

2. Machine Hour Method:

- In this case the life of the machine will be given in terms of effective/productive machine hours.

$$\text{Depreciation per Machine Hour} = \frac{\text{Cost of machine - Scrap Value}}{\text{Total life in terms of Machine Hours}}$$

- The depreciation for a particular year will be the machine hours used in that year multiplied by Machine hour rate.

3. Sum of Digits Method:

In this method the depreciation is calculated in the ratio of the remaining life of the asset in the beginning of that year to the sum of digits of the life remaining for all the year.

4. Production Units Method

Under this method depreciation of the asset is determined by comparing the annual production with the estimated total production. The amount of depreciation is computed by the use of following method

$$\text{Depreciable Amount} \times \frac{\text{Production during the period}}{\text{Estimated total production}}$$

CLASS QUESTIONS

STRAIGHT LINE METHOD & WRITTEN DOWN VALUE METHOD

C.1. On 1.1.18 machinery was purchased for ₹ 80,000. On 1.7.19 addition were made to the amount of ₹ 40,000. On 31.3.20 machine purchased on 1.7.19 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.20 machinery purchased on 1.1.18 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.20 addition were made to the amount of ₹ 20,000. Show Machinery a/c & Depreciation a/c for 3 years 2018, 19, 20. Depreciate Machinery at 10% p.a. by S.L.M.

You are required to do:

a) Calculation by SLM and Accounting by credit to Asset a/c
b) Calculation by SLM and Accounting by credit to Depreciation Provision a/c

C.2. On 1.1.18 machinery was purchased for ₹ 80,000. On 1.7.19 addition were made to the amount of ₹ 40,000. On 31.3.20 machine purchased on 1.7.19 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.20 machinery purchased on 1.1.18 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.20 addition were made to the amount of ₹ 20,000. Show Machinery a/c & Depreciation a/c for 3 years 2018, 19, 20. Depreciate Machinery at 10% p.a. by W.D.V. method.

You are required to do:

a) Calculation by WDV and Accounting by credit to Asset a/c
b) Calculation by WDV and Accounting by credit to Depreciation Provision a/c

C.3. On 1st January 2018 Hari Om purchased 6 machines for ₹ 15,000 each. His accounting year ends on 31st December. Depreciation at the rate of 10% on initial cost has been charged to profit and loss account and credited to a separate depreciation provision account. On 1st January 2019 one machine was sold for ₹ 12,500 and on 1st January 2020 a second machine was sold for ₹ 12,500. An improved model which cost ₹ 28,000 was purchased on 1st July, 2019. The same rate of depreciation was decided for the new machine was well. You are required to show:

a) The asset account
b) The asset disposal account
c) The depreciation provision account

C.4. Rajeev commenced business in March, 2019. He acquired some machines for ₹ 2,00,000 on 1.4.19. He acquired another machine for ₹ 50,000 on 1.3.2021. He sold machines, original cost of which was ₹ 60,000, for ₹ 35,000 on 31.10.2020. Assuming depreciation @15% under WDV basis, compute the depreciation for the year ended 31.3.2020 and 31.3.2021 and prepare machinery a/c Depreciation to be calculated to the nearest rupee.

C.5. **[ICAI]** The Machinery Account of a Factory showed a balance of ₹ 19,00,000 on 1st January, 2019. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2019, a new machinery was acquired at a cost of ₹ 2,80,000 and installation charges incurred in erecting the machine works out to ₹ 8,920 on the same date. On 1st June, 2019 a machine which had cost ₹ 4,37,400 on 1st January 2017 was sold for ₹ 75,000. Another machine which had cost ₹ 4,37,000 on 1st January, 2018 was scrapped on the same date and it realised nothing.

Write a plant and machinery account for the year 2019, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

CHANGE IN METHOD OF DEPRECIATION

C.6. **[SLM to WDV]** A firm purchased on 1st January, 2016, certain machinery for ₹ 19,40,000 and spent ₹ 60,000 on its erection. On 1st July in the same year additional machinery costing ₹ 10,00,000 was acquired. On 1st July, 2018 the machinery purchased on 1st January, 2016 having become obsolete was auctioned for ₹ 8,00,000 and on the same date fresh machine was purchased at a cost of ₹ 15,00,000.

Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the asset. In 2019 however, the firm changed this method of providing depreciation and adopted the method of writing off 20% on the written down value. Give the Machinery Account, as it would stand at the end of each year from 2016 to 2020.

C.7. **[WDV to SLM]** Ram Ltd. which depreciates its machinery at 10% p.a. on Diminishing Balance Method, had on 1st January, 2020 ₹ 9,72,000 on the debit side of Machinery Account.

During the year 2020 machinery purchased on 1st January, 2018 for ₹ 80,000 was sold for ₹ 45,000 on 1st July, 2020 and a new machinery at a cost of ₹ 1,50,000 was purchased and installed on the same date, installation charges being ₹ 8,000.

The company wanted to change the method of depreciation from Diminishing Balance Method to Straight Line Method. The rate of depreciation remains the same as before. Show Machinery Account.

C.8. **[ICAI]** M/s Anshul & Co. commenced business on 1st January 2015, when they purchased plant and equipment for ₹ 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and Over the years, their purchases of plant have been:

Date	Amount
1-1-2016	1,50,000
1-1-2019	2,00,000

On 1-1-2019 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2019 with no scrap value and 10 years for the asset purchased on 1.1.2019.

Required: Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2019.

CHANGE IN LIFE, COST AND REVALUATION

C.9. M/s Kapur & Sons purchased machinery on 1.1.2015 for ₹ 10,00,000. The machine was ready to use on 1.7.2015. The expected useful life of the machine was 10 years and estimated scrap value was ₹ 2,00,000. They followed straight line depreciation. On 1.1.2018 the government grant received for the said machine ₹ 1,00,000, they upward revalued the machinery by ₹ 4,00,000, and on the same date and re-estimated the total useful life as 11.5 years. On 15.5.2021 the machine was destroyed by fire. As per terms and conditions the insurance company paid 70% of the W.D.V. as on the date of destruction. Show Machinery Account in the books of M/s Kapur & Sons.

C.10. **[May 2018, RTP Nov. 19, Nov. 2020, May 2021 & May 2022]** M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1st July, 2015.
On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.
Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

C.11. **[Jan. 2021 & Similar in RTP Nov. 2021]** M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year. Give the motor truck account for two years ending 31st December, 2020.

C.12. **[ICAI]** A firm's plant and machinery account at 31st December, 2019 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost ₹	Depreciation Provision ₹
2002	2,00,000	2,00,000
2008	3,00,000	3,00,000
2009	10,00,000	9,50,000
2010	7,00,000	5,95,000
2017	5,00,000	75,000
2018	3,00,000	15,000

	30,00,000	21,35,000

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2019 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹ 15,00,000
2. Plant that had been bought in 2008 for ₹ 170,000 was scrapped.
3. Plant that had been bought in 2009 for ₹ 90,000 was sold for ₹ 5,000.
4. Plant that had been bought in 2010 for ₹ 2,40,000 was sold for ₹ 15,000

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2019. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2019.

a) Plant and machinery at cost;
b) Depreciation provision;
c) Sales or disposal of plant and machinery.

REVALUATION OF ASSET

C.13. **[ICAI]** A Machinery costing ₹ 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

C.14. **[ICAI]** Amazing group had Property, Plant & Equipment [PP&E] with a book value of ₹ 35,00,000 on 31st December 2019. The balance in Revaluation Surplus on that date was ₹ 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 2019. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2019 was [a] ₹ 37,00,000 [b] ₹ 33,00,000 and [c] ₹ 31,00,000. Also, give the journal entries.

DEPLETION METHOD

C.15. B & Co. took a Mine on lease on 1.1.12 for 10 years for ₹ 10 lacs. It is estimated to contain 50 lac tons of Coal of which 20% has to be left un-extracted as bottom layer. Coal extracted in 1st four years is [In lacs tons]: 3, 5, 6, 4. Prepare Mine a/c

C.16. **[ICAI]** M/s Surya & Co. took lease of a quarry on 1-1-2017 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table

Year	Quantity of Mineral extracted
2017	2,000 tonnes
2018	10,000 tonnes
2019	15,000 tonnes

Required: Show the Quarry Lease Account and Depreciation Account for each year from 2017 to 2019.

SUM OF DIGIT METHOD

C.17. **[ICAI]** M/s Akash & Co. purchased a machine for ₹ 10,00,000. Estimated useful life and scrap value were 10 years and ₹ 1,20,000 respectively. The machine was put to use on 1.1.2014.

Required: Show Machinery Account and Depreciation Account in their books for 2019 by using sum of years digits method.

MACHINE HOUR METHOD

C.18. **[ICAI]** A machine was purchased for ₹ 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be ₹ 2,00,000 and Year

1 – 3 3,000 hours per year

4 - 6 2,600 hours per year

7 - 101,800 hours per year

Required: Determine Annual Depreciation under Machine Hour Rate Method

PRODUCTION UNIT METHOD

C.19. **[ICAI]** A machine is purchased for ₹ 20,00,000. Its estimated useful life is 10 years with a residual value of ₹ 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	Production
1-3	20,000 units per year
4-7	15,000 units per year
8-10	10,000 units per year

Required: Determine the value of depreciation for each year using production units method.

PRACTICE QUESTIONS

P.1. **[ICAI]** Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.
Required: Show the Machinery Account and Depreciation Account for the year 2018 and 2019.

P.2. **[ICAI]** Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.
Required: Show the Machinery Account on diminishing balance method for the year 2018 and 2019.

P.3. **[ICAI & RTP May 2018]** The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year. You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

P.4. **[Dec. 2021]** On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000. The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31 st March, 2021 and gain or loss on the destroyed Bus.

P.5. **[RTP May 2019]** A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [To write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000]. You are required to show the Lease Account for four years [2014-15 to 2017-18] and also the relevant entries posted to the profit and loss account.

P.6. **[ICAI]** A firm purchased on 1st January, 2018 certain machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On July 1, 2018 another machinery for ₹ 2,00,000 was acquired. On 1st July, 2019 the machinery purchased on 1st January, 2018 having become obsolete was auctioned for ₹ 3,86,000 and on the same date fresh machinery was purchased at a cost of ₹ 4,00,000.
Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required: Prepare machinery account.

P.7. **[Nov. 2018, RTP May 2020 & Similar in ICAI]** A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

P.8. **[May 2019]** A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2015 and spent ₹ 3,000 on its overhauling. On 1st July 2016, another machine was purchased for ₹ 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2016 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January, 2015.

P.9. **[RTP July 2021]** M/s Roxy purchased a brand new machinery on 1st January 2017 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2017 for ₹ 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for ₹ 2,50,000. Another machinery was purchased and installed on 30th September 2019 for ₹ 60,000. Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year.

P.10. **[Nov. 2019]** X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p .a. on written down value. Prepare Machinery account for the years 2017 and 2018.

P.11. **[Jan. 2021]** The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54;000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off@ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

6

Inventory Valuation

Meaning & Introduction:

Inventory are the assets held

- for resale (finished goods and stock in trade) or
- in the course of conversion into finished goods (WIP). or
- for consumption in the process of production (raw material, packing material, stores and spares, etc.)

Inventory is commonly referred to as stock or closing stock.

There can be different types of inventory based on nature of business of an enterprise. The inventories of a trading concern consist primarily of products purchased for resale in their existing form. It may also have an inventory of supplies such as wrapping paper, cartons, and stationery. The inventories of manufacturing concern consist of several types of inventories: raw material (which will become part of the goods to be produced), work-in-process (partially completed products in the factory) and finished products. In manufacturing concerns inventories will also include maintenance supplies, consumables, loose tools and spare parts. However, inventories do not include spare parts, servicing equipment and standby equipment which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are generally accounted for as fixed assets. Similarly, in an enterprise engaged in construction business, projects under construction are also considered as inventory.

At the year-end every business entity while preparing the final accounts a concern has to make adjustment of stock/inventory balance at the end of that year. The balance of stock will not be available from the financial records, but will be ascertained by making physical counting at the end of the year and then valuing it.

The adjustment is necessary because purchase is treated as an expense and debited to trading account, whereas some of those goods may be still remaining with the organization at the end of the year i.e. that much inventory is an asset and not an expense.

The Entry will be:

Stock a/c (asset) Dr. ....

To Trading a/c Or Purchase a/c ....

Items included in inventory:

The inventory mainly includes:

- For a manufacturer:
  - Raw material
  - Work in progress
  - Finished goods, stock in trade and
  - Others like store, spares, packaging material etc.
- For a trader :
  - Finished Goods/Stock in trade

Inventory System:

- Inventory system refers to system of ascertaining the inventory i.e. how much balance of an item is there.
- The most common systems are:
  - Periodic/Physical inventory system
  - Perpetual inventory system

[Nov. 2019] Distinguish between Periodic Inventory System and Perpetual Inventory System

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
4.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
5.	This system is simple and less expensive.	It is costlier method.
6.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

Inventory Valuation

The principles of inventory valuation:

- The inventory valued at cost or at net realisable value whichever is lower.

AS-2 requires inventory should be valued at lower of the cost and net realisable value. This is in accordance with the prudence principle. Because if the inventory value reduces the anticipated loss gets recognized but in case the value increases the expected profit (which is not yet realized) is not recognized.

[Nov. 2019] Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

Solution: 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.

a) Cost: Cost is the expenditure necessarily incurred to bring the inventory in to its present form and condition.

The cost formulas used for inventory valuation:

- The cost may be calculated by different methods/cost formulas.
- The more commonly used and recognized methods are:
  - Specific identification/specific pricing method
  - First In First out (FIFO)
  - Last In First Out (LIFO)
  - Weighted Average Method

Elements (items) included in cost:

- The cost include various elements in it. e.g., Material, Labour, Direct Expenses, Manufacturing Expenses, Administration Expenses, Selling-Distribution Expenses and Interest.
- But generally for valuation of closing stock of Finished goods and WIP we include expenses upto manufacturing stages only i.e. Material, Labour, Direct expense and Manufacturing overhead (Variable and Fixed both)
- That means, administration expenses, selling expenses and interest is not included in inventory valuation.

As per AS-2 Inventory valuation only FIFO method and Weighted average methods are permitted for valuation.

AS-2 requires expenses upto manufacturing stage (including fixed overheads) should be included in cost. Cost should include those expenses which are necessarily incurred to bring inventory into its present stage and condition.

b) Net realisable value:

- The net realisable value in case of Raw Material will be generally the replacement price (i.e., the price which will be payable if we purchase that material at the end of the year). In case of finished goods/stock-in-trade the net realisable value will be the net selling price which will be receivable if we sale that goods at the end of the year in the normal course of business. Thus –

- Net realizable price in case of raw materials = Replacement price = Purchase price + Expenses of completing purchase
- Net realizable price in case of finished goods = Net selling price = Selling price (–) Expenses of completing sale.

Comparison of cost & net realisable value:

- Cost of the individual material or a group of items, which are interchangeable, should be compared with the realisable value of that group of items and lower should be taken for inventory valuation.
- That is all inventories taken together should not be compared.

In case of finished goods

- the cost of production will be compared with the net realisable value. (i.e., the net price which will be receivable if we sale that goods at the end of the year).

In case of Raw material:

- If the replacement price is less than the cost, then raw material inventory should be valued at replacement price.
- But there is an exception to this i.e. when the price of the finished goods for which raw material will be used is sufficient to cover the cost of material and other expenses, then we can value the material stock at cost even when replacement price is less.

In case of WIP:

- it may be valued only on cost or estimated cost basis if realizable value cannot be ascertained.
- But if it has to be compared with realisable price then in the cost of WIP, the further estimated expenditure will be added and that total cost will be compared with the realisable value of Finished Goods.
- This is done because WIP as it is may not have market price.
- Alternatively as per AS-2, sale value (-) cost of completion (-) cost of selling be compared with WIP cost.

Cost Formula:

a) Specific identification method

In this method the rate of inventory item which is actually issued is applied for valuing issues. I.e. physical tracking is required. This may be practicable only for those items which are purchased for a specific use. For general items which are similar & interchangeable and are regularly held in stock, this method will be most inconvenient to apply.

b) FIFO (First In First Out) method

In FIFO method it is assumed that the lot of material which comes first will be issued first and then the next and so on. Therefore the closing stock will be out of the latest (recent) lots and hence the stock will be valued at the rates of this lots. Closing stock can be valued from out of the latest (last) lots or by preparing date wise stores ledger, both approaches will give same valuation. In case of rising prices, the inventory will be valued at the latest i.e. higher prices and hence profit will be higher and cost of sales will be lower. In case of declining prices, the inventory will be valued at the latest i.e. lower prices and hence profit will be lower and cost of sales will be higher.

c) LIFO (Last In First Out) method:

In LIFO method it is assumed that the last lot (i.e., the last among the lots available at the time of issue) will be issued first and then the previous lot and so on. Therefore the earlier lots will be in stock and hence the closing stock will be valued at those rates of earliest lots (i.e. oldest lots) In case of rising prices, the inventory will be valued at the oldest i.e. lower prices and hence profit will be lower and cost of sales will be higher. In case of declining prices, the inventory will be valued at the oldest i.e. higher prices and hence profit will be higher and cost of sales will be lower. In this method the current (i.e. latest) cost gets charged against current revenue. In case of LIFO method the valuation of inventory from earliest lot will be followed only when date wise details of issue are not given. But if in the question the details of date-wise issues are given then more correctly the valuation should be made by preparing a date wise stores-Card. Both approaches can give different valuation. LIFO as a cost formula is not permitted by revised AS-2.

It should have noted that in FIFO and LIFO both, the word 'assumed' has been used. That means first going first or last going first is only an assumption for the purpose of valuation, actually (physically) any material may have been issued.

d) Average price method

- The average can be a simple average or weighted average.
- If we calculate the total of various rates and divide it by the number of rates taken then it is a simple average e.g.
- $$\text{Simple Average} = \frac{5+5.5+5.5+6+4.75}{5} = \frac{26.75}{5} = 5.35$$
- The simple average is not considered as appropriate method (not permitted by AS-2) & hence generally not followed;
- Therefore in average price method, we follow weighted average method.

e) Standard price method:

Standard price is a pre determined price (i.e. it is a best estimated price and not actual cost). It can be applied for inventory valuation only when the result approximates the actual (As per AS-2).

f) Retail price method or adjusted selling price method:

The cost is ascertained by deducting a percentage of profit from the sale value. In case of large number of small value inventory this method is permitted for convenience by AS-2, if the result approximates the actuals. In case of retail trade where numerous items are dealt with and the individual cost details are not being maintained. Then for inventory valuation the selling price of such goods can be reduced by some % representing the profit margin and selling expenses. Such adjusted rate will be used for valuation of inventory. It is simple to use and does not require elaborate record maintenance.

Other Situation of Inventory Ascertainment:

- Inventory is ascertained Most commonly:
  - by Physical counting or
  - by maintaining Inventory records
- but sometimes following situation may arise.

a) Ascertaining Inventory when Physical verification is done at different date:

- Physical count of an early date or later date will be available.
- The transactions like sale, purchase, returns etc between this date and year end date should be appropriately adjusted on the physical count given to arrive at closing inventory.
- In case above data is in value terms and not quantity, then all should be converted into same valuation base say cost.
- For this purpose from sale value and sales return value the gross profit will be deducted to arrive at cost, rest of the process will be same.

Closing Inventory = Early date inventory + Purchases + Cost of sales return – Cost of sales – Purchase return.

Closing Inventory = Later date inventory + Cost of sales + Purchase return – Purchases – Cost of sales return.

b) Ascertaining Inventory when physical verification is not done and inventory records are also not maintained by the organization:

- In such situation gross profit (G.P.) ratio will be given alternatively it can be ascertained from last years trading account.
- Prepare trading account write G.P. earned on the sales calculated at above G.P. rate and balance the account to get closing inventory.
- If any abnormal item (i.e. on which this % of profit is not applicable) is included, then remove such abnormal items from both side of trading a/c. and then calculate and write G. P. and balance trading a/c. to get closing inventory.

- If any abnormal item was also lying (remaining) till that date then add the same to closing inventory ascertained from above trading a/c, at lower of cost and net realisable value.

ACCOUNTING STANDARD-2:

Inventory should be valued at cost or net realisable value whichever is lower.

Cost should be valued by FIFO or Weighted Average basis. Specific price method can be followed when material is acquired for a particular transaction or contract. Standard cost and retail price method (adjusted selling price method) is permitted in only specific situation.

Cost should be valued on absorption costing basis (i.e., including variable cost + proportionate fixed production overhead). Administration overhead, Selling & Distribution cost, storage cost and interest should be excluded for stock valuation.

CLASS QUESTIONS

C.1. How valuation will be done in following cases

Items	Cost ₹	Net selling price (net of selling exp.) ₹	Replacement price (including purchase exp.) ₹	Remarks
a. Finished goods	500	600	--	1000 units in stock
b. Finished goods	500	460	--	1000 units in stock
c. Raw material	200	--	220	600 units in stock
d. Raw material	200	--	175	600 units in stock
e. WIP	260	600	--	200 units in stock, further cost 240
f. WIP	260	460	--	200 units in stock, further cost 240

C.2. M/s Subhalaxmi Traders find out the following historical cost and net realisable value for various types of inventories. Find out value of Closing Stock in accordance with AS-2 (Revised) – Valuation of Inventories issued by ICAI.

Inventory Categories	01	02	03	04	05	06	
Historical Cost	17,400	20,100	18,200	16,500	15,400	21,400	= 1,09,000
Net Realisable Value	12,200	27,400	19,100	17,200	16,800	20,900	= 1,13,600

C.3. A firm has two products A and B. It analyses its costs for the products as follows:

	A (₹)	B (₹.)
Materials	1,20,000	1,40,000
Labour	80,000	1,00,000
Production Expenses	70,000	70,000
Administration Expenses	50,000	50,000
Advertising	30,000	30,000
	3,50,000	3,90,000

Production was 20,000 units of A and 30,000 units of B. The selling price was ₹ 20 per unit of A but the price of B was only ₹ 10; agents in both cases received commission @ 5% of the selling price. The closing stock was 2,000 units and 3,000 units of A and B respectively. What is the value that should be put on the closing stock?

FIFO, LIFO, WEIGHTED AVERAGE

C.4. **[ICAI]** The following are the details of a spare part of Sriram Mills:

1-1-16	Opening Stock	Nil
1-1-16	Purchases	100 units @ Rs.30 per unit

15-1- 16	Issued for consumption	50 units
1-2-16	Purchases	200 units @ Rs.40 per unit
15-2- 16	Issued for consumption	100 units
20-2- 16	Issued for consumption	100 units
1-3-16	Purchases	150 units @ Rs.50 per unit
15-3- 16	Issued for consumption	100 units

Find out the value of stock as on 31-3-16 if the company follows:

1. First in First Out basis 2. Last in First Out basis 3. Weighted Average basis

C.5. A manufacturer has the following record of purchase of a condenser which he uses while manufacturing radio sets:

Purchases were as follows

Date	Quantity (Units)	Price per ₹ (Unit)
Dec-4	900	5.00
Dec-10	400	5.50
Dec-11	300	5.50
Dec-19	200	6.00
Dec-28	800	4.75
	2600	

Issues were made as follows

Date	Quantity (Units)
Dec-5	600
Dec-12	400
Dec-29	600

Value the closing stock under different methods?

C.6. **[ICAI - Adjusted Selling price method]** M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2020:

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

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

C.7. **[Similar in July 2021]** From the following information, calculate the historical cost of inventories using adjusted selling price method:

Sales during the year	2,00,000
Cost of purchases	2,00,000
Opening inventory	Nil
Closing inventory at selling price	50,000

ASCERTAINING OF STOCK WHEN STOCK OF DIFFERENT DATE IS KNOWN

C.8. **[RTP May 2018]** 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 ₹ 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 ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing₹ 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 ₹ 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.

C.9. **[ICAI]** X who was closing his books on 31-3-2020 failed to take the actual Stock which he did only on 9th April, 2020, when it was ascertained by him to be worth ₹ 25,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the return book as and when the good are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31-3-2020 and 9-4-2020 as per the sales day book are ₹ 1,720. Purchases between 31-3-2020 and 9-4-2020 as per purchases day book are ₹ 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, 2020 but goods received only on 4th April, 2020 amounted to Rs.100. Rate of gross profit is 33 1/3% on cost.

Ascertain the value of physical stock as on 31-3-2020.

C.10. **[RTP May 2021 & Similar in Nov. 2019]** Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 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 ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 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 ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

C.11. **[RTP Nov. 2018, May 2020 & Similar in RTP Dec. 2021]** 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 31 st 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₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 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.

C.12. **[Nov. 2020]** (Stock of Earlier Date Is Known) Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.

(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.

(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020.

C.13. **[ICAI]** From the following particulars ascertain the value of Inventories as on 31st March, 2020:

Inventory as on 1.4.2019	1,42,500
Purchases	7,62,500
Manufacturing Expenses	1,50,000
Selling Expenses	60,500
Administrative Expenses	30,000
Financial Charges	21,500
Sales	12,45,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 17,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

C.14. **[ICAI]** The Profit and loss account of Hanuman showed a net profit of ₹ 6,00,000, after considering the closing stock of ₹ 3,75,000 on 31st March, 2020. Subsequently the following information was obtained from scrutiny of the books:

a) Purchases for the year included ₹ 15,000 paid for new electric fittings for the shop.

b) Hanuman gave away goods valued at ₹ 40,000 as free samples for which no entry was made in the books of accounts.

c) Invoices for goods amounting to ₹ 2,50,000 have been entered on 27th March, 2020, but the goods were not included in stock.

d) In March, 2020 goods of ₹ 2,00,000 sold and delivered were taken in the sales for April, 2020.

e) Goods costing ₹ 75,000 were sent on sale or return in March, 2020 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2020 these were taken as sales for March, 2020.

Calculate the value of stock on 31st March, 2020 and the adjusted net profit for the year ended on that date.

PRACTICE QUESTIONS

P.1. **[ICAI]** Surekha Ltd deals in 3 products P, Q & R, which are neither similar nor interchangeable. At the end of a financial year, the Historical Cost and NRV of items of Closing Stock are given below. Determine the value of Closing Stock.

Items	Historical Cost (in Lakhs)	Net Realisable Value (in Lakhs)
P	38	42
Q	29	29
R	17	14

P.2. **[Dec. 2021]** The following are the details of the spare parts of an Oil Mill:

1-1-2021	Opening Inventory	Nil
1-1-2021,	Purchases	10 units @ ₹ 300 per unit
15-1-2021	Issued for consumption	5 units
1-2-2021	Purchases	20 units @ ₹ 400 per unit
15-2-2021	Issued for consumption	10 units
20-2-2021	Issued for consumption	10 units

Find out the value of Inventory as on 31.3.2021,if the company follows Weighted Average Method.

P.3. **[Jan. 2021]** From the following particulars ascertain the value of inventories as on 31st March, 2020

Inventory as on 1st April, 2019	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20 on sales.

P.4. **[ICAI]** A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 5,00,000. The following facts were established between 31st March and 15th April, 2020.

a) Sales ₹ 4,10,000 (including cash sales ₹ 1,00,000)

b) Purchases ₹ 50,340 (including cash purchases ₹ 19,900)

c) Sales Return ₹ 10,000.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of inventory as on 31st March, 2020.

P.5. The following are the details of a spare part of Sriram mills

1-1-2020	Opening Inventory	Nil
1-1-2020	Purchases	100 units @ ₹ 30 per unit
15-1-2020	Issued for consumption	50 units
1-2-2020	Purchases	200 units @ ₹ 40 per unit
15-2-2020	Issued for consumption	100 units
20-2-2020	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2020 if the company follows First in first out basis

P.6. **[ICAI]** From the following information, ascertain the value of stock as on 31.3.2020

Value of stock on 1.4.2019	7,00,000
Purchases during the period from 1.4.2019 to 31.3.2020	34,60,000
Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2019 a sum of ₹ 60,000 was written off a particular item which was originally purchased for ₹ 2,00,000 and was sold for ₹ 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

ASCERTAINING OF STOCK WHEN STOCK OF DIFFERENT DATE IS KNOWN

P.7. **[RTP May 2019, Nov. 2020 & Similar in June 2022]** 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 ₹ 50,000. The following facts were established between 31st March and 15th April, 2018.

a) Sales ₹ 41,000 (including cash sales ₹ 10,000)

b) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

c) Sales Return ₹ 1,000.

d) On 15th March, goods of the sale value of ₹ 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.

e) The trader had also received goods costing ₹ 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.

P.8. **[ICAI]** Inventory taking for the year ended 31st March, 2020 was completed by 10th April 2020, the valuation of which showed a inventory figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for₹ 68,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹ 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow-moving items costing ₹ 11,250, which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 30th March, 2020.

P.9. **[May 2019]** 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 ₹ 1,25,000. It has been found that;

a) 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.

b) Purchases are entered in the Purchase Book on the day the Invoices are received.

c) Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.

d) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.

e) Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.

f) Invoices for goods purchased amounting to ₹ 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.

P.10. **[ICAI & Similar in Nov. 2020]** Physical verification of stock in a business was done on 23rd June, 2020. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2020:

a) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.

b) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2020.

c) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2020, but no information is available regarding the remaining goods.

d) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

e) Determine the value of stock on 30th June, 2020.

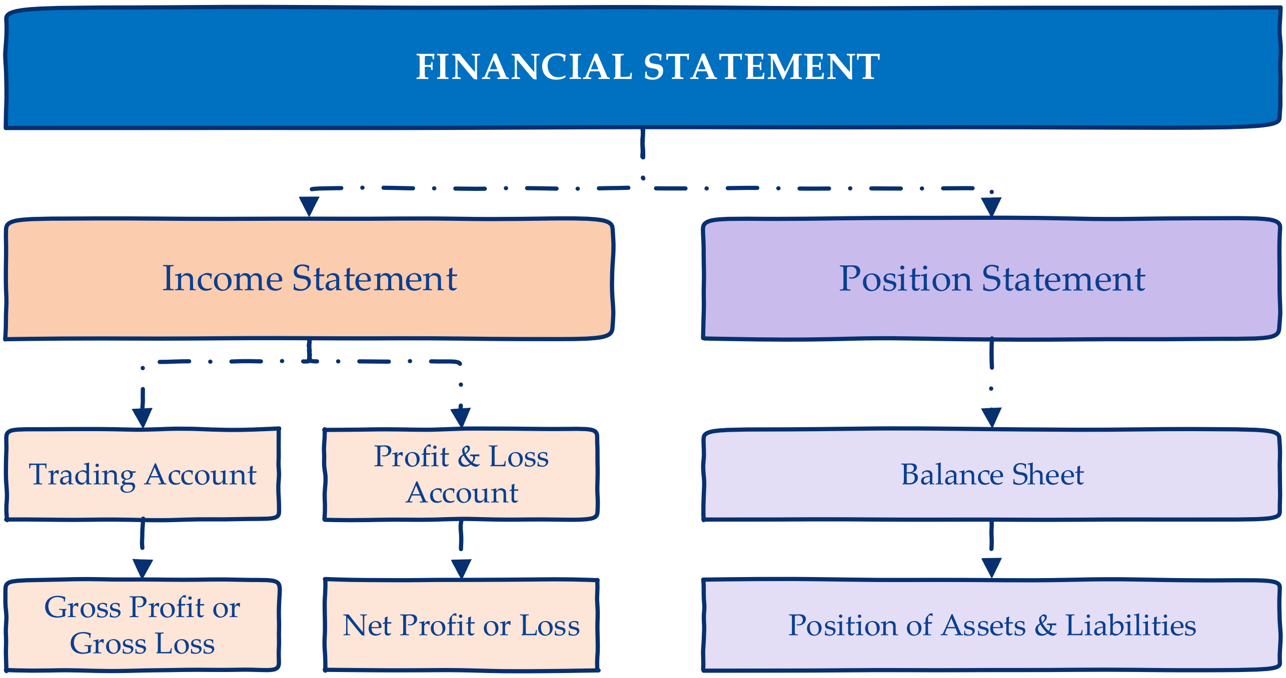
7

Final Accounts

Final Account of Non-Manufacturing Entities

Introduction:

Non-manufacturing entities are the trading entities, which are engaged in the purchase and sale of goods at profit without changing the form of the goods. In other words, non-manufacturing entities do not process the goods purchased and sell them in its original form. Meanwhile it indulges in some liabilities, makes some assets and also incurs some expenses like salaries, stationery expenses, advertisement, rent etc. to run the business. At the end of the accounting year, the entity must be interested in knowing the results of the business. To ascertain the final outcome of the business i.e., the income and financial position, they prepare financial statements at the end of the year.



Financial Statements are the systematically organized summary of all the ledger account heads presented in such a manner that it gives detailed information about the financial position and the performance of the enterprise. As seen above, through categorization of Financial Statements into Income & Position Statement, the profit or loss is measured at two levels:

(a) Gross Profit or Gross Loss

(b) Net Profit or Net Loss

The profit or loss of the enterprise is obtained through the preparation of Income Statement i.e Trading and Profit & Loss A/c The financial position of the business enterprise is judged by measuring the assets, liabilities and capital of the enterprise and the same is communicated to the users of financial statements. Financial position of the enterprise can be known through the preparation of the Position Statement i.e Balance Sheet.

Comparison between Income Statement and Position Statement

Income Statement	Position statement
Profit or loss is disclosed in the Income Statement prepared at the close of the financial year	It exhibits assets and liabilities of the business as at the close of the financial year.
Income Statement is sub-divided into following two parts for a non-manufacturing concern: (i) Trading account; and (ii) Profit and Loss account	Apart from balance sheet, to judge financial position of the business, sometimes additional statements are also prepared like cash flow statement, value added statement etc. which is not mandatory for non- corporate entities. These additional statements are prepared for the better understanding of the financial position of the business.
Income Statement discloses net profit or net loss of the business after adjusting from the income earned during the year, all the expenditures of the business incurred in that year.	Position statement discloses the assets and liabilities position as on a particular date.

Trading account:

Trading account shows the profit/loss made on a gross basis that is including only the direct cost of the goods. In trading a/c, we credit the trading income like sale and debit the cost of goods sold (opening stock + purchases (-) closing stock). Alternatively Opening Stock & purchases is debited & closing stock is credited to trading account. Other direct expenses related to purchase or manufacture of goods like carriage inward, wages, etc. are also debited here. Purchase return & Sales returns will be deducted/adjusted from the purchases & sales respectively. The balance is known as the gross profit or gross loss, which is transferred to profit and loss a/c. Non-corporate entities usually prepares trading a/c so as to know the gross margin available in its sale. But at corporate level usually it is not prepared. In those cases the items of trading account gets incorporated in profit & loss account.

Dr. Trading Account of…..for the year ended… Cr.

Particulars	Amount	Particulars	Amount
To Opening Stock		By Sales	

To Purchases		Less: Returns Inward	
Less: Returns outwards		By Closing Stock	
To Direct expenses:		By Gross Loss c/d	
Freight & Carriage			
Customs & Insurance			
Wages			
Gas, Water & Fuel			
Factory Expenses			
To Gross Profit C/d			

Profit & Loss Account:

The Profit and Loss Account starts with gross profit on the credit side. If there is gross loss, it will be written on the debit side. After that all those expenses and losses, which have not been entered in the Trading Account, will be written on the debit side of Profit and Loss Account. Incomes and gains, other than sales, will be written on the credit side.

If we understand word 'expenses' properly, there should be no difficulty in distinguishing between items that will be debited to the Profit and Loss Account and those that will be shown as Assets in the balance sheet. Further, it may be noted that the expenses which are personal in nature will not be charged to Profit and Loss A/c. Only those revenue expenses and losses which are related to the current year, are debited to Profit and Loss Account.

It is desirable, according to modern thinking that the Profit and Loss Account should be prepared in such a manner as will enable the reader to form a correct idea about the profit earned or loss suffered by the firm during the period together with the significant factor. Too many details will prevent a person from knowing properly the factors leading to the profit earned. Therefore, items should be according to the various functions, such as administrations, selling and financing. The profit/loss A/c appears as follows

Dr. Profit and Loss Account for the year ended…… Cr.

Particulars	Amount	Particulars	Amount
To Gross Loss b/d		By Gross Profit	
Management expenses		b/d **Other**	
To Salaries (administrative)		**Income**	
To Office rent, rates and taxes		By Discount Received	
To Printing and stationery		By Commission Received	
To Telephone charges		**Non-trading Income**	
To Postage and telegrams		By Bank Interest	
To Insurance		By Rent of property let-	
To Audit Fees		out By Dividend from	
To Legal Charges		shares	

To Electricity Charges		**Abnormal Gains**	
		By Profit on sale of machinery	
		By Profit on sale of investment	
		By Net Loss (transferred to capital A/c)	
Maintenance expenses			
To Repairs & renewals			
To Depreciation on:			
Office Equipment			
Office Furniture			
Office Buildings			
Selling and Distribution expenses			
To Salaries (selling staff)			
To Advertisement			
To Godown rent			
To Carriage Outward			
To Bad Debts			
To Provision for bad debts			
To Selling commission			
Financial expenses			
To Bank charges			
To Interest on loans			
To Discount on bills			
To discount allowed to customers			
Abnormal Losses			
To Loss on sale of machinery			
To Loss on sale of investment			
To loss by fire			
To Net Profit (transferred to Capital A/c)			

Gross loss appears in the debit side of the Profit and Loss Account at the top; while Gross Profit on the credit side.

Net loss appears in the credit side of the Profit and Loss Account; while Net profit on debit side as balancing figures.

Balance Sheet

The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at." The assets are shown on the right hand side and liabilities and capital on the left hand side.

Characteristics

The balance sheet has certain characteristics, which should be noted. These are the following:

a) It is prepared at a particular date, rather the close of a day and not for a period. It is true only on that date and not later. Suppose, in the example given above, a part of the goods were sold on 1st April, 2019. This will mean that the value of the Inventory will be reduced, the cash in hand will increase and the capital account will be reduced or increased depending upon loss or profit on sale.

b) The balance sheet is prepared only after the preparation of the Profit and Loss Account. This is the reason why the Profit and Loss Account (including the Trading Account) and the Balance Sheet are together called Final Accounts (Of course, the Balance Sheet is not an account, the two sides are not the debit and the credit sides.) Without being accompanied by the Profit and Loss Account, the Balance Sheet will not be able to throw adequate light on the financial position of the firm. For that purpose an appreciation of the profits of the firm is necessary.

Since capital always equals the difference between assets and liabilities and since the capital account will independently arrive at this figure, the two sides of the Balance Sheet must have the same totals. If it is not so, there is certainly an error somewhere.

Arrangements of Assets And Liabilities

1. **Assets:** Assets may be grouped in one of the following two ways:

Liquidity: Under this approach, the asset, which can be converted into cash first, is presented first. Those assets, which are most difficult in this respect, are presented at the bottom. As per Liquidity the balance sheet can be prepared as follow.

Balance Sheet as at…

Liabilities	Amount	Assets	Amount
Bills Payable		Cash in Hand	
Trade Creditors		Cash at Bank	
Loans		Government Securities	
Outstanding Expenses		Other Investments	
Reserves & Surplus		Bills Receivable	
Capital		Sundry Debtors	
		Stock	
		Furniture & Fixtures	
		Plant & Machinery	
		Land and Building	

Permanence: Assets, which are to be used, for long term in the business and are not meant to be sold are presented first. Assets, which are most liquid, such as cash in hand, are presented at the bottom.

Balance Sheet as at…

Liabilities	Amount	Assets	Amount
Capital		Land and Building	
Reserves & Surplus		Plant & Machinery	
Outstanding Expenses		Furniture & Fixtures	
Loans		Stock	
Trade Creditors		Sundry Debtors	
Bills Payable		Bills Receivable	
		Other Investments	
		Government Securities	
		Cash at Bank	
		Cash in Hand	

Note:- Some of the assets may be capable of being sold easily like investment in government securities or shares of some companies. They should be treated as liquid or permanent according to the intention of the firm.

2. **Liabilities:** Liabilities may also be shown according to the urgency with which payment has to be made. One way is to first show the capital, then long-term liabilities and last of all short term liabilities like amounts due to suppliers of goods or bills payable. The other way is to start with short-term liabilities and then show long term liabilities and last of all capital

Classification of Assets And Liabilities

Assets are basically of two types:

a) **Current Assets:** - these assets are meant to be converted into cash as quickly as possible. Generally within one year. For Example:- Cash in hand, Cash at Bank, Trade receivables, Inventories.

b) **Long Term Assets: -** Those that are meant to be used by the firm over a long period and not sold the former type of assets is also called fixed assets. For Example Machinery, Building, Long term Investment.

Intangible Assets: - the assets which have no physical existence and cannot be seen or touched are called as Intangible Assets. For example Patents, Copyrights etc.

It is desirable that in the balance sheet the two types of assets should be shown separately and prominently. This would give meaningful and logical information.

Liabilities to outsider will be of two types:

a) Current Liabilities: - this liability must be settled in one year or less. It is also called as short term liability. For Example:- Creditors, Bills Payable etc.

b) Long Term Liability: - those liabilities which exists for more than one year are Long term liabilities. For example long term loans from banks. Of course, it will include undistributed profits also.

Sole proprietors generally present Balance Sheet in a horizontal form with "Capital and Liabilities" on the left hand side and 'Assets' on the right-hand side. In the Balance Sheet the various items should be grouped suitably as indicated below:

Balance Sheet as on…………..

Liabilities	Amount	Assets	Amount
Capital A/c:		**Tangible Fixed Assets**	
Balance		Land and Building	
Add : Net Profit/Less: Net Loss		Plant and Machinery	
Less : Drawings		Furniture and	
Long Term Loans :		Fixture Vehicles	
Term Loans		**Intangibles :**	
Other Loans		Goodwill	
Short Term Loans		Patent Rights	
Cash Credit		Designs and Brand Names	
Overdrafts		**Investments :**	
Other Loans		Long term investments	
Current Liabilities :		**Current Assets :**	
Trade payables		Inventory in Trade	
Outstanding Expenses		Trade receivables	
Advances Taken		Short term investments	
Provision :		Prepayments	
Provision for Bad debts		Advances	
Provision for Retirement Benefits		Bank Balances	
Provision for Taxation		Cash In Hand	

If course, there is no hard and fast rule regarding presentation of assets, liabilities and equities in the Balance sheet. However, the model presentation shown above has been designed considering the nature of Balance Sheet elements and categorizing them appropriately. Proper presentation of Balance Sheet items improves understandability of the information desired to be communicated to the users of account.

All adjustments are as follows:

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
1. Closing stock	Balance Sheet – Asset Side	(a) Trading A/c – Credit Side (b) Balance Sheet – Asset Side
2. Outstanding Expenses	Balance Sheet – Liability Side	(a) Trading/Profit & Loss A/c Debit Side. Add to the concerned expenses. (b) Balance Sheet – Liability Side
3. Prepaid Expenses	Balance Sheet – Asset Side	(a) Trading/Profit & Loss A/c Debit Side. Deduct from the concerned expense. (b) Balance Sheet - Asset
4. Income Outstanding	Balance Sheet – Asset Side	(a) Profit & Loss A/c – Credit Side. Add to the concerned income. (b) Balance Sheet – Asset Side.
5. Incomes Received in Advance	Balance Sheet – Liability Side	(a) Profit & Loss A/c – Credit Side. Deduct from concerned income. (b) Balance Sheet – Liability Side
6. Bad Debt	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Asset Side. Deduct from debtors.
7. Provision for Bad or Doubtful debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Asset Side. Deduct from Debtors after additional bad debts, if any.
8. Provision for Discount on Debtors	Balance Sheet – Asset Side Deduct from Debtors.	(a) Profit & Loss A/c – Debit Side. (c) Balance Sheet – Asset Side. Deduct from debtors after providing for provision for bad debts
9. Depreciation	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Asset Side. Deduct from Respective Asset.
10. Interest on Capital	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Liability Side. Add to Capital.
		(a) Profit & Loss A/c – Credit Side.

11. Interest on Drawings	Profit & Loss A/c – Credit Side	(d) Balance Sheet – Liability Side. Deduct from Capital.
12. Loss by Fire	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side (with full amount of loss) (b) Profit & Loss A/c – Debit Side (Actual loss, if any) (c) Balance Sheet – Asset Side (with insurance claim admitted by Insurance Co.)
13. Goods withdrawn for personal use	Trading A/c - Credit Side	(a) Trading A/c – Credit Side or Deduct from Purchases. (b) Balance Sheet – Liability Side (Deduct from Capital as Drawings)
14. Goods Distributed as free Samples	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side or Deduct from Purchases (b) Profit & Loss A/c – Debit Side

Limitations of Financial Statement

Financial statements suffer from a number of limitations. These must, therefore be studied with care, in order that correct inferences may be drawn. The limitations are less serious if the objective is only to appraise the performance of a single company over a period of year Where, however, a comparison of the working of different companies for the same period is to be made. It can be misleading unless the companies concerned have followed the same system and basis of accounting. On the account, a comparison of the profitability of different industries on the basis of financial statements, should be undertaken only if it is not practicable to make such a comparison on any other basis.

The principal limitations affecting financial statements are the following:

(a) Historical Cost: Accounting records and, on that account, the financial statements are prepared only on the basis of the money value prevailing at the time the transaction were entered into. Thus, the effect of subsequent changes in the value of money is not taken into account. At times this has the effect of making the statements of account quite misleading. Take the obvious example of a house built in 1980, say at the cost of ₹15,000, in 2020 the benefit receivable from its occupation will be as much as that of a house created in 2020, say at a cost of ₹30,00,000. If the house were included in the financial statements at its original cost, as normally it would not convey a true picture except to a knowledgeable person.

The limitations can be serious in the case of other fixed assets that have been working over a long period over which prices have changed radically. It is, however, not easy to get over this difficulty, since revaluation of fixed assets, apart from being costly is not practicable when the value of money is continuously falling. On this account, historical cost continues to be the accepted basis for the preparation of financial statements. Though it may not be possible to do much to remove the limitation mentioned above, one must always remember to read the balance sheet and the profit and loss account in the light of what they cannot reveal as well as what they do.

(b) Intangible strengths and weaknesses: A company may have a number of strengths and weaknesses which cannot be shown in the balance sheet e.g., the loyalty and calibre of its staff. These must be kept in mind while judging the financial position of the company.

(c) Perpetual continuity and periodical account: Financial statements ordinarily are drawn up at the end of each year but the accounting record is maintained on the assumption that the business undertaking shall continue to exist forever on the basis of going concern assumption. In consequence, much of the expenditure other than revenue expenditure has to be distributed arbitrarily over a number of years during which benefit of the expenditure is expected to arise. As a result, financial statements of account are not absolutely correct.

(d) Different accounting policies: It is permissible for a company within certain limits to adopt different policies for the preparation of accounts, valuation of various assets and distribution of expenditure over different periods of account. For example, a company may decide to provide annually for payment of pensions and gratuities to staff and thus build up a'fund' out of which payments will be made ultimately whereas another company may deal with these only when actual payments are made. Similarly, a company may decide whether or not to include intangible assets amongst its assets or manner in which the amounts thereof should be written off.

(e) Management policies: Management can have different accounting policies for welfare of the staff and public at large.

Final Account of Manufacturing Entities

Introduction

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account

(a) Trading account shows Gross Profit while Manufacturing Account shows cost of goods sold which includes direct expenses.

(b) Manufacturing account deals with the raw material, and work in progress while the trading account would deal with finished goods only.

Purpose

A manufacturing account serves the following functions:

(1) It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly on manufacture.

(2) It provides details of factory cost and facilitates reconciliation of financial books with cost records and also serves as a basis of comparison of manufacturing operations from year to year.

(3) The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture. Similarly, it may also be used to fix the amount of production of profit sharing bonus when such schemes are in force.

Manufacturing Cost

Manufacturing costs are classified into :

+ Raw Material Consumed	....
+ Direct Manufacturing Wages	....
+ Direct Manufacturing Expenses	....
+ Direct Manufacturing Cost	....
+ Indirect Manufacturing expenses or	

+ Manufacturing Overhead	………
Total Manufacturing Cost	______

Raw Material consumed is arrived at after adjustment of opening and closing Inventory of raw materials:

Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials

If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods (also termed as Work-In-Process) is shown in the Manufacturing Account –

Opening inventory of Work-in-Process is posted to the debit of the Manufacturing Account and closing inventory of Work-in-Process is posted to the credit of the Manufacturing Account.

Direct Manufacturing Expenses

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

Manufacturing Account

Given below is a format covering various elements:

Dr. **Manufacturing A/c for the year ended……** **Cr.**

Particulars	Units	Amount	Particulars	Units	Amount
To Raw Material Consumed:			By By-products at net realizable value		
Opening inventory	… .				
Add: Purchases	…..	……	By Closing Work-in- Process		
Less: Closing inventory	…..	……	By Trading A/c		
To Direct Wages			Cost of production		
To Direct expenses:	……	……			
Prime cost					
To Factory overheads:	…..				
Royalty	…..				
Hire charges	…..				
To Indirect expenses:	…..	…….			

Repairs & Maintenance Depreciation Factory cost To Opening Work-in-process	….. 	……. ……. 			

CLASS QUESTIONS

TRADING ACCOUNT

C.1. [ICAI]

Particulars	₹
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

Required: From the above information, prepare a Trading Account of M/s. ABC Traders for the year ended 31st March, 2020 and Pass necessary closing entries in the journal proper of M/s. ABC Traders

PROFIT AND LOSS ACCOUNT

C.2. [ICAI] Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2020 were as follows:

Gross Profit ₹4,20,000, Salaries ₹1,10,000, Discount (Cr.), ₹18,000, Discount (Dr.) ₹ 19,000, Bad Debts ₹17,000, Depreciation ₹65,000, Legal Charges ₹ 25,000, Consultancy Fees ₹32,000, Audit Fees ₹ 1,000, Electricity Charges ₹17,000, Telephone, Postage and Telegrams ₹ 12,000, Stationery ₹ 27,000, Interest paid on Loans ₹70,000.

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2020. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

TRADING AND PROFIT AND LOSS ACCOUNT

C.3. [ICAI] The following is the Trial Balance of C. Wanchoo on 31st Dec. 2020.

Trial Balance on 31st December, 2020

Particulars	₹	₹
Capital Account		10,00,000
Inventory Account	2,00,000	
Cash in hand	1,44,000	

Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st March, 2020 was 2,70,000

Required: Prepare closing entries for the above items and Prepare Trading and Profit and Loss Account.

COST OF GOODS SOLD

C.4. **[ICAI]** Trial Balance for financial the year (FY) ended 31st March 2020 of M/s Deepakshi shows following details:

Particulars	Debit (₹)	Credit (₹)
Purchase & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	4,00,000
Opening Stock	2,00,000	
Closing Stock	3,00,000	
Other Expenses & Incomes	7,00,000	9,00,000
Fixed Assets & Long Term Liabilities	25,00,000	6,00,000
Capital		21,00,000
	52,00,000	52,00,000

Additional Information: Creditors balance as on 1st April, 2019 is ₹ 3,00,000.
You are required to calculate cost of goods sold and amount paid to creditors during the year.

PROVISION FOR DOUBTFUL DEBT

C.5. **[ICAI]** On 1st April 2020 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2020 were ₹ 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances. Show how you would compute the amount debited to the Profit and Loss Account.

BALANCE SHEET

C.6. **[ICAI]** Given below Trial Balance of M/s Dayal Bros. as on 31st March, 2020 :

Particulars	Debit Balances ₹	Credit Balances ₹
Capital A/c		7,00,000
Land and Building	3,00,000	
14% Term Loan		4,00,000
Loan from M/s. D & Co.		4,60,000
Trade receivables	4,20,000	
Cash in hand	20,000	
Inventories in Trade	6,00,000	
Furniture	2,00,000	
Trade payables		40,000
Advances to Suppliers	1,00,000	
Net Profit		1,00,000
Drawings	60,000	
	17,00,000	17,00,000

Prepare Balance Sheet as on 31st March, 2020

C.7. **[ICAI]** The balance sheet of Thapar on 1st April, 2019 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,000
	66,50,000		66,50,000

During 2019-20, his Profit and Loss Account revealed a net profit of ₹15,30,000. This was after allowing for the following:

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

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2020.

But while preparing the Profit and Loss Account he had forgotten to provide for

1. outstanding expenses totalling ₹1,80,000 and
2. prepaid insurance to the extent of ₹ 20,000.

His current assets and liabilities on 31st March, 2020 were : Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000. During the year he withdrew ₹6,00,000 for domestic use

Draw up his Balance Sheet at the end of the year.

FINAL ACCOUNT - (TRADING, PROFIT & LOSS AND BALANCE SHEET)

C.8. **[ICAI]** Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2020

Particulars	Dr. ₹	Cr. ₹
Capital		8,70,000
Purchases and Sales	6,05,000	12,10,000
Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	5,000	
	25,92,000	25,92,000

Closing Inventory on 31st March, 2020 was valued at ₹1,00,000.

Prepare final accounts of Shri Mittal for the year ended 31st March, 2020

C.9. **[ICAI]** Mr. Mohan gives you the following trial balance and some other information:

Trial Balance as on 31st March, 2020

Particulars	Dr. ₹	Cr. ₹
Capital		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Inventory	1,10,000	
Freights Inward	40,000	

Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables and Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,87,000	
	18,31,000	18,31,000

Other Information:

a) Closing Inventory was ₹ 1,80,000;
b) Depreciate Furniture @ 10% p.a.

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2020 and Balance Sheet of Mr. Mohan as on that date.

C.10. **[ICAI]** The Balance Sheet of Mr. Popatlal, a merchant on 31st March, 2020 stood as below:

Liabilities	Amount	Assets		Amount
Capital	2,40,000	Fixed Assets		1,25,600
Trade payables	1,64,000	Inventories		2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000	
		Less: Provision	(6,200)	1,81,800
		Cash		36,200
	5,50,000			5,50,000

Required: Show opening journal entry on 1st April, 2020 in the books of Mr. Popatlal

C.11. **[ICAI]** The following is the schedule of balances as on 31.3.20 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Bombay:

Particulars	Dr. ₹	Cr. ₹
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2019	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	

Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2020 and the Balance Sheet as at that date after making provision for the following:

1. Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for
   ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
2. Value of stock at the close of the year was ₹ 4,40,000.
3. Two month's rent for godown is outstanding.
4. Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2019.
5. Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.

6. Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2019 to 30.6.2020

C.12. [RTP May 2018 & Similar in RTP Dec. 2021] 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 ₹ 2,575 and sales include purchases return of₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 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

C.13. [RTP Nov. 2018 & Similar in RTP May 2021] The following is the trial balance of Hari as at 31st December, 2017:

Particulars	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 ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.
2. Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
3. Depreciation on furniture & fittings @ 10% shall be written off.
4. Personal purchases of Hari amounting to ₹ 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 ₹ 400 had been omitted from the books.
8. Stock on 31.12.2017 was ₹ 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.

C.14. **[RTP May 2019 & Similar in Nov. 2020]** The following is the Trial Balance of T on 31st March, 2018 :

Particulars	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 ₹ 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:

1. ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.
2. Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2018, but the goods were included in stock.
3. Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

4. Expenses include ₹ 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (1) to (4) and prepare the Final Accounts for the year ended 31st March, 2018

C.15. **[May 2018 & RTP 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:

1. Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
2. Value of stock at the close of the year was ₹ 4,10,000.
3. One month rent for godown is outstanding.
4. Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
5. Provision for bad debts is to be maintained at 5% of Sundry debtors.
6. Insurance premium includes ₹ 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.

C.16. **[Nov. 2018]** Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

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.

C.17. **[ICAI]** From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2020 after making the necessary adjustments:

	₹		₹
Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2019	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2019	25,000
Purchases	12,15,500	Furniture as on 1-4-2019	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2019 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustment:

(1) Value of stock as on 31st March, 2020 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2020 to the value of ₹ 15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2020 for ₹10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

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

	₹		₹
31.3.2020 To Balance c/d	1,00,000	1.4.2019 By Balance b/d	50,000
		31.3.2020 By Bank	50,000
	1,00,000		1,00,000

(5) Sundry debtors include ₹ 20,000 due from Robert and sundry creditors include ₹ 10,000 due to him.

(6) Interest paid include ₹ 3,000 paid to Dena bank.

(7) Interest received represents ₹ 1,000 from the sundry debtors and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No

such provision need to be made for the deposits.

C.18. [July 2021] Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business

Loan and interest repaid by her in the first year are as follows:

30th June, 2020	- ₹ 15,000 principal+ ₹ 9,000 interest 30th
September, 2020	- ₹ 15,000 principal+ ₹ 8,550 interest 31st December,
2020	- ₹ 15,000 principal+ ₹ 8,100 interest 31st March,
2021	- ₹ 15,000 principal+ ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

1. She withdrew ₹ 5,000 by cheque each month for her personal expenses.
2. Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.
3. Closing stock in hand as on 31st March, 2021: ₹ 5,50,000
   Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

C.19. From the following trail balance and information, prepare Trading and Profit and Loss Account of Mr. Rishabh for the year ended 31st March, 2016 and a Balance Sheet as on that date:

	Dr. Rs.	Cr. Rs.
Capital	-	1,00,000
Drawings	12,000	-

Land and Buildings	90,000	-
Plant and Machinery	20,000	-
Furniture	5,000	-
Sales	-	1,40,000
Returns Outward	-	4,000
Debtors	18,400	-
Loan from Gajanand on 1.7.15 @ 6% p.a.	-	30,000
Purchases	80,000	-
Returns Inward	5,000	-
Carriage	10,000	-
Sundry Expenses	600	-
Printing and Stationery	500	-
Insurance Expenses	1,000	-
Provision for Bad and Doubtful Debts	-	1,000
Provision for Discount on Debtors	-	380
Bad Debts	400	-
Profit of Textile Deptt.	-	10,000
Stock of General Goods on 1.4.15	21,300	-
Salaries and Wages	18,500	-
Creditors	-	12,000
Trade Expenses	800	-
Stock of Textile Goods on 31.3.16	8,000	-
Cash at Bank	4,600	-
Cash in Hand	1,280	-
	2,97,380	2,97,380

Additional Information:

1. Stock of General goods on 31.3.16 valued at ₹ 27,300
2. Fire occurred on 23rd March, 2016 and ₹ 10,000 worth of general goods were destroyed. The Insurance Company accepted claim for ₹ 6,000 only and paid the claim money on 10th April 2016.
3. Bad Debts amounting to ₹ 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. Make a provision of 2% on creditors for discount.
4. Received ₹ 6,000 worth of goods on 27th March, 2016 but the invoice of purchase was not recorded in Purchase Book.
5. Rishabh took away goods worth ₹ 2,000 for personal use but no record was made thereof.
6. Charge depreciation at 2% on Land and Buildings, 20% on Plant and Machinery and 5% on Furniture.
7. Insurance prepaid amounts to ₹ 200.

MISCELLANEOUS

C.20. Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2019. At the start of financial year 2019-2020, the company raised salaries by 10% to ₹33,000 per month each. On October 1, 2019 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

a. Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2020.

b. Amount actually paid as salaries during 2019-20

c. Outstanding Salaries as on 31st March, 2020

C.21. **[ICAI & Similar in July 2021]** Crimpson Ltd.'s profit and loss account for the year ended 31st March, 2020 includes the following information:

	₹
(i) Depreciation	57,500
(ii) Bad debts written off	21,000
(iii) Increase in provision for doubtful debts	18,000
(iv) Proposed dividend	15,000
(v) Retained profit for the year	20,000
(vi) Liability for tax	4,000

Required: State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves

C.22. **[ICAI]** Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2020 has been given below:

On 1.4.2019 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of₹ 5,00,000. You are required to compute:

a. Total income for the year 2019-20.

b. Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

FINAL ACCOUNT OF MANUFACTURING ENTITIES

C.23. **[ICAI]** Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2020:

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

Required: Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2020.

C.24. **[ICAI]** On 31st March, 2020 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March 2020

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2019			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		

General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

1. Stocks on 31st March, 2020 were:
   Raw Materials ₹16,200 Finished goods ₹18,100 Semi-finished goods ₹ 7,800
2. Salaries and wages unpaid for March 2020 were respectively, ₹ 900 and ₹ 2,000 Machinery is to be depreciated by 10% and office furniture by 71/2 % Provision for doubtful debts is to be maintained @ 1% of sales
3. Office premises occupy 1/4 of total area.
4. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2020.

C.25. **[ICAI]** Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2020

C.26. **[ICAI & Similar in Nov. 2020]** Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2019-20. There are certain figures missing from these accounts

Raw Material A/c

Date	Particulars	₹	Date	Particulars	₹

	To Opening Stock A/c To Creditors A/c	1,00,000 ……….		By Raw Material Consumed By Closing Stock A/c	………. ……….

Creditors A/c

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Balance c/d	22,00,000 6,00,000		By Balance b/d	15,00,000

Manufacturing A/c

Date	Particulars	₹	Date	Particulars	₹
	To Raw Material Consumed To Wages To Depreciation To Direct Expenses	………. 3,50,000 2,00,000 2,44,000		By Trading A/c	17,94,000

Additional Information

1) Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2) Wages include the following

   Paid to Factory Workers - ₹ 3,00,000

   Paid to labour at office - ₹ 50,000
3) Direct Expenses include following:
   - Electricity charges of ₹ 80,000 of which 30% pertained to office.
   - Fuel Charges of ₹ 20,000
   - Freight Inwards of ₹ 35,000
   - Delivery charges to customers - ₹ 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c

C.27. **[ICAI]** The following is the trial balance of Mr. Pandit for the year ended 31st March, 2020:

Trial Balance as on 31st March 2020

Particulars	Dr. ₹	Particulars	Cr. ₹
Opening Stock:		Sundry Creditors	50,000

Raw Materials	1,50,000	Purchase Returns	5,000
Finished goods	75,000	Capital	1,00,000
Purchase of Raw Materials	5,00,000	Bills Payable	24,000
Land & Building	1,00,000	Long-Term Loan	2,00,000
Loose tools	30,000	Provision for Bad Doubtful Debts	2,000
Plant & Machinery	30,000	Sales	8,50,000
Investments	25,000	Bank Overdraft	23,000
Cash in Hand	20,000		
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	5,000		
Dividend Paid	4,000		

Additional Information:

a) Stock at the end of the year ₹1,00,000

b) A provision for doubtful depts. at 5% on Sundry Debtors Interest on Capital at 5% p.a.

c) Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided

d) Accrued commission ₹ 12,500

e) Interest has accrued on investment ₹ 15,000

f) Salary Outstanding ₹ 2,000

g) Prepaid Interest ₹ 1,500

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2020

PRACTICE QUESTIONS

P.1. **[RTP Nov. 2019]** The following are the balances as at 31st March, 2019 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 ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 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 31.3.2019 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, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

P.2. **[May 2019]** Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Debit Balances:	Amount	Credit Balances:	Amount
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 ₹ 4,500

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

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

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

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

You are required to prepare the final accounts after making above adjustments.

P.3. **[Nov. 2019]** 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

P.4. **[ICAI]** You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2020 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	₹	Particulars	₹
Debit Balance:			
Trade receivables	3,50,000	Salaries	2,20,000
Inventory 1st April, 2019	5,00,000	Purchases	12,50,00
Cash in Hand	5,60,000	Plant and Machinery	15,70,000
Wages	3,00,000	**Credit Balance:**	
Bad Debts	50,000	Capital	25,00,000
Furniture and Fixtures	1,50,000	Trade payables	9,00,000
Depreciation	1,50,000	Sales	17,00,000

On 31st March, 2020 the Inventory was valued at ₹10,00,000.

P.5. Below is the trial balance of Shah as December 31, 2015

Debit Balance	₹	Credit Balance	₹
Drawings	1,500	Capital Account	50,000
Adjusted purchases	6,99,200	Loan from Desai	
Salaries	4,500	@ 9% (taken on 1st July 2014)	20,000
Carriage on Purchases	400	Sales	7,20,000
on sales	500	Discount	500
Rates and Insurance	400	Sundry Creditors	20,000
Buildings	27,000		

Furniture	6,000		
Sundry Debtors	8,000		
Cash on Hand	250		
Cash at Bank	1,500		
Stock (31st December, 2015)	61,250		
	8,10,500		8,10,500

Rates have been prepaid to the extent of Rs. 175.

1. Bad debts Rs. 500 have to written off. A provision for doubtful debts @ 5% on debtors is necessary.
2. Building has to be depreciated at 2% and Furniture @ 10%.
3. The manager is entitled to a commission of 5% of net profits before charging such commission.

P.6. From the following Trial Balance of Hari and additional information prepare Trading and Profit & Loss Account for the year ended 31st March, 2016 and a Balance Sheet as on that date:

Trial Balance as at 31st March, 2016

	Dr.(Rs.)	Cr.(Rs.)
Capital -	1,00,000	
Furniture	20,000	-
Purchases	1,50,000	-
Debtors	2,00,000	-
Interest Earned	-	4,000
Salaries	30,000	-
Sales	-	3,21,000
Purchase Returns	-	5,000
Wages 20,000	-	
Rent	15,000	-
Sales Return	10,000	-
Bad Debt Written off	7,000	-
Creditors	-	1,20,000
Drawings	24,000	-
Provision for Bad Debts	-	6,000
Printing & Stationery	8,000	-
Insurance	12,000	-
Opening Stock	50,000	-
Office Expenses	12,000	-
Provision for Depreciation	-	2,000
	5,58,000	5,58,000

Additional Information's:

1. Depreciate Furniture by 10% on original cost;

2. A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors;
3. Salaries for the month of March, 2016 amounting to Rs.3,000 were unpaid which must be provided for. However salaries included Rs.2,000 paid in advance;
4. Insurance amounting to Rs.2,000 is prepaid;
5. Provide for outstanding office expenses Rs.8,000;
6. Stock used for private purpose Rs.6,000;
7. Closing Stock-in-Trade Rs.60,000.

P.7. From the following Trial Balance of K. Katrak as on 31-3-2016. Prepare Trading Account, Profit and Loss Account for the year ended 31-3-2016, and a Balance Sheet as on that date after making necessary adjustments:

Trial Balance

	Dr. Rs.		Cr. Rs.
K. Katrak's Drawings	12,000	K. Katrak's Capital	60,000
Furniture & Fixtures	4,000	Returns Outward	2,000
Plant & Machinery	30,000	Sales	1,30,000
Opening Stock	20,000	Creditors	12,000
Purchases	80,000	Loan at 6% p.a. taken from	
Salaries and wages	22,400	M. Mehta on 1-10-2015	10,000
Debtors	20,400	Discount	600
Return Inward	5,000		
Postage & telegrams	1,500		
Rent, Rates and taxes	3,600		
Bad debts written off	400		
Trade Expenses	200		
Interest on loan from M. Mehta	150		
Insurance	800		
Travelling Expenses	500		
Sundry Expenses	300		
Cash-in-hand	3,050		
Cash at Bank	10,300		
	2,14,600		2,14,600

Adjustments

1. Closing stock was valued at Rs.21,000;
2. Of the debtors Rs.400 are bad and should be written off. Create a reserve for bad debts at 5% on Sundry Debtors and a reserve for discount on Debtors at 2.5%.
3. Salaries Rs.800 for March,16 were not paid.
4. Interest on Capital is to be calculated at 6% p.a. and on drawings Rs.330.
5. Prepaid Insurance amounted to Rs.100.
6. Depreciate Furniture & Fixture by 5% and plant and machinery by 10%.

P.8. **[RTP June 2022]** Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	46,505	68,665

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021
3. Depreciation to be provided on furniture at 10% per annum.

P.9. **[ICAI]** Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Particulars	₹	Particulars	₹
To Cost of Goods Sold	45,00,000	By Sales	C

To Gross Profit c/d	D		
	F		E
To Rent A/c	26,00,000	By Gross Profit b/d	D
To Office Expenses	13,00,000	By Miscellaneous Income	F
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%. Selling Expenses amount to 1% of total sales.
You are required to compute the missing figures.

P.10. **[Nov. 2020]** Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount	Particulars	Amount
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		-

Manufacturing A/c

Particulars	Amount	Particulars	Amount
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
To Direct Expenses	2,49,000		

Additional Information:

a. Purchase of machinery worth ₹ 12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

b. Wages include the following:

Paid to factory workers	- ₹ 3,15,000
Paid to labour at office	- ₹ 50,000

Direct expenses included the following
Electricity charges - ₹ 80,000 of which 25% pertained to office Fuel
charges - ₹ 25,000
Freight inwards - ₹ 32,000 Delivery charges to customers - ₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c.

P.11. **[Dec. 2021]** On 31st March, 2021 the Trial Balance of Mr. Black was as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available:

Stocks on 31st March,2021 were:

Raw material	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

Salaries and wages unpaid for the year ended 31st March,2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by $7\frac{1}{2}$%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2021.

8

Financial Statements of Not-for-Profit Organizations

Introduction

A non-profit organization is a legal accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. The main motive behind the non-profitable organization is to render service to the society or the members of the organisation.

There is difference in the final accounts prepared between the profit making and the non-profitable organisations. The sources of receipts and payments also vary with the nature of the activity that is being carried on by the organisation. Non-profit making organisations such as public hospitals, public educational institutions, clubs, Temples, churches etc., as a part of their final accounts prepare Receipts and Payments Account and Income and Expenditure Account to show periodic performance [either surplus or deficit] and Balance Sheet to show financial position at the end of the period. In this Chapter, we shall discuss the technique of preparing Receipts and Payments Account, Income and Expenditure Accounts and Balance Sheet of not-for-profit organisations..

There are some accounts, which are specifically related to such organizations like donations, subscription, entrance fees, fund a/c etc. Also there are different ways in which question is asked in the examination.

Usual type of questions are:

A) Prepare Final a/c from Receipt & Payment [R&P] a/c and Other Information given

B) Prepare R&P a/c from I&E a/c and Other Information given

C) Prepare Final a/c from Trial Balance [TB] and Other Information given

---

These are also final accounts although of different type of entities, hence whatever is given in Chapter on final accounts is equally and more or less fully applicable here as well. Hence students are advised to study this chapter only after studying Final Accounts.

Income and Expenditure Account [I&E a/c]

- Income & Expenditure Account - is just like a profit & Loss account.
- All the Expenses for that year i.e., related to that year, will be debited to it &
- All the incomes related to that year will be credited to it.
- If the credit side is more, the balance is known as "Surplus"[Profit] &
- If the debit side is more the balance is known as "Deficit" [Loss] which is then
- Transferred [Surplus is credited/Loss is debited] to the capital account of the Association/Trust which is know by different names such as Trust Fund/General Fund/Capital Fund etc.

Important Points:

Income is what is earned during the year and Expense is what is incurred during the year. When an amount is paid or received, is not important, while preparing an Income & Expenditure a/c. The items which are shown in Income & Expenditure a/c in this year may have been paid/received in this year or previous year [i.e brought forward as opening prepaid/pre-received] or next year [i.e. carried forward as closing payable/receivable] [i.e. apply mercantile system/ accrual concept].

Generally such organization may not have trading of goods etc. It may have some new items like donation, subscription, entrance fees, and expenses on the object of trust etc.

It is not necessary that balance of I&E a/c will be fully transferred to Trust Fund a/c. Many organizations keep on accumulating it, then balance of I&E a/c will appear in balance sheet just like P&L a/c balance appears in balance sheet of corporate entities.

Simple Format of Income and Expenditure A/c.

Bhagat Singh College Sports Club, Delhi
Income and Expenditure Account
Dr. for the year ending on 31st March, 2022 Cr.

Expenditure	Rs.	Income	Rs.
To Rent a/c	---	By Subscription a/c	---
To Match Expenses a/c	---	By General Donations a/c	---
To Postage Expenses a/c:	---	By Entrance Fees a/c	---
To Salary a/c	---	By Profit on sale of old sports material a/c	---
To Repairs & Maintenance a/c	---	By Miscellaneous Receipts a/c	---
To Sports Materials consumed	---		
To Depreciation on Furniture	---		
To Miscellaneous Expenses a/c	---		

To Prize expenses a/c To Surplus transferred to Capital Fund a/c	--- ---		
Total	-----	Total	-----

Balance Sheet

- Balance sheet is prepared as usual, the only difference is that some new type of items may also be there in this case. Like funds a/c.
- Balance sheet shows the financial position of the entity as at a particular point of time.
- It shows what and how much entity owns [i.e. its assets] and
- How much it owes to others [i.e. its liabilities],
- The balance is the owners equity i.e. Capital fund/trust fund.
- It is not an account, hence does not have debit and credit side.
- On one side assets like fixed assets [building, furniture, etc], current assets [like stock, debtors, receivables, cash bank balance, advances, pre-paid etc] and investments if any are shown.
- On the other side in addition to owners capital i.e trust fund and reserves, the outside liabilities like loans taken, creditors, expenses payable etc are shown.
- The two sides total must be same.

Important Points:

Even though balance sheet does not have debit and credit side, student should remember that asset side represent debit and capital and liability side represent credit. It will help in correctly preparing final accounts.

Generally Mercantile/accrual system is followed, as it is the proper and complete system to measure the performance of entity and to show its financial position. In your syllabus every where this is considered. Under this system, incomes are recognized when these are earned irrespective of whether amount is received or not. Similarly expenses are recognized when these are incurred or accrued irrespective of whether amount is paid or not. As a result we have to make adjustment for expenses outstanding [payable], prepaid, income outstanding [receivable] and advance-received etc.

Simple Format of balance-sheet.

Bhagat Singh College Sports Club, Delhi

Balance Sheet as at 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Capital Fund:		Fixed Assets:	

Liabilities		Rs.	Assets		Rs.
Opening Balance	--		Furniture	--	
Add: Surplus as per I&E a/c	--		Building	--	----
Add: Entrance Fees	--				
Add: Donation capitalized	--				
Add: Donation in kind	--	----	Investments:		
			Prize Fund Investments	--	
Prize Fund:			Building Fund Investments	--	
Opening Balance	--		General Investment	--	----
Add: Donations	--				
Add: Income on Investment	--		Current Assets:		
	----		Stock of Sports Material	--	
Less: Expenses incurred	--	----	Subscription in arrears	--	
			Prepaid Expenses	--	
Building Fund:			Cash Balance	--	
Opening Balance	--		Bank Balance	--	----
Add: Donations	--				
Add: Income on Investment	--	----			
Current Liabilities:					
Creditors for sports material	--				
Subscription in advance	--				
Outstanding Expenses	--	----			
Total		------	Total		------

Receipt and Payment Account [R&P a/c].

- Receipt & Payment Account - is a summarized cash book.
- All receipts in that year may be loan, a capital receipt or an income will be Debited to Receipt & Payment a/c.
- Income received in this year may be related to this year or previous year or next year.
- Similarly all payments made in this year may be for capital expenditure, repayment of loan, revenue expenditure etc. should be credited to Receipt & Payment A/c.
- The revenue expenditure paid in this year, may relate to this year or previous year or next year.
- Balance of this a/c is the closing cash and bank balance and will appear in the balance sheet.

Important Points:

Such organization are not doing business [some small incidental activity may be there] hence significant part of its transactions take place on cash. Credit transactions and adjustments will be quite insignificant. Hence it is customary for such organization to present receipt and payment a/c as part of final a/c.

Simple Format of Receipt and Payment A/c.

Receipts and Payments Account of Bhagat Singh College Sports Club, Delhi

for the year ended on 31st March, 2022

Dr. **Cr.**

Receipts		Rs.	Payments		Rs.
To Opening Balance b/f : Cash	--		By Rent		----
Bank	--	----	By Postage Expenses		----
To Subscription		----	By Furniture [Purchased]		----
To Entrance Fees		----	By Creditors for sports Material		----
To General Donations		----	By Cost of prizes		----
To Donations for Prize Fund		----	By Building Fund Investment		----
To Donations for Building Fund		----	By Match Expenses		----
To Sale of old Sports Materials		----	By Miscellaneous Expenses		----
To Interest on			By Closing Balance c/f; Cash	--	
Prize Fund Investment	--		Bank	--	----
Building Fund Investment	--				
General Investment	--	----			
To Miscellaneous Receipts		----			
		------			------

Differentiation between Fund account and money

Fund word is used for Cash i.e. money in finance but when we talk of Fund a/c in accounts remember for ever that it is not money, rather it's a notional account which gives information about the nature and purpose of receipt and has credit balance and appears on liability side. Money or cash has debit balance and hence appears on asset side.

Just remind yourself of double entry say for donation or grant received for building fund.

Cash/Bank A/c Dr. ---- : This is asset

To Building Fund A/c ---- : This shows the nature and purpose of above *received*

Entrance Fees and how is it accounted for.

The Associations collect entrance fees/admission fees from the new members at the time of their admission. It is different from the membership fees/subscriptions, which are received every year and hence treated as revenue income and transferred to Income & Expenditure account. But the entrance fees is received only once from a member, hence it can be treated as follows:

a) If the amount is just sufficient to recover the expenditure incurred while admitting any member then it will be treated as revenue income and transferred to Income & Expenditure account.
b) Otherwise the entrance fees can be Capitalized & transferred to the Trust Fund Account. OR;
c) Entrance fees may be treated as deferred Income and shown in the Balance Sheet under the head "Entrance Fees Account" & Part-part amount can be written off every year by transferring to Income & Expenditure A/c in proportion to the benefit extended to the members, estimated on some suitable basis.

Accounting of membership fees and subscription

These are usually charged yearly from the members hence are treated as revenue income and credited to I&E a/c. The amount received should be duly adjusted for outstanding and advances, so as to get the figure of income for the year. When number of members and the rate of membership fees/ subscription is given then income = number of member x rate per member. Outstanding subscription i.e. subscription receivable will be shown on the asset side of balance-sheet. Advance subscription i.e. unearned subscription will be shown on the liability side of balance-sheet.

Life membership fees: In lieu of annual membership fees a person may pay life membership fees. This life membership fees may be [i] Credited to capital fund account. [ii] Carried forward and credited to capital fund when member dies or [iii] Treated as deferred income and transferred to Income and Expenditure account every year either [a] equal to annual subscription or [b] on the basis of life of the concerned member and the average life of a member.

Fund for specific purpose.

The Trust/Association generally creates funds for various purposes. The funds are created by crediting the donations and fees etc., received for the purpose of that fund or by transfer from Income & Expenditure Account. Untill the funds are utilized for the specified purpose, the same may be invested in Government Securities/Bank Deposits etc., then the income earned on such investments will be credited to that fund account and not to Income and Expenditure Account. The purpose of above is to keep proper control and utilise the money for the purpose for which it is intended. Fund a/c will appear on the liability side of the balance-sheet. Whereas investment of the same fund will appear on the asset side of the balance-sheet.

Classification funds for specific purpose.

The funds can be broadly divided in to two types:

a) Funds for some Capital Expenditure.
b) Funds for meeting some Revenue Expenditure.

Accounting of funds for capital expenditure

In case of Funds for the purpose of some capital expenditure, when any amount is spent for that purpose, the same will be Debited to a separate Assets Account/Capital Expenditure Account. When such funds are utilized it results into an asset for the organization. e.g. Building Fund. The donations etc., are credited to Building Fund A/c Whereas expenses incurred for Building Construction are debited to Building A/c and the same will appear on the asset side of the balance-sheet. Hence, in such cases the credit balance in fund account will keep on accumulating. When that asset is complete, an equivalent amount can be transferred debiting building fund a/c and crediting capital fund a/c. Student should do it only if so required by the question.

Accounting of funds for revenue expenditure. [e.g. Price fund, Tournament Fund etc.]

The incomes, donations etc. received for a particular purpose are credited to that Fund a/c and All expenditure incurred for that purpose are debited to that fund a/c. The Balance if credit is shown in balance sheet and carried forward to next year, But if it is Debit [that means expenditure is more] then it will be transferred to Income & Expenditure a/c. [The Funds/Reserve Account should never show Debit balance]. When such funds are utilized, it does not create any asset for the organization. e.g. Prices distributed or expenses incurred to orgnise tournament etc.

Accounting for investment.

When organization has surplus funds, it can invest in securities or bank deposits etc. This investment apart from keeping money safe and liquid also gives incomes in the form of interest/ dividend. When investments are unrelated to any specific fund then its income is credited to I&E a/c. When funds for specific purpose are not immediately usable, then the same may be invested. As and when need of fund arises for that purpose, investments are sold and proceeds used for that purpose. Income and profit/ loss on such investments will be credited to related fund a/c and not to I&E a/c.

Comment on fund balance and its related investment balance.

If there is Investment account against a particular fund then the credit balance in fund account should not be less than the investment a/c.When expenses incurred are more than the income on that fund then such situation will arise. Hence in such cases the excess expenses incurred on that activity can be debited to Income and Expenditure a/c instead of that fund a/c. The balance of Fund a/c, can be more than its Investment a/c that means remaining fund may be in the form of cash bank balance.

Important Points:

The fund word is commonly used to refer money [i.e. cash/bank balances which are assets and has debit balance]. But fund a/c is not money in itself, rather it is the second effect [credit] of the money received, hence fund a/c always shows credit balance and appears on the liability side.

Accounting of Grants/ Subsidies.

Grants/Subsidies are received from Govt. or other local authorities to be used for the specified purpose. Accounting of such Grants/Subsidies will depend upon the purpose for which it is received. Grants/Subsidies may be for [1] Capital expenditure [i.e. for acquiring fixed assets] or [2] Revenue expenditure [i.e. for maintenance etc.]. In the 1st case it will be credited to separate a/c & shown in the Balance sheet on the liability side. It can be deferred and credited to I&E a/c in proportion of depreciation charged on that asset or alternatively grant can be credited to the asset a/c itself consequently reducing depreciation. If there is fund a/c for such capital expenditure then it can be credited to that fund a/c. In the 2nd case, it will be credited as income in Income & Expenditure a/c because corresponding expense is also debited in income and expenditure a/c. Thus above accounting is in accordance with the matching principle.

Treatment for donation.

Donations are the voluntary contribution provided by the well wishers for general or specific purpose. If donations are received for a particular purpose then it will be credited to that particular fund a/c say donation received for construction of building credited to Building fund a/c. Otherwise general donations will be credited to Income & Expenditure a/c. If question requires capitalisation, but does not specify the fund to which it should be credited, then credit such donation to trust fund a/c. Donation may be in kind then stock or fixed asset whatever is received will be debited and the credit will be as explained in above points.

Treatment of scholarship

Scholarship is the monetary benefit given to students under certain schemes by Govt. or other authorities etc. When received scholarship a/c will be credited and when paid to student scholarship a/c will be debited and hence in general it will not appear in financial statement.In case of schools/colleges, there may be credit balance in Scholarship a/c which represents Scholarship received from Govt. etc but yet to be distributed to the students. This should be shown as liability in the Balance sheet. Debit balance in scholarship a/c may represent paid to student and recoverable from the concerned authority. This should be shown as an asset in the Balance sheet. But if college has its own scholarship then that debit balance will go to I&E a/c.

Income and expenditure of special activities/ functions/ program.

Trust may organize various functions/activities like Charity show, sports functions etc. Income & Expenses on this account are generally netted & net balance is shown in the Income & Expenditure a/c. Basic objective of such functions is to raise funds for the organization and use such funds for the objects of the trust.

How missing data related to any a/c can be ascertained.

For ascertaining the missing information, if any, the accounts as follows can be prepared. Whatever information of that a/c is available should be 1st entered and on balancing the account, we will get the missing information. It can be done by add less also, but again I will advise to prepare accounts.

Draft an income account.

Any and every income account can be as follows:

Income Account

To Opening Outstanding B/f [Receivable]	xxx	By Opening Advance B/f	xxx
To Income & Expenditure a/c [Income for the year]	xxx	By Cash/Bank a/c [Received during the year]	xxx
To Closing Advance C/f	xxx	By Closing outstanding C/f [Receivable]	xxx
Total	xxx	Total	xxx

Draft an expense account.

Any and every expenses account can be prepared as follows:

Expense Account

To Opening Advance B/f [Prepaid]	xxx	By Opening Outstanding B/f [Payable]	xxx
To Cash/Bank a/c [Paid during the year]	xxx	By Income & Exp. A/c [Expense for the year]	xxx
To Closing outstanding C/f [payable]	xxx	By Closing Advance C/f [prepaid]	xxx
Total	xxx	Total	xxx

Draft an account of consumables like Stationary, Medicines, Sports material etc.

Any and every such account can be prepared as follows:

Stationery Stock a/c.

Particulars	Rs.	Particulars	Rs.
To Opening stock balance b/f	xxx	By I&E a/c [stationery used/ consumed]	xxx
To Cash/R&P a/c [purchases]	xxx		

To Creditors a/c [purchases]	xxx	By Closing stock balance c/f	xxx
	xxx		xxx

Important Points:

When opening Balance sheet is not given the same should be prepared to ascertain any missing information like opening balance of Trust fund etc.

Other a/cs. Like assets a/c, loan a/c, creditors a/c, goods a/c, etc. can also be prepared to ascertain missing data if any. Some Draft account have also been given in Chapter 5: Single Entry.

Type of Questions are asked in the Exam.

Generally there may be three types of question:

a) Receipt payment a/c and Opening Balance sheet or other information is given from which Income & Expenditure a/c & Balance sheet is required to be prepared. or

b) Balance sheet & Income-Expenditure a/c is given, from which Receipt & payment a/c is required to be prepared. or

c) Trial balance and other information is given from which Income & expenditure a/c & Balance Sheet is to be prepared.

How to prepare final a/c when Receipt & Payment a/c is given and not trial balance.

- R&P a/c is nothing but summarized cash book which contains most of the transaction, and
- Whatever is not yet received/ paid will be given as information.
- Opening balance sheet or opening balances will also be given.

In normal and usual cases, the opening balances are 1st taken to the respective a/c. All transactions are entered in cash book and other books of entry and then posted to ledger accounts. Balances of such a/c's are extracted and written in trial balance from which final accounts are prepared.

- Same process to be followed here, take opening balances in the a/c [assets have debit balance and liabilities have credit balance]
- Receipt side items represent debit to cash bank a/c, now make credit posting to the a/c according to the nature of receipt.

- Similarly payment side items have been credited to cash bank a/c and now make debit to the a/c according to nature of payment.
- For other information [which is nothing but transaction] make double entry and post to the respective a/c.
- By balancing various accounts you will get missing information which may be either balance of an account or a transaction.
- In case balancing figure is a transaction then complete its double entry.
- Now balance of all this accounts will result into trial balance and consequently final a/c.
- But if you do every thing in writing, it will require lot of time and hence prepare only those accounts as working which has more debits and credits in it, and
- For others think and give treatment directly to I&E a/c and balance sheet depending upon whether this a/c is an expense, income, asset or liability.
- Thus instead of completing full account book and preparing the trial balance, we go short cut and directly prepare the final accounts.

Always keep double entry in mind and use the basic accounting procedure anywhere and everywhere. This is the key to your success.

How to prepare Receipt & Payment a/c from Income & Expenditure and balance sheet

- It is a reverse order question wherein final a/c is given and cash book [R&P a/c] is required to be prepared.
- Repeat the same process as discussed in previous point
- The only change is that now in the working accounts prepared you will write figures of incomes and expenses and on balancing you will get receipt and payment.
- Expenditure side items represent debit to I&E a/c, now make credit posting to the concerned expenditure a/c.
- Similarly Income side items have been credited to I&E a/c and now make debit posting to the concerned Income a/c.
- Draft a/c given earlier is equally applicable for both the above type of questions.
- Payment/ receipt on a/c of fixed assets or loans etc. if any can be similarly ascertained by preparing a/cs.

Comment on financial statements of Education Institutions.

Whatever is discussed earlier is equally applicable to Education Institutes as these are also not for profit organization. Some distinct feature may be as follows:

- It can have item like scholarship
- Sometimes it can have separate term fees a/c etc.

- Govt. grant for teacher's salary, maintenance, etc. will be credited to I&E, etc.
- It may have income like tuition fees, exam fees, etc.
- It may run canteen, stationary shop, etc. for students.

CLASS QUESTIONS

INCOME AND EXPENDITURE ACCOUNT

C.1. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2021 of the Mayura Hospitals.

Receipt and Payments Account [For the year ended 31st Dec. 2021]

Particulars [Receipts]		₹	Particulars [Payment]		₹:
To Balance			By Salaries [Rs.3600 for 2020]		15,000
Cash	400		By Hospital Equipment		8,500
Bank	2,600	3,000	By Furniture purchased		3,000
			By Additions to Building		25,000
To Subscriptions:			By Printing & Stationery		1,800
For 2020	2,550		By Diet Expenses		7,800
For 2021	12,250		By Rent & Rates [Rs.150 for 2022]		1,000
For 2022	1,200	16,000	By Electricity & Water Charges		1,200
			By Office Expenses		1,000
To Govt. Grant:			By Investment		10,000
For Building	40,000		By Balances:		
For Maintenance	10,000	50,000	Cash	700	
To Fees from Sundry patients		2,400	Bank	3,400	4,100
To Donations [not to be capitalized]		4,000			
To Net Collection from benefit show		3,000			
		78,400			78,400

Additional information's:

i] Subscription in arrears as on 31-12-2020 Rs.3,200

ii] Investments in 8% Govt. Securities were made on 1st July, 2021

BALANCE SHEET

C.2. Mahaveer Sports Club gives the following information for the year ended March 31, 2021.

	As on 31.3.2015 [₹.]	As on 31.3.2016 [₹]
Outstanding Expenses	2,800	4,100
Library Books	10,000	20,000
Sports Goods	8,000	10,000
Furniture and Fixtures	10,000	10,000
Subscriptions Receivable	5,000	12,000
Investment – Government Securities	50,000	50,000
Accrued Interest	600	600
Cash Bank balance	5,200	12,020

Provide Depreciation on:

Furniture and Fixtures @ 10% p.a. Sports Goods @ 20% p.a. Library Books @ 10% p.a.
Surplus for the year after providing above depreciation is ₹ 20,220.

You are required to prepare Clubs Opening balance sheet as on 1.4.2020 and Closing balance sheet as on 31.3.2021.

RECEIPTS AND PAYMENTS ACCOUNT

C.3. The following information's were obtained from the books of Delhi Club as on 31.3.2022 at the end of the first year of the Club. You are required to prepare Receipts and Payments Account for the year ended 31.3.2022:

i] Donations received for Building and Library Room ₹ 2,00,000.

ii] Other revenue receipts:

	Actual Receipts ₹
Entrance Fees	17,000
Subscription	19,000
Locker Rents	600
Sundry Income	1,060
Refreshment Account	16,000

iii] Other actual payments:

	Actual Payments ₹
land [cost ₹ 10,000]	10,000
Furniture [cost ₹ 1,46,000]	1,30,000
Salaries	4,800
Maintenance of Playgrounds	1,000
Rent	8,000
Refreshment Account	8,000

Donations to the extent of ₹ 25,000 were utilized for the purchase of Library Books, balance was still unutilized. In order to keep it safe, 9% Govt. Bonds of ₹ 1,60,000 were purchased on 31.3.2022. Remaining amount was put in the Bank on 31.3.2022 under the term deposit

CONCEPT BUILDER

C.4. **[Entrance Fees]**

a) 50 members joined the trust and paid entrance fees ₹ 500 each. Pass journal entry and suggest treatment.

b) 50 members joined the trust and paid entrance fees ₹ .500 each. Against this Trust provides certain benefit to the members for the life. Pass journal entry and suggest treatment.

c) 50 members joined the trust and paid entrance fees ₹ 500 each. Against this Trust provides certain benefit to the members for a period of five years. Pass journal entry and suggest treatment.

C.5. **[Membership fees and subscription]** From the following particulars, calculate the amount of subscription to be credited to the income and expenditure account for the year ended 31st March, 2022:

	31.3.2021	31.3.2022
Outstanding subscriptions	1,500	3,000
Subscriptions received in advance	900	1,300

A sum of ₹ 25,500 was received as subscriptions during the year ended 31st March, 2022

C.6. During the year ended 31st March, 2020, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2019	12,000
For year ending 31st March, 2020	6,15,000
For year ending 31st March, 2021	18,000
Total	6,45,000

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2020, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2019.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2020. Also show how the items would appear in the Balance Sheet as on 31st March, 2019 and the Balance Sheet as on 31st March, 2020.

C.7. **[Membership fees and subscription]** Members of a club, are paying an annual subscription of ₹ 500. On 31st March, 2015, subscriptions in arrears from 10 members and received in advance from 5 members. Subscriptions received during the year ended 31st March, 2016 from 446 members, including from 21 members for the year 2016-2017. Subscriptions in arrears as on 31st March, 2016 from 30 members. Calculate the amount of subscriptions income for the year ended on 31st March, 2016 by preparing subscriptions a/c.

C.8. **[RTP 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 ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 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.

C.9. [Funds for capital expenditure] A society receives donations of ₹ 5,00,000 for the construction of building. It has invested ₹ 2,00,000 out of it and spent Rs.2,75,000 for the construction of building which is in progress. Interest on investment received for the year Rs.2,000. Pass journal entry and show how the figures will appear in balance-sheet.

C.10. [Funds for revenue expenditure] A society receives donations of ₹ .3,00,000 for the distribution of prizes to rank holder students. It has invested ₹ .2,50,000 out of it and spent Rs.35,000 for the distribution of prizes. Interest on investment received for the year ₹ 3,000. Pass journal entry and show how the figures will appear in balance-sheet.

C.11. [Investment] A society receives donations of ₹ .3,00,000 for the distribution of prizes to rank holder students. It has invested ₹ .2,50,000 out of it and spent ₹ .63,000 for the distribution of prizes. Interest on investment received for the year ₹ .3,000. Pass journal entry and show how the figures will appear in balance-sheet.

C.12. [Grants / Subsidies]

a) A society receives grant of ₹ .5,00,000 for the construction of building. Pass journal entry.

b) A society receives Salary Grant from government of ₹ 1,00,000. 50% of the Grant is used. Pass journal entry.

C.13. [Scholarship]

a) A College receives Scholarship from government for backward class scholars of ₹ 1,00,000. The same is distributed to the concerned students. Pass journal entry.

b) A College gives Scholarship to merit rank holders amounting to ₹ 1,00,000. Pass journal entry.

C.14. [Special Activities] A society receives donations of ₹ 50,000 for the charity show of music for raising the funds. It receives ₹ 75,000 from the sale of tickets. It has spent ₹ 63,000 for the program. Pass journal entry and show how the figures will appear in Income and Expenditure a/c.

C.15. [Expense Account] On the basis of the following information related to its many rented premises, calculate the amount that will appear against the item 'Rent' in the income and expenditure account for the year ended 31st March, 2016:

₹

Rent prepaid as on 1st April, 2015	12,000
Rent payable as on 1st April, 2015	25,600
Amount paid for Rent during the year ended 31st March, 2016	1,40,000
Rent prepaid as on 31st March, 2016	23,200
Rent payable as on 31st March, 2016	24,000

C.16. **[ICAI]** Suppose salaries paid during 2020 were ₹23,000. The following further information is available:

				₹
Salaries unpaid on 31st March,			2019	1,400
" pre-paid on	"	"	2019	400
" un-paid on	"	"	2020	1,800
" pre-paid	"	"	2020	600

Required: Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

C.17. **[Nov. 2020]** Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.

On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate

a) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2019.

b) Amount actually paid as salaries during 2019.

c) Outstanding salaries as on 31st December, 2019.

C.18. **[Consumables]** On the basis of the following information, calculate the amount that will appear against the item 'stationery consumed' in the income and expenditure account for the year ended 31st March, 2016:

	₹.
Stock of stationary as on 1st April, 2015	12,000
Creditors for stationary on 1st April, 2015	25,600
Amount paid for stationary during the year ended 31st March, 2016	1,40,000
Stock of stationary as on 31st March, 2016	23,200
Creditors for stationary as on 31st March, 2016	24,000

PREPARATION OF INCOME AND EXPENDITURE AND BALANCE SHEET FROM RECEIPT & PAYMENT A/C AND OTHER BALANCES AND INFORMATION

C.19. **[Similar in RTP May 2018]** Smith Library Society showed the following position on 31st March 2015:

Balance sheet as on 31st March, 2015

Liability	₹	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 Payments Account for the year ended on 31st March, 2016 is given below

Particular [Receipt]		₹	Particulars [Payment]	₹
To Balance b/f			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationery	5,000
Cash in hand	25,000	50,000	By Telephone charges	5,000
To Entrance Fees		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 Bal. c/f. Cash at bank	20,000
			Cash in hand	11,300
		3,09,500		3,09,500

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2016 and a Balance Sheet as at 31st March, 2016 after making the following adjustments:

a) Membership Subscription included ₹ 10,000 received in advance.
b) Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.
c) Books to be depreciated @10% including additions. Electrical Fittings and Furniture's are also to be depreciated at the same rate.
d) 75% of Entrance Fees is to be capitalised.
e) Interest on Securities is to be calculated @5% p.a. including purchases made on 1.10.2015 for Rs. 40,000.

C.20. **[RTP 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.	

C.21. **[RTP May 2021 & Similar in ICAI]** The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	Amount [₹]	Payments	Amount [₹]
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment By Sports	18,250
To Sale of refreshments	22,000	equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:
   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480
   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250
2. Following are the assets and liabilities on 31st March, 2020-

Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180
Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850

3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2019

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club.

C.22. [RTP May 2019 & Similar in RTP Dec. 2021] The Receipts and Payments account of Trustwell Club prepared on 31 st March, 2018 is as follows:

Receipts and Payments Account

Receipts	₹	₹	Payments	₹
To Balance b/d		450	By Expenses [including Payment for sports material ₹ 2,700]	6,300
To Annual Income from Subscription	4,590			
Add: o/s 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 ₹ 1,800; Investment at 5% ₹ 27,000; Sports material ₹ 6,660;
Balance as on 31.3.2018 : Subscription Receivable ₹ 270; Subscription received in advance ₹ 90; Stock of sports material ₹ 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

C.23. [ICAI] The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2020All the figures in thousands

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500

Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2019	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2019 ₹	March, 31, 2020 ₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2020, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹200.

Required:
Prepare the Income and Expenditure Account for period ending 31-03-2020 and the relevant Balance Sheet

C.24. **[ICAI]** The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000

		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹ 2019	₹ 2020
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit [10%] with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250.

Required:

From the above information you are required to prepare:

a) The Club's Balance Sheet as at March 31, 2019;

b) The Club's Income and Expenditure Account for the year ended March 31, 2020.

c) The Club's Closing Balance Sheet as at March 31, 2020

C.25. [ICAI] The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2020

Receipts	₹	Payments	₹
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	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
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2019 were as follows:

Fixed assets [net]	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

1. Subscription received in advance as on 31st March, 2020 was ₹ 18,000.
2. Outstanding subscription as on 31st March, 2020 was ₹ 7,000.
3. Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000
4. 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2020
5. The cost of assets sold net as on 1.4.2019 was ₹ 10,000.
6. Depreciation is to be provided at the rate of 10% on assets.
7. A sum of ₹ 20,000 received in October 2019 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2016
8. Purchases made during the year amounted ₹ 15,00,000.
9. The value of closing stock was ₹ 2,10,000.

10. 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 31st March, 2020 and the Balance Sheet as on 31st March, 2020 along with necessary workings

PREPARATION OF RECEIPT & PAYMENT A/C FROM INCOME & EXPENDITURE AND BALANCE SHEET

C.26. Chail Cricket Club gives you the following information:

Income & Expenditure Account for the year ended 31st Dec., 2016

Expenditure	₹	Income		₹
To Remuneration to Coach a/c	18,000	By Donation & Subscription a/c		1,02,000
To Salaries & Wages a/c	24,000			
To Rent a/c	12,000	By Bar Room:		
To Repairs a/c	11,000	Receipts	24,000	
To Miscellaneous Expenses a/c	7,000	Less: Expenses	20,000	4,000
To Honorarium to Secretary a/c	18,000			
To Depreciation on Equipment a/c	5,000	By Bank Interest a/c		2,000
To Surplus a/c	25,000	By Hire Club Hall a/c		12,000
	1,20,000			1,20,000

Balance Sheet

2015 ₹	LIABILITIES	2016 ₹	2015 ₹	ASSETS	2016 ₹
	Capital Fund as on 31-12-15	48,000	25,000	Equipment	20,000
	Entrance Fees	10,000			
	Surplus	25,000	6,000	Subscription Outstanding	8,000
48,000		83,000	5,000	Cash-in-hand	4,000
4,000	Subscription in advance	3,000			
	Outstanding Liabilities:				
1,500	Miscellaneous Exp.	1,000	2,500	Cash at Bank	10,000
2,000	Salary & Wages	3,000			
3,000	Honorarium to Secretary	2,000	20,000	Fixed Deposits	50,000
58,500		92,000	58,500		92,000

Prepare the Receipts and payments Account of the Club for the year ended 31st Dec. 2016.

C.27. **[Nov. 2019 & Similar in ICAI]** 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:

a) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018- 19.

b) One fourth of entrance fee has been capitalized by transfer to General Fund.

c) Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.

d) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.

e) Furniture was purchased during the year.

C.28. **[Jan 2021]** From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		

To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation [Sports Equipment]	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports	2,08,000	2,52,000
Equipment Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

C.29. **[ICAI & Similar in Dec. 2021]** The Income and Expenditure Account of the Youth Club for the Year 2020 is as follows:

Expenditure	₹	Income	₹
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1,000
To Secretary's Honorarium	1,000		
To Stationery & Printing	450	By Annual Sport meet receipts	750
To Annual Dinner Expenses	1,500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9,500		9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2019	600
Subscription received in Advance on 31st December, 2019	450
Subscription received in advance on 31st December, 2020	270
Subscription outstanding on 31st December, 2020	750

Salaries Outstanding at the beginning and the end of 2020 were respectively ₹ 400 and ₹450. General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2020 is as yet unpaid. During 2020 audit fee for 2019 was paid amounting to ₹200.

The Club owned a freehold lease of ground valued at ₹10,000. The club had sports equipment on 1st January, 2020 valued at ₹ 2,600. At the end of the year, after depreciation, this equipment amounted to ₹2,700. In 2019, the Club has raised a bank loan of ₹ 2,000. This was outstanding throughout 2020. On 31st December, 2020 cash in hand amounted to ₹1,600.

Required

Prepare the Receipts and Payments Account for 2020 and Balance Sheet as at the end of the year

PREPARATION OF RECEIPT & PAYMENT AND INCOME & EXPENDITURE AND BALANCE SHEET FROM INFORMATION

C.30. **[May 2019]** 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 ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 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: ₹ 50,000
Rent: ₹ 24,000 out of which ₹ 2,000 outstanding
Misc. Expenses: ₹ 5,000

C.31. **[ICAI]** Summary of Receipts and payments of Bombay Medical Aid Society for the year ended 31.12.2015 are as follows:

Opening Cash balance in hand Rs.8,000, Subscription ₹ 50,000, Donation ₹ 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 ₹ 28,000, Sundry Expenses ₹ 1,000, Equipment purchase ₹ 15,000, Charity show expenses ₹ 1,500, Charity show collections ₹ 12,500.

Additional information:

	1.1.2015	31.12.2015
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

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31.12.2015 and Balance Sheet as on 31.12.2015.

FINANCIAL STATEMENTS OF EDUCATIONAL INSTITUTIONS

C.32. **[ICAI]** From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March 2020 and a Balance Sheet as on the date:

Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit-Students		1,50,000
Capital fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fees received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts [Net]		2,00,000
College Stores-Sales		7,50,000
Outstanding Expenses		2,25,000
Stock of-Stores and Supplies	3,00,000	
Purchases-stores and Supplies	8,00,000	
Salaries-Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare Exp.	38,000	

Repairs & Maintenance	1,12,000	
Games & Sports Exp.	50,000	
Misc. Exp.	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investments	5,10,000	
Seminar & Conference Exp.	4,50,000	
Consultancy Exp.	28,000	
Land	1,00,000	
Building	16,00,000	
Plant & Machinery	8,50,000	
Furniture & fitting	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

Adjustments:

1] Materials & supplies consumed for:
Teaching ₹ 50,000, Research ₹ 1,50,000 Students Welfare ₹ 75,000 Games or Sports ₹ 25,000

2] Tuition fee receivable from Government for Backward Class Scholars 80,000

3] Stores selling prices are fixed to give a net profit of 10% on selling price.

4] Depreciation is provided on straight-line basis at the following rates:
i] Buildings 5% ii] Plant & Equipment 10% iii] Furniture & Fixtures 10% iv] Motor Vehicles 20%.

PRACTICE QUESTIONS

SUBSCRIPTION INCOME ACCOUNT

P.1. From the following, find out the amount of subscriptions to be included in the income and expenditure account for the year ended 31st March, 2016.

Subscriptions were received during the year 2015-16 as follows:

	₹
For the year 2014-2015	2,000
For the year 2015-2016	30,000
For the year 2016-2017	3,000

Subscriptions outstanding as on 31st March, 2015 were ₹ 3,500 out of which ₹ 500 were considered to be irrecoverable. On the same date, subscription received in advance for 2015-16 were ₹ 2,000. Subscriptions still outstanding as on 31st March, 2016 amounted to ₹ 6,000.

P.2. **[Similar in ICAI]** There are 450 members of a club, each paying an annual subscription of ₹. 500. On 31st March, 2015, subscriptions in arrears totalled ₹ 5,000. Subscriptions received during the year ended 31st March, 2016 amounted to ₹ 2,23,000 including ₹ 4,500 for the year 2014-2015 and ₹ 7,500 for the year 2016-2017.
Calculate the amount of subscriptions in arrears as on 31st March, 2016 by preparing subscriptions a/c.

P.3. Om shanthi Club has 500 Members with Annual Fee of Rs.1,000 per Member. At the end of the accounting year, the Accountant noticed that 40 Members have not paid Annual Fee, and 70 Members had paid fee in advance. Help the Accountant to compute Cash Receipts of Annual Fee for the year.

P.4. **[ICAI]** During the year ended 31st March, 2016, Sachin Cricket Club received subscriptions as follows :

	Rs.
For year ending 31st March, 2015	12,000
For year ending 31st March, 2016	6,15,000
For year ending 31st March, 2017	18,000
Total	6,45,000

There are 500 members and annual subscription is Rs. 1,500 per member.
On 31stMarch, 2016, a sum of Rs. 15,000 was still in arrears for subscriptions for the year ended 31st March, 2015.
Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2016. Also show how the items would appear in the Balance

Sheet as on 31stMarch, 2015 and the Balance Sheet as on 31st March, 2016.

P.5. **[ICAI]** During the year ended 31st March, 2020, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2019. On 31st March, 2020, subscriptions due but not received were 15,000. Advance subscription received for the year ending 31st March 2020 but pertaining to year 2021 amounted to ₹ 26,000. The Subscriptions received for the year 31st March 2020, include the advance received for the year ending 31st March 2019 amounted to ₹ 18,000. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2020 as income from subscriptions. Show the subscription account in book of the society?

P.6. **[ICAI]** From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2020:

Details	Amount (₹)
Match expenses paid during the year ended 31st March 2020	1,10,000
Match fund as on 01.04.2019	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

P.7. **[Jan. 2021]** Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:

On 1st April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute :

a) Total income for the year 2019-20.

b) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.

P.8. From the following extract of Receipts and Payments Account and the additional information, you are required to calculate the Income from Subscription for the year ending

31st March 2014, and show them in the Income & Expenditure Account, and the Balance Sheet of a Club.

An extract of Receipts and Payments Account for the year ended 31st March 2014

Receipts	Rs.	Payments	Rs.

To Subscription				
2012-13	4,000			
2013-14	20,000			
2014-15	5,000	29,000		

Information:

a) Subscription outstanding on 31.03.2013 Rs. 5,000

b) Subscription outstanding on 31.03.2014 Rs. 4,000

c) Subscription received in advance on 31.03.2013 for 2013-14 Rs. 5,000

PREPARATION OF INCOME AND EXPENDITURE AND BALANCE SHEET FROM RECEIPT & PAYMENT A/C AND OTHER BALANCES AND INFORMATION

P.9. On the basis of the following information, prepare Income and Expenditure Account for the year ended 31stMarch, 2015:

Receipts and Payments Account for the year ended 31st March, 2015

Receipts	Rs.	Payment's	Rs.
To Cash in hand [opening]	1,300	By Salaries	2,58,000
To Cash at Bank [opening]	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & Stationery	3,870
To Interest on 8% Govt. Bonds	4,000	By Conveyance	10,600
To Bank Interest	160	By Scooter purchased	50,000
		By 8% Govt. Bonds	1,00,000
		By Cash in hand [closing]	840
		By Cash at Bank [closing]	9,200
	5,04,010		5,04,010

a) Salaries paid includes Rs. 6,000 paid in advance for April, 2015. Monthly salaries paid were Rs. 21,000.

b) Outstanding rent on 31st March, 2014 and 31st March, 2015 amounted to Rs. 5,500 and Rs. 6,000 respectively.

c) Stock of printing and stationery material on 31st March, 2014 was Rs. 340; it was Rs. 365 on 31st March, 2015.

d) Scooter was purchased on 1st October, 2014. Depreciation @ 20% per annum is to be provided on it.

e) Investments were made on 1st April, 2014.

f) Subscriptions due but not received on 31st March, 2014 and 31st March, 2015 totalled Rs. 14,000 and Rs.12,800 respectively. On 31st March, 2015 subscriptions amounting to Rs. 700 had been received in advance for April, 2015.

P.10. On 31st March, 2015 Writers Club a cultural association had the following assets and liabilities:

Liabilities	Rs.	Assets	Rs.
Trust fund	5,00,000	Cash	3,000
Accumulated surplus in		Canara Bank:	
income & expenditure a/c	1,05,000	Savings a/c	7,000
Membership fee received in		Fixed deposits	2,00,000
advance for 2016-2017	10,000	Investments in:	
Outstanding expenses	10,000	Government securities	3,00,000
		Fixed assets	95,000
		Membership fee receivable	15,000
		Prepaid expenses	5,000
	6,25,000		6,25,000

The following is the receipt and payment account for the year ended 31st March, 2016:

Receipts		Rs.	Payment		Rs.
Opening balance:			Administrative expenses		1,25,000
Cash	3,000		Program expenses including		2,75,000
Savings with Canara Bank	7,000	10,000	cost of printing souvenir		
Membership fee received			Fixed deposits with Canara Bank		1,25,000
Up to 31/3/2015	14,000		Fixed assets purchased		80,000
For 2015-2016	1,50,000		Investments in ICICI Bond		3,00,000
For 2016-2017	16,000	1,80,000	Closing balance:		
Sale of tickets - Programmed		25,000	Cash	2,700	
Advertisements in programmer souvenir		5,00,000	Savings with Canara Bank	5,000	7,700
Fixed deposits with Canara Bank		75,000			
Interest on bank a/c:					
Savings	700				
Fixed deposit	22,000	22,700			
Amount received on maturity of government security inclusive of interest Rs. 8,000 [cost Rs. 80,000]		1,00,000			
		9,12,700			9,12,700

The club informs you that:

1. Membership fee for 2015-2016 due is Rs. 25,000; it includes Rs. 1,000 due from the member who has not yet paid also for 2014-15; provision for irrecoverable membership is to be made in respect of this member.
2. Income receivable on 31-3-2016 on ICICI bond is Rs. 30,000 and on government securities is Rs. 24,000.
3. Prepaid expenses on 31-3-2016 amount to Rs. 7,000.
4. Outstanding expenses on 31-3-2016 amount to Rs. 8,000.
5. Depreciation provision is to be Rs. 12,500.
6. Program is an annual feature.

The club asks you to prepare:

a) Income and expenditure account for the year ended 31st March, 2016.
b) Balance sheet as at 31st March, 2016.

P.11. [RTP June 2022] From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	Payments	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

a) Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
b) Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
c) 50% of donation is to be capitalized.
d) Entrance fees are to be treated as revenue income.
e) 8% interest has accrued on investment for five months.
f) Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

P.12. The following is the receipts and payments account of Jyoti Charitable Hospital for the year ended 31st March, 2016:

Receipts	Rs.	Payments	Rs.
To Balance b/d	1,40,000	By Payment for medicines	6,00,000
To Subscriptions	10,00,000	By Honorarium to doctor	2,00,000
To Donations	2,90,000	By Salaries	5,50,000
To Interest on investments		By Sundry expenses	10,000
@ 7% per annum for the year	1,40,000		
To Charity show collections	2,00,000	By Equipment's purchased	3,00,000
		By Charity show expenses	20,000
		By Balance c/d	90,000
	17,70,000		17,70,000

Additional information:

	On 1.4.2015 [Rs]	On 31.3.2016 [Rs]
Subscriptions due	10,000	20,000
Subscriptions received in advance	20,000	10,000
Stock of medicines	2,00,000	3,00,000
Creditors for medicines	1,60,000	2,40,000
Equipment's	4,20,000	6,00,000
Buildings	8,00,000	7,60,000

You are required to prepare income and expenditure account for the year ended 31st March, 2016 and balance sheet as at that date.

PREPARATION OF RECEIPT & PAYMENT A/C FROM INCOME & EXPENDITURE AND OTHER BALANCES AND INFORMATION

P.13. The following is the income and expenditure account of a club for the year ended 31st March, 2014:

		Rs.
Expenditure:		
To Provision used:		
Opening stock	10,000	
Add: Purchases	1,40,000	
	1,50,000	
Less: Closing stock	5,000	1,45,000
To Salaries		18,000
To General expenses		5,000
To Depreciation on equipment's		1,000
To Surplus, i.e. excess of income over expenditure		28,000

	1,97,000
Income:	
By Subscriptions	34,000
By Sale of provisions	1,63,000
	1,97,000

The following balance sheets are also given to you:

Liabilities	On 31.3.2013	On 31.3.2014
Creditors for provisions	8,000	10,000
Capital fund	47,000	75,000
	55,000	85,000
Assets		
Equipment's [cost less depreciation]	10,000	25,000
Stock of provisions	10,000	5,000
Subscriptions receivable	5,000	10,000
Cash at bank and in hand	30,000	45,000
	55,000	85,000

Prepare the receipts and payments account of the club for the year ended 31st March, 2014.

P.14. From the following particulars relating to Deena Nath Charitable Hospital, prepare

a) receipts and payments account for the year ended on 31st March, 2016; and

b) balance sheet as on 31st March, 2016:

Income and Expenditure Account
For the year ended 31st March, 2016

Expenditure	Rs.	Income		Rs.
To Medicines used	29,980	By Subscriptions		56,000
To Honorarium to doctors	12,000	By Donations		9,500
To Salaries	27,500	By Interest on investment	@ 11%	11,000
To Printing and stationery	1,100	By Income from film show:		
To Electricity	475	Proceeds	11,450	
To Rent	6,000	Less: Expenses	780	10,670
To Depreciation on Furniture	2,100			
To Depreciation on equipment	3,250			
To Surplus i.e. excess of income over expenditure	4,765			
	87,170			87,170

Additional Information:

		On 1.4.2015	On 31.3.2016
[i]	Subscription due	120	160
[ii]	Subscriptions received in advance	64	100
[iii]	Electricity bills unpaid	92	115
[iv]	Stock of medicines	7,820	9,750
[v]	Estimated value of equipment's	11,600	13,900
[vi]	Furniture and fixtures	21,000	18,900
[vii]	Land	-	10,000
[viii]	Interest accrued on investments in 11% debentures costing Rs. 1,02,500 [face value: Rs. 1,00,000]	3,750	3,750
[ix]	Cash in hand	340	160
[x]	Cash at bank	9,000	?

P.15. Following is the Income and Expenditure Account of Victoria Club for the year ending 31st March, 2016

Expenditures		Rs.	Incomes		Rs.
To Salaries & Wages		19,000	By Subscription		30,000
To Misc. Expenses [including Insurance]		2,000	By Entrance Fee Received		1,000
To Audit Fees		1,000	By Annual Sports Income		
To Chief Executives Honorarium		4,000	receipts	6,000	
To Printing & Stationery		1,800	Less: Expenses	3,000	3,000
To Annual Day Celebration Exp.	6,000				
Less: Donation	4,000	2,000			
To Interest on Bank Loan		600			
To Depreciation on Sports Equipment		1,200			
To Excess of Income over Expenditure		2,400			
		34,000			34,000

Additional Information:

	31.3.15 [Rs.]	31.3.16 [Rs.]
[1] Subscription Outstanding	2,400	3,000
[2] Subscription received in advance	1,800	1,080
[3] Salaries Outstanding	1,600	1,800
[4] Sports equipment [after deducting depreciation]	10,400	10,800
[5] Prepaid Insurance	--	240
[6] Cash in hand	?	6,400

7. The Club owned a sports ground of Rs. 40,000
8. The Club took a loan of Rs.8,000 from a bank during the yr 2014-15, which was not paid in 2015-16.
9. Audit fee of 2015-16 was outstanding, but Audit fees of Rs. 800 for 2014-15 was paid in 2015-16

Prepare Receipts and Payments Account for the year ending 31st March, 2016 and a Balance Sheet as on that date.

P.16. The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows:

Receipts & Payment Account
For the year ending on 31st March, 2013

Receipts	Rs.	Payments	Rs.
To Balance b/d	42,000	By Secretary Salary	10,000
To Entrance Fees 2011-12	10,000	By Printing & Stationery	26,000
To Entrance Fees 2012-13	1,00,000	By Advertising	16,000
To Subscription 2011-12	6,000	By Fire Insurance	12,000
To Subscription 2012-13	1,50,000	By 12% Investments	
To Subscription 2013-14	4,000	[Purchased on 01-10-2012]	2,00,000
To Rent Received	24,000	By Furniture	20,000
To Interest Received	6,000	By Balance c/d	58,000
Total	3,42,000	Total	3,42,000

Income & Expenditure Account
For the year ending on 31st March, 2013

Expenditure	Rs.	Income	Rs.
To Secretary Salary	15,000	By Entrance Fees	1,05,000
To Printing & Stationery	22,000	By Subscription	1,56,000
To Advertising	16,000	By Rent	28,000
To Audit Fees	5,000	By Interest on Investments	12,000
To Fire Insurance	10,000		
To Depreciation:			
Sports Equipment's	90,000		
Furniture	5,000		
To Surplus	1,38,000		
Total	3,01,000	Total	3,01,000

Additional Information:
The assets and liabilities as on 31st March, 2012 include club Grounds & Pavilion Rs. 4,40,000, Sports Equipment's Rs. 2,50,000, Furniture & Fixtures Rs. 40,000, Subscription in Arrear Rs. 8,000, Subscription received in advance Rs. 2,000 and Creditors for Printing & Stationery Rs. 5,000.

You are required to prepare the Balance Sheet of the Club as on 31st March, 2013.

PREPARATION OF INCOME AND EXPENDITURE ACCOUNT AND BALANCE SHEET FROM TRIAL BALANCE

P.17. From the following particulars, prepare income and expenditure account:

[i]	Fees collected, including Rs. 80,000 on account of the previous year	3,80,000
[ii]	Fees for the year outstanding	10,000
[iii]	Salary paid, including Rs. 3,000 on account of the previous year	28,000
[iv]	Salary outstanding at the end of year	1,000
[v]	Entertainment expenses	3,000
[vi]	Tournament expenses	12,000
[vii]	Meeting expenses	18,000
[viii]	Travelling expenses	6,000
[ix]	Purchase of books and periodicals, including Rs. 19,000 for purchases of books	29,000
[x]	Rent	10,000
[xi]	Postage, telegrams and telephones	15,000
[xii]	Printing and stationary	4,000
[xiii]	Donations received	20,000

P.18. From the following details prepare Balance Sheet of Ever Green Club as at 31st March, 2015:

	Rs.		Rs.
Furniture [before Depreciation]	8,000	Printers' Bill Outstanding	1,000
Depreciation on Furniture Written of	800	Allowances Outstanding	800
Fixed Deposits	20,000	Capital Grants	10,000
Buildings Fund	30,000	Entrance Fees [50% to be Funded]	4,000
Income of Building Fund	2,000	Legacies Received [to be Funded]	8,000
Opening balance of general fund	10,000	Prize Fund	10,000
Excess of Income over expenditure	20,000	Income of Prize Fund	1,000
Capital Fund [Opening Balance]	60,000	Expenses of Prize Fund	800
Cost of Swimming Pool	40,000	Investment of Prize Fund	10,000
Equipment's	20,000	Balance in Current Account	10,000
Investment of General Fund	36,000	Cash in Hand	800
Subscription Outstanding	10,000		

P.19. The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2016 from the books of accounts:

	Dr. Rs.	Cr. Rs.
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000

Recovery of Food Supplies		1,40,000
Surgical Equipment's	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of:		
Medicines	1,20,000	
Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		
Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines [Dispensary]		3,10,000
Opening Stock of Medicines [Dispensary]	55,000	
Purchase of Medicines [Dispensary]	3,00,000	
Salaries:		
Administrative Staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges:		
Hospital	1,05,000	
Dispensary	2,000	
Furniture & Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery		800
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @ 11% p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors [Dispensary]	60,500	
Sundry Creditors [Dispensary]		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	
	25,66,800	25,66,800

Additional Information:

(a) The dispensary supplied medicines to the hospital worth Rs. 60,000, for which no adjustment was made in the books.

(b) The closing stock of the medicines was Rs. 40,000 at the dispensary.

(c) The stock of medicines on 31st March, 2016 at the hospital included Rs. 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) The donations were received towards Corpus of the Trust.

(e) On 15th August, 2015, surgical equipments were donated having market value of Rs. 40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs. 50,000.

(g) Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances:

Surgical Equipment's @ 20%	Building @ 5%
Furniture & Equipment's @ 10%	Ambulance @ 30%

You are required to prepare:

i) Income and Expenditure Account of the Hospital, Dispensary and Trust.

ii) Statement of Affairs of the Trust for the year ended 31st March, 2016.

P.20. [RTP May 2020 & Similar in Jan. 2021 Examination] Doctor Dinesh after retiring from Govt. service, started private practice on 1 st April, 2018 with ₹ 1,00,000 of his own and ₹ 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	Rs.	Payments	Rs.
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 ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 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

P.21. **[RTP Nov. 2020]** The following information of M/s. TT Club are related for the year ended 31st March, 2020:

1]

Balances	As on 01-04-2019	As on 31-3-2020
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 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

P.22. **[Nov. 2018]** You are provided with the following:

Balance Sheet as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
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		Rs.	Payments		Rs.
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	2,000		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 newspaper		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].

FINANCIAL STATEMENTS OF EDUCATIONAL INSTITUTIONS

P.23. **[Nov. 2020]** From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund		19,10,000
Tuition Fee Received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)		2,05,000
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000

Cash at Bank	3,16,000	-
Library	3,20,000	
	75,45,000	75,45,000

Adjustments :

(a) Materials & Supplies consumed (From college stores): Teaching ₹ 52,000.

Research - ₹ 1,45,000

Students Welfare - ₹ 78,000

Games or Sports - ₹ 24,000

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates.

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

9

Accounting from Incomplete Records

Introduction

Very often the small sole proprietorship and partnership businesses do not maintain double entry book keeping system. Sometimes they keep record only of the cash transactions and credit transactions. Sometimes they maintain no record of many transactions. But at the end of the accounting period they want to know the performance and financial position of their businesses. This creates some special problems to the accountants.

Single Entry System Means…

The term "Single Entry System" is popularly used to describe the problems of accounts from incomplete records. In practice, the accountants follow for some transactions they complete double entries, for some others they just maintain one entry, Still for some others, they even do not pass any entry. Hence we can say anything short of books of account maintained by double entry system, is commonly known as single entry or incomplete records. Also when account books are destroyed by fire etc. & financial statements are to be prepared from incomplete data, we refer it as a single entry problem. The task of the accountant is to establish linkage among the available information and to finalise the accounts.

Preparation of Final accounts from incomplete records

There are two methods of Preparation of Final accounts from incomplete records

1. **Statement of Affairs Method:** When only opening & closing balances of Assets & liabilities of a period are given with few details like drawing & capital contribution, then we can ascertain amount of Profit/ Loss (but can't prepare profit & loss a/c) & prepare Balance sheet (Statement of Affair)

2. **Completed Account Method:** In addition to opening & closing balances of Assets & Liabilities, if some transactions of the year are also given, then by co-relating such data we can convert it into complete double entry accounts & then from it Trading & Profit & Loss Account & Balance sheet can be prepared in the usual way.

STATEMENT OF AFFAIRS METHOD

This method is also known as Net Worth method or Statement of Affairs Method.

If detailed information regarding revenue and expenses is not known, it becomes difficult to prepare profit and loss account. Instead by collecting information about assets and liabilities, it is easier to prepare balance sheet at two different points of time. So, while preparing accounts from incomplete records, if sufficient information regarding revenue and expenses not available, it is better to follow this method to arrive at the profit figure.

Capital is increased if there is profit, while capital is reduced if there is loss. However, if the proprietor/partners made fresh investments in the business, capital is increased; if they make withdrawal capital is reduced. So while determining the profit by capital comparison, the following rules should be followed

Particulars	₹
Capital at the end of the year	xxx
Add: Drawings	xxx
Interest on partner's drawings	xxx
Less: Opening capital	xxx
Addition during the year	xxx
Interest on capital & salary to partner	xxx
Balance will be profit/loss	xxx

Note: Alternatively, this can be done by preparing a capital a/c & recording all this information to get the amount of profit or loss for the year.

Capital Account

Particulars	₹	Particulars	₹
To Drawings	xxx	By Opening balance	xxx
To Interest on drawings	xxx	By Interest on capital	xxx
To Closing balance	xxx	By Salary to owners	xxx
(ascertained from closing balance sheet)	xxx	By Cash/bank (addition)	xxx
		By Net profit (balancing figure)	xxx
	xxx		xxx

It is clear from the above discussion that to follow the capital comparison method one should know the opening capital and closing capital. This should be determined by preparing statement of affairs at the two respective points of time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on...........

Liabilities	₹	Assets	₹
Capital (Bal. Fig.)	xxx	Building	xxx
Loans, Bank overdraft	xxx	Machinery	xxx
Sundry creditors	xxx	Furniture	xxx
Bills payable	xxx	Inventory	xxx
Outstanding expenses	xxx	Sundry debtors	xxx
		Bills receivable	xxx
		Loans and advances	xxx
		Cash and bank	xxx
		Prepaid expenses	xxx
	xxx		xxx

Now from the statement of affairs prepared for two different dates, opening and closing capital balances can be obtained.

Difference between Statement of Affairs and Balance Sheet

Basis	Statement of affairs	Balance sheet
Reliability	It is prepared on the basis of transactions partly recorded on the basis of double entry book keeping and partly on the basis of single entry. Most of the assets are recorded on the basis of estimates, assumptions, information gathered from memory rather than records.	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from the relevant subsidiary books and ledger. Hence the balance sheet is not only reliable, but also dependable.
Capital	In this statement, capital is merely a balancing figure being excess of assets over capital. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared on the basis of incomplete records, it is very difficult, to locate the assets and liabilities, if they are omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore no method of valuation is	The valuation of assets is done on scientific basis, which is original cost in the case of new assets and

	disclosed.	depreciated amount on the basis of cost minus depreciation to date for used assets. Any change in the method of valuation is properly disclosed.
Objects	The object of preparing this statement in the calculation of capital figures in the beginning and at the end of the accounting period respectively.	The object of preparing the balance sheet is to ascertain the financial position on a particular date.

COMPLETED ACCOUNT METHOD

If information given is sufficient, we can prepare all the necessary accounts by double entry system & ascertain the information which is not given by balancing those accounts. This gives us sufficient information to prepare Trial balance & subsequently profit & loss account & Balance sheet. Exact procedure will depend on the data given in the question & hence will vary. But following broad guidelines can be given.

Related to Format:

1. First draw Trading Account, Profit & Loss Account and Balance Sheet.
2. Working Notes:
   a) Opening Balance Sheet if not given in question.
   b) Draw as working note all those accounts whose opening or/and closing balances given in question.

Related to Procedure:

1. Write opening balances in opening balance sheet & closing balances in closing balance sheet.
2. Write again opening balance from the opening balance sheet in the Current years account *(assets will have debit balance & liabilities will have credit balance)*
3. Write Closing balances which are given in question in the concerned account. *Remember debit balance (i.e. debit side of the account is more) is written on credit side of the account & credit balance (i.e. credit side of the account is more) is written on the debit side while closing an account.*
4. Read transaction & Make double entry effect i.e. debit as well as credit for the given transactions.
5. Do balancing the accounts we get missing information, accordingly interpret the missing information.
6. After doing above all such closing balances of income, expenses, assets & liabilities written in final accounts.

The closing balance of stock given in the question is not the balance of any account, rather it is transaction (adjustment) requiring double entry.

Draft a fixed asset account

Fixed Assets A/c

Particulars	₹	Particulars	₹
To Opening Balance b/f	…	By Cash/Bank (Sale)	…
To Cash/Bank a/c (Purchases)	…	By P&L a/c (Loss on sale)	…
To P&L a/c (Profit on sale)	…	By Depreciation a/c	…
		By Balance c/f	…
	…		…

Draft Debtors account

Debtors a/c

Particulars	₹	Particulars	₹
To Opening Balance b/f (Receivable)	…	By Cash/Bank/ Bill Receivable a/c (Received)	…
To Sales a/c (Credit sale)	…	By Bad debt/Discount allowed	…
		By Balance c/f	
	…		…

Draft Creditor a/c

Creditors A/c

Particulars	₹	Particulars	₹
To Cash/Bank/Bills Payable a/c (Payment)	…	By Opening balance b/f (payable)	…
To Discount received a/c	…	By Purchases a/c (Credit purchase)	…
To Balance c/f	…		
	…		…

Draft an income account

Any and every income account can be prepared as follows:

Income Account

Particulars	₹	Particulars	₹
To Opening Outstanding B/f (Receivable)	…	By Opening Advance b/f	…
To Profit & Loss a/c	…	By Cash/Bank a/c	…
(Income for the year)	…	(Received during the year)	…
To Closing Advance C/f	…	By Closing outstanding C/f	…

	...	(Receivable)	...
	...		...

Draft an expense account

Any and every expenses account can be prepared as follows:

Expense Account

Particulars	₹	Particulars	₹
To Opening Advance B/f (Prepaid)	...	By Opening Outstanding b/f (Payable)	...
To Cash/Bank a/c (Paid during the year)	...	By Profit & Loss a/c (Expense for the year)	...
To Closing Outstanding C/f (payable)	...	By Closing Advance C/f (prepaid)	...
	...		...

Points to Remember

While preparing any such account, record the given data & then by balancing such a/c missing data is ascertained. When opening Balance sheet is not given the same should be prepared to ascertain any missing information like opening balance of Capital a/c etc. Other accounts like assets a/c, loan a/c, goods a/c, cash, Bank a/c, etc. can also be prepared to ascertain missing data if any.

CLASS QUESTIONS

STATEMENT OF AFFAIRS METHOD

C.1. [Nov 2007] The closing capital of Mr. A on 31.3.2007 was ₹ 1,50,000. On 1.4.2006 his capital was ₹ 60,000. During the year he has drawn ₹ 40,000 for domestic expense. He introduced ₹ 25,000 as additional capital in February 2007. Find out his net profit for the year.

C.2. [Nov. 2009] On 1st April, 2008, Chhotu started business with an initial Capital of ₹ 70,000. On 1st October, 2008, he introduced additional capital of ₹ 40,000. On 7th of every month, he withdraws ₹ 5,000 for household expenses. On 31st March, 2009 his Assets and Liabilities were ₹ 2,00,000 and ₹ 70,000 respectively. Find out the profit for the year ended on 31st March 2009.

C.3. Rahul and Rameez are partners in a firm sharing profits and loss as Rahul 3/5 and Rameez 2/5. They keep their books on single entry system. On 1/1/2011, the following statement of affairs was extracted from this book.

Liabilities		₹	Assets	₹
Sundry creditors		30,000	Plant	30,000
Rahul Loan a/c		25,000	Stock	20,000
Capital a/c			Sundry debtors	35,000
Rahul	25,000		Cash at bank	15,000
Rameez	20,000	45,000		
		1,00,000		1,00,000

On 31.12,2011, the assets and liabilities were as follows:
Plant ₹ 50,000, Stock ₹ 30,000, Debtors ₹ 40,000, Cash ₹ 20,000, Loan A/c ₹ 25,000. Creditor ₹ 25,000, Drawings - Rahul ₹ 6,000 and Rameez ₹ 4,000.
You are required to prepare a Profit and Loss statement for the year ended 31.12.2011, and a statement of Affairs as at that date after taking into consideration the following additional information:

1. Plant to be depreciated by 10% p.a.
2. Stock to be reduced to its NRV ₹ 25,000,
3. A reserve for bad debts to be raised @2.5% on Debtors,
4. Interest on partners' capital is to be allowed @5% p.a. and charged @ 10% p.a on Drawings.
5. Allow interest on Rahul's loan @ 6% p.a.

C.4. **[Nov. 2013]** The details of assets and liabilities of Mr. 'A' as on 31-3-2012 and 31-3-2013 are as follows:

Particulars	31-3-2012 ₹	31-3-2013 ₹
Assets:		
Furniture	50,000	
Building	1,00,000	
Stock	1,00,000	2,50,000
Sundry Debtors	60,000	1,10,000
Cash in Hand	11,200	13,200
Cash at Bank	60,000	75,000
Liabilities:		
Loans	90,000	70,000
Sundry Creditors	50,000	80,000

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for ₹ 24,000 for his daughter in December 2012. He sold his car on 30-3-2013 and the amount of ₹ 40,000 is retained in the business.

You are required to:

(a) Prepare statement of affairs as on 31-3-2012 & 31-3-2013.

(b) Calculate the profit received by 'A' during the year ended 31-3-2013.

C.5. **[Nov. 2017]** Mr.Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17. Income tax officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2016	
Sundry Assets	16,65,000
Liabilities	4,13,000
On 31st March, 2017	
Sundry Assets	28,40,000
Liabilities	5,80,000
Mr. Aman's drawings for the year 2016-17	32,000 Per Month
Income declared to the Income Tax Officer	9,12,000

During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the income tax officer's contention is correct. Explain by giving your working.

C.6. The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2015-2016 and 2016-2017 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2015 and 1st April, 2017.

Particulars				₹
1-4-2015	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Other Asset	75,000
	Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2017	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Other Asset	1,25,000
			Loan to Moti's Brother	20,000
	Liabilities	:	Sundry creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹1,05,000 for 2015-2016and ₹ 1,23,000 for 2016-2017 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

C.7. **[ICAI]** A and B are in Partnership having Profit sharing ratio 2:1. The following information is available about their assets and liabilities:

	31-3-2021	31-3-2022
	₹	₹
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000
Inventory	60,000	74,750
Loan	80,000	—
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ ₹ 2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	A	B
	₹	₹
April 30	2,000	—
May 31	—	2000
June 30	4,000	—
Sept. 30	—	6,000
Dec. 31	2,000	—
Feb. 28	—	8,000

On 30th June, they took C as 1/3rd partner who contributed ₹ 75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases ₹ 10,000 may be depreciated for 1/4th of a year. Current account as on 31-3-20X1: A ₹ 5,000 (Cr.), B ₹ 2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31-3-2022

C.8. The following is the position of Assets and Liabilities of A + B who does not maintain Complete Books of Account. Capital of A at the beginning of the year was ₹ 10,000 more than B and interest on capital is allowable @ 10% of opening Capital:

	1.4.2021 ₹	31.3.2022 ₹
Cash in hand	2,500	5,200
Cash at bank as per pass book	15,200	20,200
Stock at shop at cost	20,000	25,000
Sundry debtors	23,000	32,000
Sundry creditors	32,000	23,000
Furniture	6,000	6,000
Machinery	20,000	25,000

Additional information:

a. Partners have drawn A ₹ 3,000 p.m. and B ₹ 2,000 p.m. No interest is chargeable on drawings.

b. Stock at shop includes goods sold for ₹ 5,000 at a profit of 20% not yet delivered.

c. Depreciate Furniture 10% and Machinery @ 20% on closing balances.

d. As on 31st March, 2022 cheque deposited but not credited by Bank ₹ 9,000 and cheque issued not presented for payments of ₹ 6,500. Bank has also debited our accounts by ₹ 200 as Bank charges.

Prepare Statement of Profit & Loss for the year ended 31st March, 2022 and also a Balance Sheet on that date.

COMPLETED ACCOUNT METHOD

C.9. **[May 2012]** M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	Amount ₹
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills receivable received during the year	47,000
Bills payable issued during the year	53,000
Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000
Bad Debts recovered	16,000
Bills Receivable endorsed to creditors	27,000
Bills Receivable dishonored by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed Bills Receivable dishonored	3,000
Sales Return	11,000
Bills Receivable discounted	8,000
Discounted Bills Receivable dishonored	2,000
Cash Sales	1,68,500
Cash Purchases	1,97,800
Debtors as on 31.03.2012	82,000
Creditors as on 31.03.2012	95,000

C.10. **[Nov.2016]** The following particulars are obtained from the books of Prime Ltd. for the year ended 31st March, 2016:

Particulars	₹	Particulars	₹
Cash Sales	50,000	Bills Receivable dishonoured	5,000
Credit Purchases	5,60,000	Return Inward	17,000
Collection from Debtors	8,50,000	Payment to creditors	3,24,000
Bills Receivable drawn	40,000	Discount allowed	6,000
Discount Received	5,000	Debtor's cheque returned dishonoured	15,000
Cash Purchases	24,000		
Bills Payable Paid	13,000	Credit Sales	9,80,000
Recovery of Bad Debts	3,000	Bills Receivable Collected	20,000

Bills receivable discounted with Bank	16,000	Return Outward	7,400
Interest charged on overdue customer's A/c	2,400	Bills Receivable endorsed to Creditors	15,800
Endorsed Bills Receivable dishonoured (noting charges ₹ 150)	11,000	Overpayment refunded by Suppliers	1,200
Bills Payable accepted	32,000	Bad Debts	2,000
		Opening Balances:	
		Sundry Debtors	1,56,000
		Sundry Creditors	1,70,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

C.11. Shri Kapoor has a trading business for which the following procedures are followed:

a) All collections are deposited with the Bank each day.
b) To meet petty expenses a Cheque for ₹1,500 is withdrawn from the Bank on the 1st day of each month.
c) Payments made to Creditors during the year ₹1,20,000.
d) Personal drawings out of Bank ₹6,000.
e) Shri Kapoor sells goods at a profit of 25% on sales.

Prepare Profit and Loss Account for the year ended 31st December, 2011 and Balance Sheet as on that date from the above information.

The following figures are available from Shri Kapoor's records:

Particulars	1-1-2011 ₹	31-12-2011₹
Cash-in-hand	150	300
Balance in Bank	30,000	21,000
Debtors	1,00,000	1,25,000
Creditors	90,000	1,00,000
Stock	15,000	25,000

C.12. **[May 2010]** The books of account of Ruk Ruk Maan of Mumbai showed the following figures:

Assets and Liabilities	31.3.2008 ₹	31.3.2009 ₹
Furniture & Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in Hand & Bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding Salaries	19,000	20,000

An analysis of the cash book revealed the following:

Particulars	₹
Cash Sales	16,20,000
Collection from Debtors	10,58,000
Discount allowed to Debtors	20,000
Cash Purchases	6,15,000
Payment to Creditors	9,73,000
Discount received from creditors	32,000
Payment for bills Payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare trading and profit and loss account for the year ended 31st March, 2009 and Balance Sheet as on that date.

C.13. **[Nov. 2020]** M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2019 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6 50,000
		Closing stock	3,75,000
		Trade Debtors	3,65,000
Trade Creditors	1,90,000	Cash & Bank	1,95,000
Profit & Loss A/c	1,45,000		
	15,85,000		15,85,000

The management estimates the purchase & sales for the year ended 31st March,2020 as under:

Particulars	Upto 31.01.2020 (₹)	February 2020 (₹)	March 2020 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1, 75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of

Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2019, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2020.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales, is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances.
Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2020

C.14. [Nov. 2006] Mr. Ashok keeps his books in Single Entry System. From the following information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2006 and the Balance Sheet as on that date:

Assets and Liabilities	31.3.2005 ₹	31.3.2006 ₹
Sundry Creditors	30,000	25,000
Outstanding expenses	1,000	500
Fixed Assets	23,000	22,000
Stock	16,000	22,500
Cash in Hand and at Bank	14,000	16,000
Sundry Debtors	?	36,000

Following further details are available for the Current year:

Particulars	₹	Particulars	₹
Total receipts from debtors	1,30,000	Cash purchases	2,000
Return inward	3,000	Fixed Assets purchased and paid by cheque	1,000
Bad Debt	1,000		
Total Sales	1,50,000	Drawings by cheque	6,500
Discount received	1,500	Deposited into the bank	10,000
Return outwards	1,000	Withdrawn from bank	18,500
Capital introduced (paid into Bank)	15,000	Cash in hand at the end	2,500
		Paid to creditors by cheques	1,20,000
Cheques received from Debtors	1,25,000	Expenses paid	20,000

C.15. [May 1998 & Similar in ICAI] Shri Rashid furnishes you with the following information relating to his business:

a) Assets and liabilities as on

Assets and Liabilities	1.1.2010 ₹	31.12.2010 ₹
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry debtors	16,000	?
Sundry creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

b) Receipts and payments during 2010:
   1. Collection from debtors, after allowing discount of ₹ 1,500 amounted to ₹ 58,500.
   2. Collections on discounting of bills of exchange, after deduction of discount of ₹ 125 by the bank, workout to ₹ 6,125.
   3. Creditors of ₹ 40,000 were paid ₹ 39,200 in full settlement of their dues.
   4. Payment for freights inward ₹ 3,000.
   5. Amounts withdrawn for personal use ₹ 7,000.
   6. Payment for office furniture ₹ 1,000.
   7. Investment carrying annual interest of 4% was purchased at ₹ 96 on 1st July, 2010 and payment made therefore.
   8. Expenses including salaries paid ₹ 14,500.
   9. Miscellaneous receipts ₹ 500.

c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 10,000 of these, bills of exchange of ₹ 400 were dishonored.

d) Goods costing ₹ 900 were used as advertising materials.

e) Goods are invariably sold to show a gross profit of 33 and 1/3% on sales.

f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Rashid.

g) Provide at 2.5% for doubtful debts on closing debt.

Rashid asks you to prepare Trading and Profit and Loss Account for the year ended 31st December, 2010 and the Balance Sheet as on that date.

C.16. From the following information of M/s. Pradip & Co., prepare Trading and Profit and Loss Account for the year ended 31st March, 2013 and the Balance Sheet as on that date.

Assets and Liabilities	31.3.2012 ₹	31.3.2013 ₹
Car	90,000	90,000
Furniture	10,000	10,000
Stock	70,000	90,000
Debtors	62,000	46,000
Bank	9,000	16,000
Creditors	60,000	?

The following further information are also available:

1. Pradip & Co. purchases goods for resale from manufacturers who allow discount of 3% on goods purchased in excess of ₹ 5,00,000 in a year.
2. The discount for the year ended 31st March, 2013 was ₹ 12,480.
3. All goods are sold at a gross profit margin of 30% on selling price.
4. Bank statements for the year reveal the following payments:

Particulars	₹	Particulars	₹
Creditors	9,03,520	Salaries	60,000
Car Expenses	23,000	Rent	30,000
Printing and Stationery	6,400	Rates and Taxes	3,000
Carriage Outward	18,600	Travelling Expenses	14,900
Delivery Van purchase	1,70,000	Miscellaneous Expenses	9,580
Drawings	50,000		

Depreciation on Car and Van @ 20% and Furniture @ 10% is to be provided on balances as on 31-3-2013.

C.17. [May 2014, RTP Nov. 2019 & Similar in May 2019] Following are the incomplete information of Moonlight Traders: The following balances are available as on 31.03.2013 and 31.03.2014 (in ₹)

Balances as on:	31.03.2013 ₹	31.03.2014 ₹
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office Equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for Purchases	95,000	?
Creditors for office Expenses	20,000	15,000
Stock	?	65,000
Long Term Loan from SBI @ 12%.	1,25,000	1,00,000

Bank	25,000	?
Provision for Tax (Rate 30%)	35,000	30,000

Other Information:

Particulars	₹
Collection from Debtors	₹ 9,25,000
Payment to Creditors for Purchases	₹ 5,25,000
Payment of Office Expenses	₹ 42,000
Salary Paid	₹ 32,000
Selling Expenses	₹ 15,000
Cash Sales	₹ 2,50,000
Credit Sales	80% of Total Sales
Credit Purchases	₹ 5,40,000
Cash Purchases	40% of Total Purchases
GP Margin at	Cost plus 25%
Discount Allowed	₹ 5,500
Discount Received	₹ 4,500
Bad Debts	2% of Closing Debtors

Depreciation to be provided as follows: Land and Building 5%, Plant and Machinery 10%, Office Equipment 15%.

Other Adjustments:

a. (On 01.10.2013, they sold machine having Book Value ₹ 40,000 (as on 31.03.2013) at a loss of ₹ 15,000. New Machine was purchased on 01.01.2014.

b. Office Equipment was sold at its Book Value on 01.04.2013.

c. Loan was partly repaid on 31.03.2014 together with interest for the year.

Prepare Trading and P & L A/c and Balance Sheet as on 31.03.2014.

C.18. **[May 2013]** A sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31st March, 2013 and Balance Sheet as at that date. He provides you the following information.

Liabilities	₹	Assets	₹
Bank Overdraft	4,270	Furniture	96,000
Outstanding Expenses:		Computer	24,300
Salaries 8,000		Mobile Phone	8,000
Rent 6,000	14,000	Stock	89,500
Bills Payable	22,500	Trade Debtors	55,000
Trade Creditors	52,500	Bills Receivable	15,000

Capital (balancing figure)	1,97,430	Unexpired Insurance Stock of Stationery Cash in Hand	2,400 200 300
Total	2,90,700	Total	2,90,700

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the accounting year 2012-13. The other assets and liabilities on 31st March, 2013 are as follows:

Particulars	₹
Stock	95,400
Trade Debtors	65,000
Bills Receivable	20,000
Unexpired Insurance	2,500
Stock of Stationery	250
Cash at Bank	18,000
Cash at Hand	7,230
Salaries Outstanding	8,300
Rent Outstanding	6,000
Bills Payable	26,500
Trade Creditors	76,000

He also provides to you the following summary of his cash transactions:

Receipts	₹	Payments	₹
Cash Sales	5,09,800	Trade Creditors	3,06,000
Trade Debtors	1,51,900	Bills Payable	80,000
Bills Receivable	65,000	Salaries	99,000
		Rent	72,000
		Insurance Premium	10,000
		Stationery	1,500
		Mobile Phone Expenses	9,000
		Drawings	1,20,000

It is found Prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable.

C.19. [Nov. 2001 & ICAI] The following is the Balance Sheet of a concern on 31.3.2000:

Liabilities	₹	Assets	₹

Capital	10,00,000	Fixed Assets	4,00,000
Creditors	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchase and sales for the year ended 31st March, 2001 as under:

Particulars	Upto 28.2.2001	31st March 2001
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses. Draft a Balance Sheet as at 31st March, 2001 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other items of current asset and liabilities apart from stock and cash and bank balances.

C.20. **[Nov. 2018]** Aman a readymade garments trader, keeps his books of account under single entry system. On the closing on 31st March 2017 his statement of affairs stood as follows.

Liabilities	₹	Assets	₹
Aman's Capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor Car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in Hand	20,000
		Cash at Bank	85,000
	9,40,000		9,40,000

Riots occurred and a fire broke out on the evening of 31st March 2018, destroying the books of accounts. On that date, the cashier had absconded with the available cash. You are furnished with the following information

1. Sales for the year ended 31st march 2018 were 20% higher than the previous year's sales, out of which 20% sales were for cash. He always sells goods at cost plus 25%. There was no cash purchases.

2. Collection from debtors amounted to ₹ 14,00,000, out of which ₹3,50,000 was received in cash.
3. Business expenses amounted to ₹ 2,00,000, of which ₹ 50,000 were outstanding on 31st March, 2018 and ₹ 60,000 paid by cheque.
4. Gross profit as per last year's audited accounts were ₹ 3,00,000.
5. Provide depreciation on building & furniture at 5% each and motor car at 20%.
6. His private records and the bank pass book disclosed the following transactions for the year 2017-18:

Particulars	₹
Payment to creditors (Paid by cheque)	13,75,000
Personal drawings (Paid by cheque)	75,000
Repairs (Paid by cash)	10,000
Travelling Expenses (Paid by cash)	15,000
Cash deposited in Bank	7,15,000
Cash withdrawn from Bank	1,20,000

7. Stock level was maintained at ₹ 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit & Loss account.

You are required to prepare Profit & Loss account for the year ended 31st March 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

C.21. [RTP – May 2019] From the following information in respect of Mr. Preet, prepare Trading Account for the year ended 31st March, 2018 and a Balance Sheet as

Particulars	31.3.17 ₹	31.3.18 ₹
1. **Liabilities and Assets**		
Stock in trade	1,60,000	1,40,000
Debtors for sales	3,20,000	?
Bills receivable	-	?
Creditors for purchases	2,20,000	3,00,000
Furniture at written down value	1,20,000	1,27,000
Expenses outstanding	40,000	36,000
Prepaid expenses	12,000	14,000
Cash on hand	4,000	3,000
Bank Balance	20,000	1,500
2. **Receipts and Payments during 2017-2018:**		

Collections from Debtors (after allowing 2-1/2% discount) Payments to Creditors (after receiving 2% discount) Proceeds of Bills receivable discounted at 2%) Proprietor's drawings Purchase of furniture on 30.09.2017 12% Government securities purchased on 1-10-2017 Expenses Miscellaneous Income		11,70,000 7,84,000 1,22,500 1,40,000 20,000 2,00,000 3,50,000 10,000

3. Sales are effected so as to realize a gross profit of 50% on the Cost.
4. Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March 2018 (as shown above), is after taking the same into account.
5. Purchases and Sales are made only on credit.
6. During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors, out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtors.

C.22. **[ICAI]** From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2021	As on 31st March 2022
	₹	₹
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420

Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200
Cheques issued to trade creditors		60,270

C.23. [May 2015] The following is the Balance Sheet of M/s. Care Traders as on 1-4-2014:

Particulars	₹
<u>Source of Funds</u>	
Share Capital	10,00,000
Profit and Loss	1,47,800
Unsecured loan @ 10%	1,75,000
Trade Payable	45,800
	13,68,600
<u>Application of Funds</u>	
Machinery	8,25,500
Furniture	1,28,700
Inventory	1,72,000
Trade Receivables	2,29,600
Bank Balance	12,800
	13,68,600

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information:

1. Sales for the year ended 31-3-2014 was ₹ 18,60,000. Sales for the current year was 20% higher than the last year.
2. 25% sales were made in cash and the balance was on credit.
3. Gross profit on sales is 30%.

4. Terms of Credit
   Debtor : 2 months
   Creditors : 1 month
   All creditor are paid by cheque and all credit sales are collected in cheque.
5. The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)

	₹
Machinery purchased	1,14,000
Rent paid	1,32,000
Advertisement expenses	80,000
Travelling expenses	78,400
Repairs	36,500
Sales of furniture	9,500
Cash withdrawn for petty expenses	28,300
Interest paid on unsecured loan	8,750

6. Machinery was purchased on 1-10-2014.
7. Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.
8. Travelling expenses of ₹ 7,800 for which cheques were issued but not presented in bank.
9. Furniture was sold on l-4-2014 at a loss of ₹ 2,900 on book value.
10. Physical verification as on 31-3-2015 ascertained the stock position at ₹ 1,81,000 and petty cash balance at nil.
11. There was no change in unsecured loan during the year.
12. Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary.

PRACTICE QUESTIONS

P.1. The closing capital of Mr. B as on 31.3.2010 was ₹ 4,00,000. On 1.4.2009 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.2010 was ₹ 1,00,000. He introduced ₹ 30,000 as additional capital in February 2010. Find out the amount withdrawn by Mr. B for his domestic expenses.

P.2. **[ICAI]** Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022. And Find out profit of Mr. X for the year ended 31-03- 2022.

P.3. **[May 2008 & Similar in ICAI]** A Company sold 25% of the goods on cash basis and the balance on credit sales. Debtors are allowed 2 months' credit and their balance as on 31.3.2008 is ₹ 1,40,000. Assume that the sale is uniform throughout the year. Calculate the total sales of the company for the year ended 31.3.2008.

P.4. **[May 2008]** In a concern, the opening provision for doubtful debts is ₹ 51,000. During the year a sum of ₹ 10,000 was written off as bad debt. The closing balance of sundry debtors amounted to ₹ 6,30,000. It was decided that 10% of the debtor is to be maintained as provision. Calculate the closing balance toward provision for doubtful debts and pass journal entry for giving effect to the provision maintained.

P.5. **[Dec. 2021]** A company sold 20% of the Goods on Cash Basis and the balance on Credit basis. Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is ₹ 1,50,000. Assume that sale is evenly spread throughout the year. Purchases during the year ₹ 9,50,000.

Closing stock is ₹ 10,000 less than the Opening Stock. Average stock maintained during the year ₹ 60,000. Direct Expenses amounted to ₹ 35,000

Calculate Credit sales, Total sales and Gross profit for the year ended 31 st March, 2021.

P.6. You are given – (a) the Balance Sheet of A on 1st April, 2015 (b) The Cash transaction for the year up to March 31, 2016. (c) A summary of the remaining transactions for the year up to March 31, 2016.

(a) Balance Sheet as on 1.4. 2015

Liabilities	₹	Assets	₹
Bank Overdraft	500	Cash in hand	70
Sundry Creditors	3,600	Bills Receivable	2,500
Bills Payable	1,600	Sundry Debtors	3,900
Capital	20,000	Stock of goods	7,530
		Plant and Machinery	4,700
		Land and Building	7,000
	25,700		25,700

(b) Receipt & Payment Account

Receipt	₹	Payment	₹
To Balance b/d	70	By Balance (Bank Overdraft) b/d	500
To Receipts from Debtors	29,000	By Salaries	4,900
To Bills Receivable	10,000	By Wages	1,580
To Cash Sales	3,700	By Bills Payable	14,300
		By Payment to creditors	14,700
		By Office Expenses	800
		By Drawings	4,500
		By Investments at par	1,000
		(9% G.P. Notes, on 1/10/2015)	
		By Balance on 31st March, 2016.	
		Cash 40	
		Bank 450	490
	42,770		42,770

(c) Summary of remaining Transactions

Particulars	₹	Particulars	₹
Sales (Credit)	40,700	Discount to customers	200
Purchases	30,000	Discount received	100
Bills Receivable received	10,900	Bills Payable issued	15,000
Stock of Goods on 31st March	5,300		

Provide for doubtful debts at 5% on debtors outstanding. Provide for depreciation Plant and Machinery at 5% and on Land and Building at 2 1/2%. Prepare the Trading and Profit & Loss Account for the year ended 31.3.16 & Balance Sheet as on that date.

P.7. [May 2001 & ICAI] A trader keeps his books of account under single entry system. On 31st March, 2000 his statement of affairs stood as follows:

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures & Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at bank	80,000
	10,00,000		10,00,000

The following was the summary of cash book for the year ended 31st March, 2001:

Receipts	₹	Payments	₹
Cash in Hand and at Bank on 1st April, 2000	80,000	Payment to Trade Creditors	75,07,000
		Payment for Bills Payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank on 31st March, 2001	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, Fixtures and Fittings were subject to depreciation 15% per annum on diminishing balances method. You are also informed about the following balances as on 31st March, 2001:

Particulars	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2001 and Balance Sheet as at that date:

P.8. **[May 2007]** Mr. Y keeps his books under single entry system. On 31st March, 2006 his Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital of Mr. Y	4,50,000	Fixed Assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills Payable	1,87,500	Debtors	2,22,000
Outstanding Expenses	67,500	Bills Receivable	90,000
		Prepaid Insurance	3,000
		Cash/ Bank balance	1,20,000
	15,75,000		15,75,000

Following are the summary of Cash and Bank transactions for the year ended 31st March, 2007.

Particulars	₹
Cash Sales	1,10,70,000
Collection from Debtors	22,65,000
Payment to Creditors	1,12,60,500
Paid for Bills Payable	12,22,500
Sundry Expenses paid	9,31,050
Drawings for Domestic Expenses by Mr. Y	3,60,000
Cash and Bank Balance as on 31.3.2007	1,90,950

Following further details are furnished:

Particulars	₹
Gross Profit on Sales @ 10%	
Bills Receivable from Debtors during the year	6,52,500
Discount Allowed to Debtors	54,000
Discount Received from Creditors	42,000
Bills Receivable Endorsed to Creditors	22,500
Annual Fire Insurance Premium Paid (This is paid on 1st August every year)	9,000
Depreciate Fixed Assets @ 10%	

Balances as on 31.3.2007 are given below:

Particulars	₹
Stock in hands	9,75,000
Debtors	2,28,000
Bills Receivable	2,10,000
Bills Payable	2,10,000
Outstanding Expenses	7,500

Requires: Prepare Trading, Profit & Loss Account for the year ended 31st March, 2007 and Balance Sheet on that date.

P.9. [May 1999 & ICAI] The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 1998:

Liabilities	₹	Assets	₹
Shri Srinivas Capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information:

1. Shri Srinivas sells his goods at a profit of 20% on sales.
2. Goods are sold for cash and credit. Credit customers pay by cheques only.
3. Payments for purchases are always made by cheques.
4. It is the practice of Shri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass-Book for the 13-week period ending 31st March, 1999 disclosed the following:

Particulars	₹
Payments to creditors	75,000
Payments of rent upto 31.3.99	4,000
Amounts deposited into the bank (include ₹ 30,000 received from debtors by cheque)	1,25,000
The following are the balances on 31st March, 1999:	
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 1999 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 1999 and a Balance Sheet as on that date.

P.10. [May 2011, ICAI & Similar in July 2021] Mr. A runs a business of readymade garments. He closes the books of account on 31st March, 2010. The Balance Sheet as on 31st March, 2010 was as follows:

Liabilities	₹	Assets	₹
A's Capital A/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in Hand	28,000
		Cash at Bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

1. His sales, for the year ended 31st March, 2011 were 20% higher than the sales of previous year, out of which 20% sales was cash sales. Total Sales during the year 2009-10 were ₹ 5,00,000
2. Payments for all the purchases were made by cheque only.
3. Goods were sold for cash and credit both. Credit customers pay by cheques only.
4. Depreciation on furniture is to be charged 10% p.a.
5. Mr. A sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March, 2011 disclosed the following:

Particulars	₹
Payment to Creditors	3,00,000
Payment of rent up to 31st March, 2011	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2011:

Particulars	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2011, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2011 and Balance sheet as on that date. All the working should form part of the answer.

P.11. [Nov. 2008 & Nov. 2004] The books of Mr. Z showed the following information:

	1.1.2007 ₹	31.12.2007 ₹.
Bank Balance	?	50,000
Debtors	?	87,500
Creditors	?	46,000
Stock	50,000	62,500
Fixed Assets	7,500	9,000

The following are the details of the bank transactions:

Particulars	₹
Receipt from customers	3,40,000
Payment to creditors	2,80,000
Capital brought in	5,000
Sale of fixed assets	1,750
Expenses paid	49,250
Drawings	25,000
Purchase of fixed assets	5,000
Other information:	
1. Cost of goods sold	2,60,000
2. Gross Profit 25% on cost of goods sold	
3. Book value of assets sold	2,500

Prepare Trading Profit and Loss Account for the year ended 31.12.2007 and Balance Sheet as at 31.12.2007.

P.12. [Nov.2005 & Similar in RTP Nov. 2021 & ICAI] From the following particulars furnished by Shri Ramji, prepare Trading and Profit and Loss account for the year ended 31.3.2005. Also draft his Balance Sheet as at 31.3.2005.

Particulars	1.04.2004 ₹	31.03.2005 ₹
Creditors	3,15,400	2,48,000
Expenses Outstanding	12,000	6,600
Fixed assets (includes machinery)	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Sundry debtors	3,30,600	?

Details of the year's transactions are as follows:

Particulars	₹
Cash and discount credited to debtors	12,80,000
Returns from debtors	29,000
Bad debts	8,400
Sales (Both cash and credit)	14,36,200
Discount allowed by creditors	14,000
Returns to creditors	8,000
Capital introduced by cheque	1,70,000
Collection from debtors (deposited into bank after receiving cash)	12,50,000
Cash Purchases	20,600
Expenses paid by cash	1,91,400
Drawings by cheque	8,600
Machinery acquired by cheque	63,600
Cash deposited into bank	1,00,000
Cash withdrawn from bank	1,84,800
Cash sales	92,000
Payment to creditors by cheque	12,05,400

Note: Ramji has not sold any Fixed Asset during the year.

P.13. **[May 2006]** Mr. X runs a retail business. Suddenly he finds on 31.03.2006 that his Cash and Bank balances have reduced considerable. He provides you the following information:

1. Balance	31.3.2005 ₹	31.3.2006 ₹
Sundry Debtors	35,400	58,800
Sundry Creditors	84,400	22,400
Cash at Bank	1,08,400	2,500
Cash in Hand	10,400	500
Rent (Outstanding for one month)	2,400	3,000
Stock	11,400	20,000
Electricity and Telephone bills outstanding	-	6,400

2. Bank Pass-book reveals the following:	₹
Total Deposits	10,34,000
Withdrawals:	
Creditors	8,90,000
Professional charges	34,000
Furniture's & Fixtures (acquired on 1.10.05)	54,000
Proprietor's drawings	1,61,900

3. Rent has been increased from January 2006.
4. Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.
5. Mr. X made all purchases on credit.
6. His credit sales during the year amounts to ₹ 9,00,000.
7. He incurred ₹ 6,500 per month towards wages.
8. He incurred following expenses:
   (a) Electricity and telephone charges ₹ 24,000 (paid)
   (b) Shop expenses ₹ 18,000 (paid)
9. Charge depreciation on furniture and fixtures @10% p.a.

Finalise the accounts of Mr. X and compute his profit for the year ended 31.3.2006. Prepare his statement of affairs and reconcile the profit and capital balance.

P.14. [Nov. 2007] 'A' and 'B' are in particular sharing profits and losses equally. They keep their book by single entry system the following balances are available from their books as on 31.3.2006 and 31.3.2007.

Particulars	31.3.2006 ₹	31.3.2007 ₹
Building	1,50,000	1,50,000
Equipment's	2,40,000	2,72,000
Furniture	25,000	25,000
Debtors	?	1,00,000
Creditors	65,000	?
Stock	?	70,000
Bank Loan	45,000	35,000
Cash	60,000	?

The transaction during the year ended 31.03.2007 were the following:

Particulars	₹
Collection from debtors	3,80,000
Payment to creditors	2,50,000
Cash Purchase	65,000
Expenses paid	40,000
Drawings by 'A'	30,000

a) On 1.4.2006 an equipment of book value of ₹ 20,000 was sold for ₹ 15,000 on 1.10.2006, some equipments were purchased.
b) Cash sales amounted to 10% of sales.
c) Credit sales amounted to ₹ 4,50,000.
d) Credit purchase were 80% of total purchases.

e) The firm sells goods at cost plus 25%.
f) Discount allowed ₹ 5,500 during the year.
g) Discount earned ₹ 4,800 during the year.
h) Outstanding expenses ₹ 3,000 as on 31.03.2007.
i) Capital of 'A' as on 31.3.2006 was ₹ 15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:

(i) Trading and Profit and Loss account for the year ended 31.3.2007 and

(ii) the Balance Sheet as on that date.

P.15. [Nov. 2003 & ICAI] The following information relates to the business of Mr. Shiv Kumar, who request you to prepare Trading and P & L account for the year ended 31st March, 2003 and a balance sheet as on that date:

a)

Particulars	Balance as on 31.3.2002 ₹	Balance as on 31.3.2003 ₹
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	-	40,000
Bills Payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	-
Bills Receivable	32,000	28,000
Sundry Creditors	1,20,000	-

b) Cash transactions during the year included the following besides certain other items:

Particulars	₹	Particulars	₹
Sale of old papers & misc. income	20,000	Cash Purchases	48,000
Misc. trade expenses (including salaries, etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash Sales	80,000

c) Other Information:

1. Bills receivable drawn during the year amount to ₹ 20,000 and bills payable accepted ₹ 16,000.
2. Some items of old furniture, whose written down value on 31st March, 2002 was ₹ 20,000 was sold on 30th September, 2002 for ₹ 8,000. Depreciation is to be provided on Building

and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to building for whole year.

3. Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debts and a reserve for doubtful debt is to be provided @ 2%.
4. Mr. Shiv Kumar has been maintaining a steady gross profit rate of 30% on turnover.
5. Outstanding salary on 31st March, 2002 was ₹ 8,000 and on 31st March, 2003 was ₹ 10,000 on 31st March, 2002. Profit and Loss account had a credit balance of ₹ 40,000.
6. 20% of total sales and total purchases are to be treated as for cash.
7. Additions in furniture account took place in the beginning of the year and there was no opening provision for doubtful debts.

P.16. **[Nov. 2002 & Similar in RTP May 2022]** The following is the Balance Sheet of Sri Agni Dev as on 31.03.2001:

Liabilities	₹	Assets	₹
Capital Account	2,52,500	Machinery	1,20,000
Sundry Creditors for purchases	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000
		Cash in hand	8,000
		Cash at bank	16,500
	2,97,500		2,97,500

Riots occurred and fire broke out on the evening of 31st March, 2002, destroying the books of account and furniture. The cashier was grievously hurt and the cash available in the cash box was stolen. The trader gives you the following information:

1. Sales are effected as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2002 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the year).
2. Terms of credit
   a. Debtors 2 Months
   b. Creditors 1 Month
3. Stock level was maintained at ₹ 33,000 all throughout the year,
4. A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of ₹ 50,000.
5. His private records and the Bank Pass-book disclosed the following transaction for the year:
   a. Miscellaneous Business expenses: ₹ 1,57,500 (including ₹ 5,000 paid by cheque and ₹ 7,500 was outstanding as on 31st March, 2002)
   b. Repairs ₹ 3,500 (paid by cash)

c. Addition to Machinery ₹ 60,000 (paid by cheque)
d. Private drawing ₹ 30,000 (paid by cash)
e. Travelling expenses ₹ 18,000 (paid by cash)

6. Introducing of Additional Capital by depositing into the Bank ₹ 5,000.
7. Collection from debtors were all through cheques.
8. Depreciation on Machinery is to be provided @ 15% on the Closing Book Value.
9. The cash stolen is to be charged to the Profit and Loss Account.
10. Loss of furniture is to be adjusted from the Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2002 and a Balance Sheet as on that date. Make appropriate assumptions whenever necessary. All working should form part of your answer.

P.17. [RTP Nov. 2018] The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

Particulars	1.4.2016	31.3.2017
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounte d to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtors.

P.18. **[ICAI]** Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

Particulars	31-12-2015 ₹	31-12-2016 ₹
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2016

(i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.

(ii) Withdrawals ₹ 1,21,000.

(iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.

(iv) Cheques collected from customers but dishonoured ₹ 5,700.

(v) Bills accepted by customers ₹ 40,000.

(vi) Bills endorsed ₹ 10,000.

(vii) Bills discounted ₹ 20,000, discount ₹ 750.

(viii) Bills matured and duly collected ₹ 16,000.

(ix) Bills accepted ₹ 24,000.

(x) Paid suppliers by cheque ₹ 3,20,000.

(xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.

(xiii) A building was purchased on 30-11-2016 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.

Other transactions:

(i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.

(ii) Goods returned to suppliers ₹ 4,200.

(iii) Goods returned by customers ₹ 1,200.

(iv) Discount offered by suppliers ₹ 2,700.

(v) Discount offered to the customers ₹ 2,400.

(vi) The business is carried on at the rented premises for an annual rent of

(vii) ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12- 2016 and Balance Sheet as on that date.

P.19. [Jan. 2021 & Similar in ICAI] Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2019-20:

Receipts	Amount ₹	Payments	Amount ₹
Bank Balance as on 1-4-2019	16,250	Payment to Sundry Creditors	3,43,000
		Salaries	75,000
Received from Sundry Debtors	4,81,000	General Expenses	22,500
		Rent and Taxes	11,800
Cash sales	1,70,800	Drawings	96,000
Capital brought in the Business during the year	50,000	Cash Purchases	1,22,750
		Balance at Bank on 31-03-2020	36,600
Interest on Investment Received	9,750	Cash in hand on 31-03-2020	20,150
	7,27,800		7,27,800

(ii) Particulars of other Assets and Liabilities are as follows:

	1st April, 2019	31st March, 2020
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?

Stock	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information:

(1) 20% of Total sales and 20% of total purchases are in cash.

(2) Of the Debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.

(3) Provide depreciation @10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2020, and Balance Sheet as on that date.

P.20. [RTP May 2021] Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2020	As on 31.3.2021
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors ₹ 7,00,000

(b) Payment for business expenses ₹ 1,20,000

(c) Receipts from debtors ₹ 7,50,000

(d) Loan ₹ 1,00,000 taken on 1.10.2020 at 10% per annum

(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare: Trading and Profit and Loss Account for the year ended 31.3.2021 and Balance Sheet as at 31st March, 2021.

10

Company Accounts

(Introduction, Issue, Forfeiture and Re-Issue of Shares and issue of debentures)

Introduction

Meaning

1. **Company:** A business can be organized in the form of a proprietary concern, partnership conc ern or as a company. It is a corporate form of organizing the business. Company is a legal entity distinct from its owners, registered under the Companies Act 1956 or Companies Act 2013 and works through a team of management.

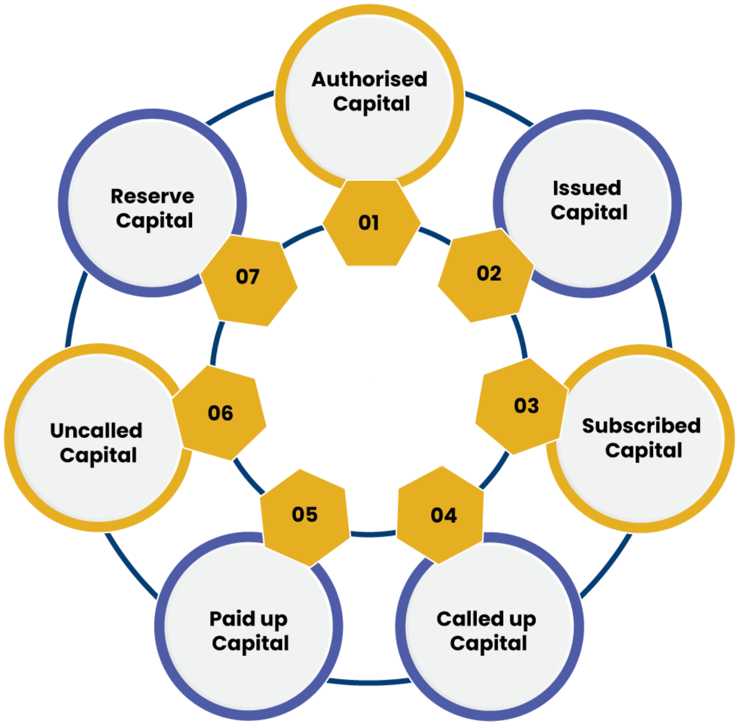
2. **Shares**

   The capital of a company is divided into a number of units of a fixed amount. These units are known as 'shares'. According to section 2(84) of the Companies Act, 2013 " a share is a share in the share capital of a company"

3. **Share capital:**

   - The capital contributed by the owners, is known as share capital.
   - It is represented by a certificate known as share certificate.
   - According to Section 43 of the Companies Act 2013, the share capital of a company limited by shares shall be of two kinds only, namely:
     - Share can be equity share or preference share.
     - Preference shares have preference in the payment of dividend and repayment of capital at the time of liquidation. (i.e. preference share holders will be paid 1st before any thing is paid to equity share holders). Entitled for fixed dividend, may or may not have participatory rights.
     - Equity share holders have voting rights and are the real owners of the company. Equity shares can be with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed.

The term capital is used in the following senses in the Company Law:



a) Nominal or authorised or registered capital:

It is the sum stated in the memorandum as the capital of the company with which it is to be registered. It is the maximum amount, which a company authorised to raise by issuing shares. It can be increased as & when decided by the company by following necessary formalities.

b) Issued capital:

It is that part of authorised capital which is offered by the company for subscription. It is obligatory to disclose issued capital in balance sheet. For example A company may have total authorised share capital of Rs.10,00,000 divided into 1,00,000 shares of ₹ 10 each. It may decide to issue 80,000 shares of Rs. 10 each. In that case the issued capital shall be ₹ 8,00,000. The authorised share capital less issued share capital is the un-issued share capital in this case ₹ 2,00,000.

c) Subscribed capital:

It is that part of the issued capital for which applications have been received from the investors. In the above example out of 80,000 shares issued by the company, if applications are received for only 70,000 shares of ₹ 10 each, the subscribed capital will be ₹ 7,00,000. The issued share capital less subscribed share capital is the un-subscribed share capital in this case ₹ 1,00,000. If underwriting has been done that underwriters will be liable to take up and pay for un-subscribed capital. As per law maximum commission for underwriting allowed to be paid is 5% of issue price in case of shares and 2.5% in case of debenture.

d) Called up capital:

It is that part of the subscribed capital, which has been called up or demanded by the company. A company can call full amount on application itself or may call the amount due on shares in two or three instalments. As per Table F article 13 a call should not be more than 1/4th of the nominal value of the share. In the above example if the company has called up ₹ 5 per share, then it's called up capital shall be 70,000 x 5 = Rs.3,50,000. The subscribed share capital less called up share capital is the un-called share capital in this case ₹ 3,50,000.

e) Paid up capital:

It is the total amount actually paid up on shares by the subscribers. Sometimes a few subscribers fail to pay the full amount called up. Thus paid up capital is equal to called - up capital less calls in arrears. In the example given above, if only on 60,000 share call is actually received by the company, then the paid up capital shall be ₹ 3,00,000. Unpaid capital/calls in arrears is 10,000 X 5 = ₹ 50,000. This may ultimately lead to forfeiture of shares if company so decides.

f) Reserve capital:

It is that parts of the uncalled capital of the company which can be called up only in the event of winding up. The company can determine this by passing special resolution (Section 65 of the Companies Act 2013). The company cannot demand the payment of money on the shares to that extent during its lifetime. When once the reserve capital has been so created, it cannot be charged or mortgaged as security for any loan raised by the company and it cannot be called up. Creating such reserved capital will not require any accounting entry and the capital will continue to be shown as partly paid up in the balance-sheet. Fact of such reservation should be disclosed in the balance sheet. The reserve capital is different from capital reserve, which is created out of profits.

4. Equity Shares

Equity Shares, with reference to any company limited by shares, are those, which are not preferences shares [Section 43(i) of Companies Act, 2013]. The important characteristics of equity shares are as follows:

a) Equity shares carry voting rights at the general meetings of the company and have the right to control the management of the company. Voting rights are in proportion to paid-up share capital held.

b) Equity shares carry the right to shares in the profits of the company in the form of distribution of dividend and bonus shares.

c) In the event of winding up of the company, equity share capitals is repayable only after repayment of the claims of the creditors and preference share capital.

5. Preference Shares

A preference share is defined to mean a share which fulfils the following two requirements:

a) During the life of the company it must be paid preferential dividend either of fixed amount or at a fixed rate;

b) On the winding up of the company it must carry a preferential right to be repaid the capital in preference to the equity shareholders.

Preference shareholders can only vote on those resolutions which affect their interest or winding-up or reduction of equity or preference share capital. But if dividend is not paid for 2 or more years then they are entitled to vote on all resolutions.

a) Cumulative preference shares

They carry the right to cumulative dividends if the company fails to pay the dividend in a particular year. That is if for want of profit dividend is not paid the same gets accumulated and paid as & when company earns. All preference shares are always presumed to be cumulative unless the contrary is stated in the terms of issue.

b) Non-cumulative preference shares

Such shares do not carry the right to receive the arrears of dividend in a particular year, if the company fails to declare dividend. If no dividend is paid in a particular year, it lapses.

c) Participating preference shares

They are entitled to fixed rate of dividend plus participate in surplus profits along with the equity shares after a certain fixed percentage has been paid to equity shares holders.

d) Non-participating preference shares

Such shares are entitled only to the fixed dividend and do not have the right to further participate in the surplus profits. All preference shares are always presumed to be non-participating unless the contrary is stated in the terms of issue.

e) Convertible preference shares

They are converted into equity shares at a later date according to the terms & conditions specified. The holder of such shares is given the right of conversion of his shares into equity shares at a later date.

f) Non-Convertible preference shares

The holder or such shares does not get a right to convert such shares into equity shares at a later date.

g) Redeemable preference shares (Section 55 of Companies Act, 2013)

Redeemable preference shares are those shares which are to be redeemed (paid back) to the shareholders. As per Companies Act, Irredeemable preference shares cannot be issued and they have to be redeemable within a period of 20 years from the date of issue. A company limited by shares may, if so authorised by its Articles, issue preference shares which are redeemable at the option of the company. Redemption of preference shares does not amount to reduction of company's authorised share capital.

PART I –BALANCE SHEET

Name of the Company……………………
Balance Sheet as at………………………

(Rupees in… ………)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
EQUITY AND LIABILITIES			
1. Shareholders' funds			
a. Share capital			
b. Reserves and Surplus			
c. Money received against share warrants			
2. Share application money pending allotment			
3. Non-current liabilities			
a. Long-term borrowings			
b. Deferred tax liabilities (Net)			
c. Other long term liabilities			
d. Long-term provisions			
4. Current liabilities			
Total			
ASSETS			
1. Non-current assets			
a. Property, plant and Equipment			
b. Intangible assets			
c. Non-current investments			
d. Deferred tax assets (Net)			
e. Long-term loans and advances			
f. Other non-current assets			
2. Current assets			
a. Current investments			
b. Inventories			
c. Trade receivables			
d. Cash and cash equivalents			
e. Short-term loans and advances			

f. Other current assets			
Total			

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

Profit and loss statement for the year ended ………………………

(Rupees in)

Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I. Revenue from operations		xxx	xxx
II. Other income		xxx	xxx
III. Total Revenue (I + II)		xxx	xxx
IV. Expenses:		xxx	xxx
Cost of materials consumed		xxx	xxx
Purchases of Stock-in-Trade		xxx	xxx
Changes in inventories of finished goods, Work-in-progress and Stock-in-Trade		xxx	xxx
Employee benefits expense		xxx	xxx
Finance costs		xxx	xxx
Depreciation and amortization expense		xxx	xxx
Other expenses		xxx	xxx
Total expenses		xxx	xxx
V. Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI. Exceptional items		xxx	xxx
VII. Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII. Extraordinary Items		xxx	xxx
IX. Profit before tax (VII- VIII)		xxx	xxx
X. Tax expense:			
(1) Current tax		xxx	xxx
(2) Deferred tax		xxx	xxx
XI. Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII. Profit/(loss) operations from discontinuing		xxx	xxx
XIII. Tax expense operations of discontinuing		xxx	xxx

Operation		xxx	xxx
XIV. Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV. Profit (Loss) for the period (XI + XIV)		xxx	xxx
XVI. Earnings per equity share:			
(1) Basic		xxx	xxx
(2) Diluted		xxx	xxx

Issue of Shares

Issue Price

Issue price is the price to be collected for a share by the issuing company. In lay man's language issue price can be termed as selling price of the share. It can be equal to (issue at par) or more (issue at premium) or less (issue at discount) than the face value. Issue price may be collected in full with application or can be collected in part-part as may be decided by the company.

The issue price of shares is generally received by the company in instalments and these instalments are known as under :

First instalment	Application Money
Second Instalment	Allotment Money
Third Instalment	First Call Money
Fourth Instalment	Second Call Money and so on.
Last Instalment	Final Call Money

Face value:

Face value is the value printed on the face of Share Certificate. It is also known as Nominal or Authorised value. Generally it is in round figure like ₹ 10, ₹ 50 or ₹ 100 etc.

Journal Entries for Issue of Shares for Cash

Upon the issue of share capital by a company, the undermentioned entries are made in the financial books:

1. When Shares are issued i.e. invitation is made to the public to subscribe for shares.
   -- No Entry --

2. When Application are received together with application money.

   Bank Account Dr. (With the actual amount received.)
   To Share Application Account
   (Being application money received)

3. On allotment of share

Share Allotment Account Dr. (With the amount due on allotment.)

Share Application Account Dr. (With the application amount received on allotted shares.)

To Share Capital Account (With the amount due on allotment and application.)

(Being the sum due on allotment and application money transferred to capital account)

4. On receipt of allotment money

Bank Account Dr. (With the amount actually received on allotment.)

To Share Allotment Account

(Being money received on allotment)

Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.

On receipt of Application Money:

Bank A/c Dr
To Share Application and Allotment A/c

On allotment of shares:

Share Application & Allotment A/c Dr (With total application and allotment amount)
To Share Capital A/c

On Allotment money being received

Bank A/c Dr.
To Share Application and Allotment A/c

5. On a call being made

Share Call Account Dr. (With the amount due on the call.)

To Share Capital Account

(Being share call made due at ₹...)

On receipt of call money

Bank Account Dr. (With the due amount actually received on call)

To Share Call Account

(Being share call money received)

Subscription of Shares

Accounting for issue of shares depends upon the type of subscription. Whenever a company decides to issue shares to public, it invites applications for subscription by issuing a prospectus. It is not necessary that company receives applications for the number of shares to be issued by it. There are three possibilities:

a) Full Subscription

Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same. To start discussion on accounting treatment for issue of shares, let us assume that the issue is fully subscribed.

b) Under Subscription

It means the number of shares offered for subscription is more than the number of shares subscribed by the public. In this case, the journal entries as discussed above are passed but with one change i.e., calculation of application, allotment and for that matter, the call money is based on number of shares actually applied and allotted. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

c) Over Subscription

In actual practice, issue of shares is either under or over-subscribed. If an issue is over-subscribed, some applications may be rejected and application money refunded and in respect of others, only a part of the shares applied for may be allotted and the excess amount received can be utilised towards allotment or call money which has fallen due or will soon fall due for payment. The entries are:

(1) On refund of application money to applicants to whom shares have not been allotted :

Share Application A/c Dr.
To Bank Account

(Being application money refunded)

(2) When only a part of shares applied for are allotted.

Share Application A/c Dr.
To Share Allotment* A/c (With the application money accepted for allotment)
To Share Calls-in-Advance* A/c (With the amount received in advance)
To Bank A/c (With any excess amount to be refunded)

(Being application money adjusted)

*Credited to Share Capital A/c subsequently.

(**Note:** This type of share allotment is termed as Pro-rata allotment and has been discussed in detail)

Shares Issued At Discount

Shares are regarded to be issued at a discount, if issue is at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example, when a share of the nominal value of ₹ 100 is issued at ₹ 98, it is said to have been issued at a discount of 2 per cent.

According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

Shares Issued At Premium

When a company issues its securities at a price more than the face value, it is said to be an issue at a premium. Premium is the excess of issue price over face value of the security. It is quite common for the financially strong, and well-managed companies to issue their shares at a premium, i.e. at an amount more than the nominal or par value of shares. Thus, where a share of the nominal value of ₹ 100 is issued at ₹ 105, it is said to have been issued at a premium of 5 per cent.

When the issue is at a premium, the amount of premium may technically be called at any stage of share capital transactions. However, premium is generally called with the amount due on allotment, sometimes with the application of money and rarely with the call money.

Accounting Treatment

When shares are issued at a premium, the premium amount is credited to a separate account called "Securities Premium Account" because it is not a part of share capital. Rather, it represents a gain of a capital nature to the company.

Being a credit balance, Securities premium Account is shown under the heading, "Reserves and Surplus". However, 'Reserves and Surplus' is shown as 'shareholders' funds in the Balance Sheet as per Schedule III. According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

(b) To write off preliminary expenses of the company.

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of own shares or other securities.

Note : It may be noted that certain class of Companies as prescribed under Section 133 of the Companies Act, 2013, whose financial statements comply with the accounting standards prescribed for them, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

When shares are issued at a premium, the journal entries are as follows:

a) Premium amount called with Application money

(i) Bank A/c Dr. [Total Application money + Premium Amount]
    To Share Application A/c [Amount received]

(ii) Share Application A/c Dr. [No. of Shares Applied for x Application Amount per share]
    To Securities Premium A/c [No. of Shares allotted x Premium Amount per share]
    To Share Capital A/c [No. of Shares allotted x Nominal value per share for capital]

b) Premium Amount called with Allotment Money

(i) Share Allotment A/c Dr. [No. of Shares Allotted x Allotment and Premium Money per share]
    To Share Capital A/c [No. of Shares Allotted x Allotment Amount per share]
    To Securities Premium A/c [No. of Share Allotted x Premium Amount per share]

(ii) Bank A/c Dr.
    To Share Allotment A/c

Over Subscription And Pro-Rata Allotment

Over subscription is the application money received for more than the number of shares offered to the public by a company. It usually occurs in the case of good issues and depends on many other factors like investors' confidence in the company, general economic conditions, pricing of the issue etc. When the shares are oversubscribed, the company cannot satisfy all the applicants. It means that a decision is to be made on how the shares are going to be allotted. Shares can be allotted to the applicants by a company in any manner it thinks proper. The company may reject some applicants in full, i.e., no shares are allotted to some applicants and application money is refunded. Usually, multiple applications by the same persons are not considered. Allotment may be given to the rest of the applicants in full, i.e., for the number of shares they have applied for. A third alternative is that a company may allot shares to the applicants on pro-rata basis. 'Pro-rata allotment' means allotment in proportion of shares applied for.

For example, a company offers to the public 10,000 shares for subscription. The company receives applications for 12,000 shares. If the shares are to be allotted on pro-rata basis, applicants for 12,000 shares are to be allotted 10,000 shares, i.e., on the 12,000 : 10,000 or 6:5 ratio. Any applicant who has applied for 6 shares will be allotted 5 shares.

Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls. Surplus money after making adjustment against future calls is returned to the applicants. The applicants are informed about the allotment procedure through an advertisement in leading newspapers.

When there is a pro-rata allotment, the total application money paid by an applicant is more than the exact amount due on application. The excess amount is treated as an advance against allotment or any other future calls. The net amount due on allotment or any other calls is the difference between the amount due on allotment or any other calls and the excess amount received in application.

Accounting Entries

(a) For rejected applications:

Share Application Account Dr.

To Bank Account

(Being application money refunded for rejected applications as per Board's Resolution No….dated….)

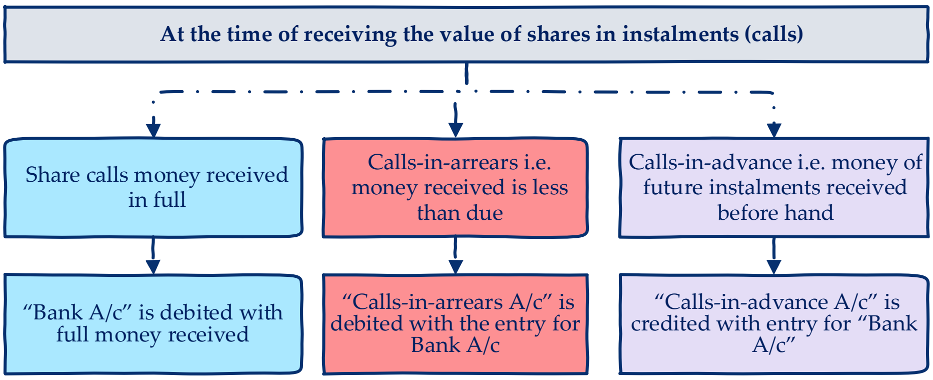
(b) For pro-rata allotment:

Share Application Account Dr.

To Share Allotment Account

(Being excess application money adjusted against allotment money as per Board's Resolution No….dated….)

Calls-In-Arrears And Calls-In-Advance



Calls-in-Arrears

Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

For recording 'Calls-in-Arrears', the following journal entry is recorded :

Calls-in-Arrears A/c	Dr.	[Amount of Unpaid Calls]
Bank A/c	Dr.	[Amount received]
To Share Allotment A/c		[Total allotment money due]
To Share Calls A/c		[Total Call money due]

(Being call money/ allotment money received on .... shares at ₹ per share.)

Calls-in-Advance

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. According to Table F, interest at a rate not exceeding 12 per cent p.a. is to be paid on such advance call money. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c	Dr.	[Call amount received in advance]
To Call-in-Advance A/c		

When calls become actually due, calls-in-advance account is adjusted at the time of the call.
For this the following journal entry is recorded:

Calls-in-Advance A/c	Dr.	'all amount received in advance]
Bank A/c	Dr.	:emaining call money received, if any]
To Particular Call A/c		'all money due]

(Being call in advance adjusted and call money due received)

Interest on Calls-In-Arrears And Calls-In-Advance

Interest on calls in arrears is recoverable and that in respect of calls in advance is payable, according to provisions in this regard in the articles of the company, at the rates mentioned therein or those to be fixed by the directors, within the limits prescribed by the Articles. Table F prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and those in advance.

Interest on Calls in Arrears	Interest on Calls in Advance
It is payable by shareholders to company on the calls due but remaining unpaid. As per Table F maximum prescribed rate is 10%. Period considered : From the date call money was due to the date money is finally received. Directors have a right to waive off such interest in individual cases at their own discretion. It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is payable by the Company to Shareholders on the call money received in advance but not yet due. As per Table F maximum prescribed rate is 12%. Period considered: From the date money was received to the day call was finally made due. Shareholders are not entitled for any dividend on calls in advance. It is a nominal account in nature with interest being an expense for the company.

The book entries to be passed for the adjustment of such interest are much the same as those in case of temporary borrowings or loans raised, the only difference being that debits are raised and credits are given to Sundry Members Account (and not the individual accounts of shareholders) in respect of interest recoverable on calls in arrear or that payable on call received in advance, the corresponding entries being made in the Interest Receivable on Calls in Arrears and Interest Payable on Calls in Advance, respectively.

The journal entries for calls-in-arrears are as follows:

For interest receivable on calls-in-arrears

Shareholders' A/c Dr.

To Interest on calls-in-arrears A/c

(Being interest on calls in arrears at the rate of ...% made due)

For receipt of interest

Bank A/c Dr.

To Shareholders' A/c

(Being interest money received)

The accounting treatment of interest on Calls-in-Advance is as follows:

Interest Due

Interest on Calls-in-Advance A/c Dr. [Amount of interest due for payment]

To Shareholder's A/c

(Being interest on calls in advance made due)

Payment of Interest

Shareholder's A/c Dr. [Amount of interest paid]

To Bank A/c

(Being interest paid on calls-in-advance)

Forfeiture of Shares

The term 'forfeit' actually means taking away of property on breach of a condition. It is very common that one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares. Forfeiture of shares is the action taken by a company to cancel the shares. The directors are usually empowered by the Articles of Association to forfeit those shares by serving proper notice to the defaulting shareholder(s). When shares are *forfeited, the title of such shareholder is* extinguished but the amount paid to date is not refunded to him. The shareholder then has no further claim on the company. The power of forfeiture must be exercised strictly having regard to the rules and regulations provided in the Articles of Association and it should be bonafide in the interests of the company.

The Articles of a company usually authorise the Directors to forfeit shares of a member on account of non- payment of a call or interest thereon after serving him a prior notice as prescribed by the Articles. Directors also have the right to cancel such forfeiture before the forfeited shares are re-allotted.

Accounting Entries

At the time of passing entry for forfeiture of shares, students must be careful about the following matters:

(i) Amount called-up (i.e., amount credited to capital) in respect of forfeited shares.

(ii) Amount already received in respect of those shares.

(iii) Amount due but has not been received in respect of those shares.

We know that shares can be issued at par or at a premium. Accounting entries for forfeiture will vary according to situations.

Forfeiture of Shares which were issued at Par

In this case, Share Capital Account will be debited with the called-up value of shares forfeited.

Allotment or Calls Account will be credited with the amount due but not paid by the shareholder(s). (Alternatively, Calls-in-Arrears Account can be credited for all amount due, if it was transferred to Calls-in-Arrears Account). Forfeited Shares Account or Shares Forfeiture Account will be credited with the amount already received in respect of those shares.

Share Capital Account	Dr.	[No. of shares x called-up value per share]
To Forfeited Shares Account		[Amount already received on forfeited shares]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]

Where all amounts due on allotment, first call and final call have been transferred to Calls-in-Arrears Account, the entry will be :

Share Capital Account	Dr.	[No. of shares x called-up value per share]
To Calls-in-Arrears Account		[Total amount due, but not paid]
To Forfeited Shares Account		[Amount received]

Forfeiture of Shares which were issued at a Premium

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. If the premium on such shares has not been paid by the shareholder, the Securities Premium Account will be debited to cancel it (if it was credited earlier). Allotment, Calls and Forfeited Accounts will be credited in the usual manner.

If the premium has already received by the company, it cannot be cancelled even if the shares are forfeited in the future.

If premium not received

Share Capital A/c	Dr.	[Called-up value]
Securities Premium A/c	Dr.	[Amount of Security premium not received]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]
To Forfeited Shares Account		[Amount received on forfeited shares]

If premium received

Share Capital A/c	Dr.	[Called-up value]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]

To Share Final Call Account [If amount due, but not paid]

To Forfeited Shares Account [Amount received on forfeited shares]

Re-Issue Of Forfeited Shares

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

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

Accounting Entries:

(a) Bank Account Dr. [Actual amount received] Forfeited
Shares Account Dr. [Loss on re-issue]
To Share Capital Account

(Being the re-issue of….shares @ ₹…. each as per Board's Resolution No…. dated.)

(b) Forfeited Shares Account Dr.

To Capital Reserve Account

(Being the profit on re-issue, transferred to capital reserve).

Points for Consideration

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

1. Loss on re-issue should not exceed the forfeited amount.
2. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
3. The forfeited amount on shares (amount originally paid-up) not yet reissued should be shown under the heading 'share capital.'
4. When only a portion of the forfeited shares are re-issued, then the profit made on re-issue of such portion of shares only must be transferred to Capital Reserve.
5. When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account".
6. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.

If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account

Calculation of Profit on Re-Issue of Forfeited Shares

Students will appreciate that the credit balance of forfeited shares account cannot be considered a surplus until the shares forfeited have been re-issued, because the company may, on re-issue, allow the discount to the new purchaser equivalent to the amount held in credit in this regard in the forfeited shares Account. Suppose 120 shares of a nominal value of ₹10 have been forfeited upon which ₹ 5 per share was paid up and transferred to Forfeited Share Account. Afterwards, 50 shares are re-issued, ₹ 6 per share being collected to make them fully paid up; ₹ 200 (50 shares x ₹10- 50 shares x ₹6) out of shares forfeited will be credited to Share Capital Account to make up the deficiency on re-issued shares, and ₹50 (50 shares x ₹5 - ₹200) will be transferred to the Capital Reserve Account being the surplus on re-issue of the 50 shares. It would have in the Forfeited shares Account balance equivalent to the amount collected on the remaining 70 forfeited shares i.e. Rs. 350 which will be carried forward till these are re-issued.

In the above case, it has been assumed that the amount paid up on all the 120 forfeited shares was ₹5 per share. But in practice, shares may be forfeited on which varying amounts are out-standing. For instance, if in the above case 70 shares were forfeited with ₹5 paid up thereon and 50 shares with ₹7.50 was paid up thereon then:

Share Forfeited Account Balance = (70 x 5) + (50 x 7.50)

= ₹ 725

Thus if 50 shares with ₹7.50 paid up are re-issued for ₹6 per share then Capital Reserve balance will be as follows:

₹ (7.50 + 6 -10) x 50 shares = ₹ 175

[May 2018] Re-issue of forfeited shares is allotment of shares but not a sale.
False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

Issue of Shares For Consideration Other Than Cash

Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. These shares should be shown separately under the heading 'Share Capital'.

Within specified time of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

Accounting Entries

When assets are purchased in exchange of shares

Assets Account Dr.

To Share Capital Account

Issue of Debentures

Introduction

Earlier of this chapter, we have studied the issue of share capital as a means of raising funds for financing the business activities. But with increasing and ever growing needs of the corporate expansion and growth, equity source of financing is not suflcient. Hence corporates turn to debt financing through various means. Issuing debt instruments by offering the same for public subscription is one of the sources of financing the business activities. Debt financing does not only helps in reducing the cost of the capital but also helps in designing appropriate capital structure of the company. Debenture is one of the most commonly used debt instrument issued by the company to raise funds for the business.

Meaning

Debenture means“ an instrument in writing issued by a company under its common seal, acknowledging its indebtedness for a certain sum of money and undertaking to repay it on or after a fixed future date.” According to sec. 2(30) of the Companies Act 2013, “ Debenture include debenture stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not.”

Features of Debentures

1. It is a document which evidences a loan made to a company.
2. It is a fixed interest-bearing security where interest falls due on specific dates.
3. Interest is payable at a predetermined fixed rate, regardless of the level of profit.
4. The original sum is repaid at a specified future date or it is converted into shares or other debentures.
5. It may or may not create a charge on the assets of a company as security.
6. It can generally be bought or sold through the stock exchange at a price above or below its face value

Distinction between Debentures And Shares

Debentures	Shares
1. Debenture holders are the creditors of the company.	1. Shareholders are the owners of the company.
2. Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company.	2. Shareholders have voting rights and consequently control the total affairs of the company.
3. Debenture interest is paid at a pre- determined fixed rate. It is payable, whether there is any profit or not. Debentures rank ahead of all types of shares for payment of the interest due on them.	3. Dividend on equity shares is paid at a variable rate which is vastly affected by the profits of the company (however, dividend on preference shares is paid at a fixed rate).
4. Interest on debentures are the charges against profits and they are deductible as an expense in determining taxable profit of the company.	4. Dividends are appropriation of profits and these are not deductible in determining taxable profit of the company.
5. There are different kinds of debentures, such as Secured/Unsecured; Redeemable/ Irredeemable; Registered/Bearer; Convertible / Non-convertible, etc.	5. There are only two kinds of shares–Equity Shares and Preference Shares.
6. In the Company's Balance Sheet, Debentures are shown under "Long Term Borrowings".	6. In the Company's Balance Sheet, shares are shown under "Shareholder's Fund" detailed in 'Share Capital' of Notes to Accounts.
7. Debentures can be converted into other debentures or shares as per the terms of issue of debentures.	7. Shares cannot be converted into other shares in any circumstances.
8. Debentures cannot be forfeited for non-payment of call moneys.	8. Shares can be forfeited for non-payment of allotment and call moneys.
9. At maturity, debenture holders get back their money as per the terms and conditions of redemption.	9. Equity shareholders cannot get back their money before the liquidation of the company (however, preference shareholders can get back their money before liquidation).
10. At the time of liquidation, debenture holders are paid-off before the shareholders.	10. At the time of liquidation shareholders are paid at last, after paying debenture holders, Trade payable, etc.

Issue of Debentures

Accounting entries for issue of redeemable debentures

The issue of redeemable debentures can be categorized into the following:

1. Debentures issued at a par and redeemable at par or at a discount;
2. Debentures issued at a discount and redeemable at par or at discount
3. Debentures issued at premium and redeemable at par or at discount;

4. Debentures issued at par and redeemable at premium;
5. Debentures issued at a discount and redeemable at premium.
6. Debentures issued at premium and redeemable at premium.

Note: Redemption at a discount may be a rare circumstance in practical life. Journal entries in each of the above cases are discussed below:

1. Debentures issued at par redeemable at par: When debenture are issued at par, the issue price is equal to par value, in this regard the following entries are recorded:
   (a) For receipt of application money :
   Bank A/c Dr.
   To Debenture Application A/c
   (b) For transfer of application money to debentures account :
   Debenture Application A/c Dr.
   To ...% Debenture A/c

2. Debentures issued at Discount and Redeemable at par or at discount : When debentures are issued at discount, issue price will be less than par value. The difference between the two is considered as loss on issue on debentures and is to be written-off over the life of debentures. The entries with regards to issue are given below :
   (a) For receipt of application money
   Bank A/c Dr.
   To Debenture Application A/c
   (b) At the time of making allotment
   Debenture Application A/c Dr.
   Discount on issue of debentures A/c Dr.
   To ...% Debentures A/c

3. Debentures Issued at Premium and Redeemable at par or at discount
   When debenture are issued at premium, the issue price is more than the par value. The premium is transferred to securities premium account. In this regard, the following journal entries are recorded
   When premium amount is received at the time of application;
   (a) For receipt of application money
   Bank A/c Dr.
   To Debenture Application A/c
   (b) For transfer of application of money at the time of allotment Debenture application A/c Dr.
   To ...% Debentures A/c
   To Securities Premium A/c
   When debentures are issued at par or premium value but redeemed at discount, then it means

that the company will gain by paying less. This gain will not be recognised in the books at the time of issue of debentures as per the conservatism concept.

4. Debentures issued at par and redeemable at a premium
Where debentures are to be redeemed at premium, an extra entry is to be made at the time of issue and allotment of debentures. This extra entry is to be passed for providing premium payable on redemption. Debenture Redemption Premium Account is a personal account which represents a liability of the company in respect of premium payable on redemption.

In this case, the issue price is same as par value but the redemption value is more than the par value, therefore redemption premium is recorded as a loss on issue of debentures at the time of allotment of debentures. Following journal entries are recorded in this regard:

(a) For receipt of application money

Bank A/c	Dr.	
To Debenture application A/c		

(b) At the time of making allotment

(i) Transfer of application money to debenture account

Debenture Application A/c	Dr.	
To …% Debenture A/c		

(ii) Call made consequent upon allotment

Debenture Allotment A/c	Dr.	
Loss on issue of debenture A/c	Dr.	[Equal to Debenture Redemption Premium]
To …% Debenture A/c		
To Debenture redemption premium A/c		

Students can note that instead of passing the separate entries, a compound entry can be passed:

Bank A/c	Dr.
Loss on issue of debenture A/c	Dr.
To …% Debenture A/c	
To Debenture redemption premium A/c	

5. Debentures Issued at discount and redeemable at premium
In this situation the issue price is less than par value but redemption value is more than par value. The difference between the redemption price and the issue price is treated as discount/loss on issue of debentures. Suppose, a 10% debentures of ₹ 1,000 is issued at a discount of ₹ 100 and redeemable at a premium of ₹5 per debenture, the amount of loss will be equal to ₹ 1,005 – ₹ 900 = ₹ 105. This is to be treated as loss on issue. It is to be noted that premium on redemption of debentures is also credited by

₹5.

(a) For the receipt of application money
Bank A/c Dr.
To Debenture Application A/c

(b) At the time of making allotment
(i) Transfer of application money to debenture account
(ii) Debenture Application A/c Dr.
To % Debentures A/c
(iii) Call made consequent upon allotment of debentures at discount and redeemable at premium
Debenture Allotment A/c Dr.
Discount/Loss on issue of debenture A/c Dr. [Amount equal to the discount on issue of debenture plus Premium on redemption]
To ...% Debenture A/c

(c) For receipt of call made on allotment
Bank A/c Dr.
To Debenture Allotment A/c

Students can note that instead of passing the separate entries, a compound entry can be passed: Bank A/c Dr.
Discount/Loss on issue of debentures A/c Dr.
To ...% Debentures A/c
To Debenture redemption premium A/c

6. Debentures Issued at premium and redeemable at premium

In this situation, the issue price is more than par value and also redemption value is more than par value. The premium received at the time of issue of debentures is credited to Securities premium account and premium paid at the time of redemption is a loss to be provided at the time of issue of debentures. Suppose, a 10% debenture of ₹1,000 is issued at a premium of ₹100 and redeemable at a premium of ₹50 per debenture. In the given case ₹100 is to be credited to Securities premium account and ₹50 will be the loss to be provided at the time of issue of debentures. It is to be noted that premium on redemption of debentures is also credited by ₹ 50.

(a) For the receipt of application money
Bank A/c Dr.
To Debenture Application A/c

(b) At the time of making allotment
(i) Transfer of application money to debenture account
Debenture Application A/c Dr.
To % Debentures A/c
(ii) Call made consequent upon allotment of debenture at premium and Redeemable at

premium

Debenture Allotment A/c	Dr.	
Loss on issue of debenture A/c	Dr.	[Amount equal to the premium on redemption]
To …% Debenture A/c		
To Securities Premium A/c		[Amount equal to premium on issue]
To Premium on Redemption of Debentures A/c		[Amount equal to premium on redemption]

Students can note that instead of passing the separate entries, a compound entry can be passed:

Bank A/c	Dr.
Loss on issue of Debentures A/c	Dr.
To …% Debentures A/c	
To Securities Premium A/c	
To Premium on redemption of debentures A/c	

Accounting for issue of debentures payable in instalments

Just like shares, money payable on debentures may be paid either in full with application or by instalments. Accounting entries will differ to some extent in either case.

Debentures Payable in Full on Application

Where the amount due on debentures are payable in full on application, it is usual to open a separate Debentures Application Account for each class of debentures, such as 10% Debentures Application Account or 12% Debentures Application Account. These accounts record moneys received from the applicants of debentures. If an issue is over-subscribed, these accounts can be used to record the refund of moneys to the unsuccessful applicants. At the time of allotment of debentures, the amount in Debentures Application Account is transferred to the respective Debentures Account. As discussed above, debentures may be issued at par, at a premium, or at a discount.

Debentures Issued at Par

The debentures which are issued at par are issued at the same price as their nominal value; that is, if a debenture with a nominal value of ₹ 100 is issued at par, the company receives ₹ 100.

The accounting entries would be as follows:

(a) When cash is received

Bank Account	Dr.
To Debentures Application Account	
(Being money received on…. debentures @₹ ….each)	

(b) When excess money is refunded or adjusted for future calls

Debentures Application Account Dr.

To Bank Account (Amount refunded)

To Debenture Allotment A/c (Amount adjusted for allotment)

(Being excess money…debentures adjusted as per Board's Resolution No….dated…..)

(c) When the debentures are allotted

Debentures Application Account Dr.

To % Debentures Account

(Being the allotment of…debentures of ₹ ….each as per Board's Resolution No….dated….)

(d) On Allotment money being called

Debenture Allotment A/c Dr.

To % Debentures Account

(Being Allotment Money Called)

(e) On Allotment money being received

Bank A/c Dr.

To Debenture

Allotment A/c (Being

Allotment money received)

(f) On Debenture Call money being called

Debenture Calls A/c Dr.

To % Debentures A/c

(Being Call money made due)

(g) On Debenture Call money being called

Bank A/c Dr.

To Debenture Calls A/c

(Being Call money received)

Debentures Issued at a Premium

A company issues debentures at a premium when the market rate of interest is lower than the debentures interest rate. The debentures, which are issued at a premium, are issued at a higher price than their nominal value; that is, if a debenture with a nominal value of ₹ 100 is issued at 10% premium, the company receives at ₹110 where the investor gets slightly less interest than stated in the debenture. For example, 12% Debentures of ₹100 issued at a premium of 10%. The investor will get ₹12 p.a. for his investment of 110. Therefore, the effective rate of interest on investment is (12/110x 100) = 10.91%.

The premium on debentures is credited to 'Securities Premium Account' as 'Debentures' are covered in the definition of 'securities' specified in the clause (h) of section 2 of the Securities Contracts (Regulation) Act. Therefore, restriction of utilization of debentures (securities) premium will also be governed by Section 52 of the Companies Act, 2013.

The accounting entries would be as follows:

(a) When cash is received

Bank Account Dr. [Nominal value plus premium]

To Debentures Application Account

(Being money received on....debentures @ ₹ ..... each including premium of ₹ .....)

(b) When excess money is refunded

Debentures Application Account Dr.

To Bank Account

(Being refund of money on....debentures @ ₹ .... each, as per Board's Resolution No.....dated....)

(c) When the debentures are allotted

Debentures Application Account Dr.

To % Debentures Account

To Securities Premium Account

(Being the allotment of....debentures, premium transferred to Securities Premium Account, as per Board's Resolution No....dated....)

Debentures Issued at a Discount

The Companies Act does not impose any restriction on the price at which debentures can be issued. Unlike shares, there is no limit for discount on issue of debentures. This is why it is very common for debentures to be issued at a discount. The debentures which are issued at a discount are issued at a lower price than nominal value, that is, if a debenture with a nominal value of ₹100 is issued at 10% discount, the company receives ₹90 only. The issue of debentures at a discount slightly increases the true rate of interest payable. For example, 12% Debentures of ₹100 issued at a discount of 10%. The Company will have to pay ₹12 for a loan of ₹90. Therefore, the true rate of interest is (12/90 x 100) = 13.33%.The company issues debentures at a discount when the market rate of interest is higher than the debenture interest rate. Like shares, Debentures Account is credited with the nominal value. The difference between the nominal value of debentures and cash received is transferred to "Discount on Issue of Debentures Account. In the subsequent years, Discount on Issue of Debentures is written-off proportionately by charging to the Statement of Profit and Loss. It is considered a normal practice to amortize discount on issue of debentures over the period of benefit, i.e., normally 3 to 5 years.

The accounting entries would be as follows :

(a) When Cash is received

Bank Account Dr. [Actual cash received]

To Debentures Application Account

(Being money received on....debentures @₹ ......each)

(b) When excess money is refunded

Debentures Application Account Dr.

To Bank Account

(Being excess money on...debentures refunded as per Board's Resolution No.....dated....)

(c) When the debentures are allotted

Debentures Application Account Dr. [Actual cash received]

Discount on Issue of Debentures Account Dr. [Discount on debentures]
To% Debentures Account [Nominal value of debentures]

(Being the allotment of…debentures of ₹ ….each @ ₹ …..each as per Board's Resolution No…..dated…)

In fact, the discount on issue of debentures is considered as incremental interest expense. The true expense (net borrowing cost) for a particular accounting period is, therefore, the total interest payment plus the discount written off.

Issue of Debentures as Collateral Security

Collateral security means secondary or supporting security for a loan, which can be realised by the lender in the event of the original loan not being repaid on the due date. Under this arrangement, the borrower agrees that a particular asset or a group of assets will be realized and the proceeds there from will be applied to repay the loan in the event that the amount due, cannot be paid.

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

The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures.

Accounting Entries

There are two methods of showing these types of debentures in the accounts of a company.

Method 1

Under this method, 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 of the debentures being issued and outstanding is shown by a note under the liability secured.

Method 2

Under this method, the following entry is made to record the issue of such debentures:

Debentures Suspense Account Dr.
To % Debentures Account
(Being the issue of…debentures collaterally as per Board's Resolution No…..dated)

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

Issue Of Debentures in Consideration Other than For Cash

Just like shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc. In this case, the following entries are passed:

(a) Sundry Assets Account	Dr.	[Assets taken over]
To Sundry Liabilities Account		[Liabilities assumed]
To Vendors Account		[Purchase consideration]
(Being the assets and liabilities taken over)		
(b) Vendors Account	Dr.	
To Debentures Account		
(Being the issue of….debentures to satisfy purchase consideration)		

Further it should be noted that these debentures can be issued at par, premium and at discount. In each case the second entry for issue of debentures would be done accordingly. Number of debentures to be issued is calculated as follows:-

1. When debentures are issued at par

$$\text{No. of Shares} = \frac{\text{Purchase Consideration}}{\text{Par Value}}$$

2. When debentures are issued at premium

$$\text{No. of Shares} = \frac{\text{Purchase Consideration}}{\text{Par Value + Premium}}$$

3. When debentures are issued at discount

$$\text{No. of Shares} = \frac{\text{Purchase Consideration}}{\text{Par Value – Discount}}$$

Treatment Of Discount/Loss On Issue Of Debentures

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

(a) If the debentures are redeemable after a certain period of time, say at the end of 5 years, the total amount of discount should be written-off equally throughout the life of the debentures (applying the straight line method). The main advantage of this method is that it spreads the burden of discount equally over the years.

(b) If the debentures are redeemable at different dates, the total amount of discount should be written-off in the ratio of benefit derived from debenture loan in any particular year (applying the sum of the year's digit method). This method is suitable when debentures are redeemed by unequal instalments.

The accounting entries would be as follows :

Profit and Loss Account Dr.
To Discount on Issue of Debentures Account
(Being the amount of discount on issue of debentures written-off)

Loss on issue of debentures is also a capital loss and should be written off in a similar manner as discount on debentures issued. In the balance sheet both the items (Discount and Loss) are shown as Non-current/ current assets depending upon the period for which it has to be written off

Interest on Debentures

Interest payable on coupon debenture is treated as a charge against the profits of the company. Interest on debenture is paid periodically and is calculated at coupon rate on the nominal value of debentures. The company will pay interest net of tax to the debenture holders because the company is under obligation to deduct tax at source at the rates applicable under tax rules from time to time. The companies will deposit the tax so deducted with income tax authorities. Following accounting entries are to be recorded in this regard:

1. For making interest due
   Interest A/c Dr.
   To Debenture holders' A/c
2. For making payment of interest and deduction of tax at source (TDS)
   Debenture holders A/c Dr.
   To TDS Payable A/c
   To Bank A/c
3. For making payment of tax deducted at source
   TDS payable A/c Dr.
   To Bank A/c
4. For transferring interest to profit and loss account
   Profit and Loss A/c Dr.
   To Interest A/c

CLASS QUESTIONS

SHARES – ISSUE, FORFEITURE & REISSUE

C.1. **[ICAI]** A company had an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3 -2020, it has demanded or called ₹9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹7 per share. Prepare a balance sheet assuming there are no other details.

C.2. **[ICAI]** A company invited applications for 10,000 equity shares of ₹50 each payable on application ₹15, on Allotment₹ 20, on first and final call ₹15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and installment money was duly received by the company. Show Journal entries in the books of the company.

C.3. **[ICAI & Similar in RTP June 2022]** On 1st April, 2020, A Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

a. ₹ 20 on application;
b. ₹ 30 on allotment;
c. ₹ 25 on 1st October, 2020; and
d. ₹ 25 on 1st February, 2021.
e. By 20th May, 40,000 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. Journalise the transactions when accounts were closed on 31st March, 2021

C.4. **[ICAI]** Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

C.5. **[ICAI]** The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each. The Share Capital was to be collected as under:

	Equity Shares ₹	Preference Shares ₹

On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

C.6. **[ICAI]** On 1st October, 2020 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of ₹ 100 each to be issued at a premium of 25 per cent payable as :

a. On Application ₹ 25
b. On Allotment ₹75 (including premium)
c. Balance Amount on Shares As and when required
d. The shares were allotted by the Company on October 20, 2020 and the allotment money was duly received on October 31, 2020
e. Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

C.7. **[ICAI]** JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

₹ 2 per share payable on application, to be received by 1st July, 2020;

Allotment to be made on 10th July, 2020 and a further ₹ 5 per share (including the premium) to be payable.The final call for the balance to be made, and the money received by 30th April, 2021. Applications were received for 3,55,000 shares and were dealt with as follows:

a) Applicants for 5,000 shares received allotment in full;

b) Applicants for 30,000 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;

c) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and 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 JHP Limited

C.8. **[ICAI]** Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ₹ 3 per share which was due on 1.7.2020. This amount was received on 1.4.2021. Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2020 and 1.4.2021. Also show an extract of Balance Sheet on 31.3.2021

C.9. **[ICAI]** Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment;₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 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 1000 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. Nair. Give journal entries to record these transactions.

C.10. **[ICAI]** A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

C.11. **[ICAI]** X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

C.12. **[ICAI]** X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

C.13. **[ICAI]** Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ₹ 2 per share but has been allotted only 600 shares. The shares have a face value of ₹10 and a premium of ₹ 2 per share, which are payable as: on Allotment- ₹ 5 (including premium) and on final call ₹ 5. Now in case Mr. Shami doesn't pay allotment money and final call and his shares are forfeited. Pass Journal Entries for the forfeiture.

C.14. **[ICAI]** Mr. Long who was the holder of 2,000 preference shares of ₹100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹75 per share. Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

C.15. **[ICAI & Similar in Nov. 2019]** Beautiful Co. Ltd issued 30,000 equity shares of ₹10 each payable as ₹3 per share on Application, ₹5 per share (including ₹2 as premium) on Allotment and ₹4 per share on Call. All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹ 2 per share. Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

C.16. **[ICAI]** A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹ 2 per share as application money and ₹ 3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹2 on application, ₹ 3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

C.17. **[ICAI]** X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for. You are required to pass Journal Entries and to prepare the Balance Sheet

C.18. **[ICAI]** X Ltd. invited applications for 10 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st May, 2020)	30
On First Call (on 1st Oct., 2020)	30
On Final Call (on 1st Feb., 2021)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2021.

C.19. **[July 2021]** X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

a. ₹ 9 per share (including premium) on application and allotment

b. Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

C.20. **[ICAI]** A limited Company, with an authorized capital of ₹ 20,00,000 divided into shares of ₹ 100 each, issued for subscription 10,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹20 per share on first call three months after allotment and the balance as and when required.

a. The subscription list closed on January 31, 2020 when application money on 10,000 shares was duly received and allotment was made on March 1, 2020.
b. The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.
c. Give journal entries in the books of the Company to record these share capital transactions assuming that all amounts due were received within one month of the date they were called.

C.21. B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries in the books of B Ltd.

DEBENTURE - ISSUE OF DEBENTURES

C.23. **[ICAI]** Amol Ltd. issued 40,00,000, 9% debentures of ₹50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

C.24. **[ICAI]** Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

a. ₹ 30 on application
b. ₹ 60 on allotment
c. Record necessary journal entries regarding issue of debenture

C.25. **[ICAI]** Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money

C.26. **[ICAI]** Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows :

a. On application ₹ 30
b. On allotment ₹ 70
c. The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

C.27. **[ICAI]** Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

C.28. **[ICAI]** Simmons Ltd. issued 1,00,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date. You are required to pass necessary Journal Entries (including cash transactions) in the books of the company

C.29. **[ICAI]** X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2020. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2020. Excess monies were refunded on the same date. Pass necessary Journal Entries. Also show necessary ledger account.

C.30. **[ICAI]** X Ltd. obtains a loan from IDBI of ₹1,00,00,000, giving as collateral security of ₹1,50,00,000 (of ₹ 10 each), 14%, First Mortgage Debentures.

C.31. **[ICAI]** X Company Limited issued 10,000 14% Debentures of the nominal value of ₹50,00,000 as follows:

a. To sundry persons for cash at 90% of nominal value of ₹25,00,000.

b. To a vendor for purchase of fixed assets worth ₹10,00,000 – ₹12,50,000 nominal value.

c. To the banker as collateral security for a loan of ₹10,00,000 – ₹12,50,000 nominal value..

Pass necessary Journal Entries

C.32. **[ICAI]** HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on 1st January, 2020. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

C.33. **[ICAI]** HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2020. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2020. Calculate the amount of discount to be written-off from 2020 to 2024

C.34. **[RTP June 2022]** On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

C.35. **[ICAI]** A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2017. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass journal entries for the accounting year 2020.

C.36. **[ICAI]** Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹ 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

C.37. **[ICAI]** On 1st April 2020 Sheru Ltd. issued 1,00,000 12% debentures of ₹100 each at a discount of 5%, redeemable on 31 March 2025. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

a. Journal Entries at the time of issue of debentures.

b. Discount on issue of Debenture Account

c. Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

PRACTICE QUESTIONS

SHARES – ISSUE, FORFEITURE & REISSUE

P.1. **[RTP May 2018 & Similar in RTP May 2021 - Issue of Shares]** Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 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.

P.2. **[RTP Nov. 2018 & Nov. 2019 - Issue of Shares]** On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows: ₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 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.

P.3. **[RTP May 2018, Nov. 2019, May 2019 & Similar in Nov. 2018 & May 2021 – Forfeiture of Shares]** Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share. You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

P.4. **[RTP May 2019 - Issue of Shares]** Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 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.

P.5. **[RTP May 2020, May 2018 Examination & Similar in Jan. 2021 - Issue of Shares]** Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 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₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

a. ₹ 2 per share payable on application, to be received by 1st July, 2018;

b. Allotment to be made on 10th July, 2018 and a further ₹ 5 per share (including the premium) to be payable;

c. 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.

P.6. **[RTP June 2022]** Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non- payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares.

P.7. **[RTP May 2020 & Examination May 2019 – Forfeiture of Shares]** Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each. The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 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 @ ₹ 6 per share. Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd

P.8. **[RTP – Nov. 2020 - Issue of Shares]** Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 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.

P.9. **[Nov 2018]** Give necessary journal entries for the forfeiture and re-issue of shares:

a. X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non- payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for

b. ₹ 8 per share. X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re- issued to Mahesh as fully paid up for ₹ 6 per share.

P.10. **[Nov 2020]** ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

P.11. **[Nov. 2019]** B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 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 ₹ 2 per share. Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

P.12. **[Jan. 2021]** A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 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 5,00,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and the money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

P.13. **[Dec. 2021]** Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i) On Application	₹ 1 per share
(ii) On Allotment	₹ 2 per share
(iii) On First call	₹ 3 per share
(iv) On Second and final Call	₹ 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up. Pass necessary Journal entries in the books of Fashion Garments Ltd.

DEBENTURE - ISSUE OF DEBENTURES

P.14. **[ICAI]** Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10 Pass necessary journal entries at the time of issue..

P.15. **[ICAI]** Kapil Ltd. issued 50,000, 12% Debentures of ₹100 each at a premium of 10% payable in full on application by 1st March, 2020. The issue was fully subscribed and debentures were allotted on 9th March, 2020.

Pass necessary Journal Entries (including cash transactions).

P.16. [RTP May 2018 – Issue of Debentures] Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

a. To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.
b. To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.
c. To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

P.17. [RTP May 2019 – Issue of Debentures] Suvidha Ltd. purchased machinery worth ₹1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹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.

P.18. [RTP Nov. 2019 – Issue of Debentures] Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 40 on application

₹ 50 on allotment\

You are required to give necessary journal entries regarding issue of debenture.

P.19. [RTP May 2020 & Nov. 2018 Examination – Issue of Debentures] Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 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.

P.20. [May 2019 – Issue of Debentures] On 1st January 2018·Ankit Ltd. issued 10% debentures of the face value of ₹ 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.

P.21. [Nov. 2020 – Issue of Debentures] Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows :

a) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.

b) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.

c) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value,

You are required to pass necessary Journal Entries

11

Bonus & Right Issue

BONUS ISSUE

Introduction

A bonus share may be defined as issue of shares at no cost to current shareholders in a company, based upon the number of shares that the shareholder already owns. In other words, no new funds are raised with a bonus issue. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the net worth of the company.

Bonus issue is also known as 'capitalisation of profits'. Capitalisation of profits refers to the process of converting profits or reserves into paid up capital. A company may capitalise its profits or reserves which otherwise are available for distribution as dividends among the members by issuing fully paid bonus shares to the members.

If the subscribed and paid-up capital exceeds the authorised share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorised capital. A return of bonus issue along with a copy of resolution authorising the issue of bonus shares is also required to be filed with the Registrar of Companies.

Provisions of the Companies Act, 2013

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. **As per section 63(1)** a company may issue fully paid-up bonus shares to its members, out of—

(a) its free reserves; (as per section 2(43) free reserves means reserves available for distribution as dividend as per latest audited balance-sheet.)

(b) the securities premium account; (Collected in cash) or

(c) the capital redemption reserve account:

Provided that revaluation reserve cannot be used.

"SEBI says share security premium collected in cash only be used for bonus (SEBI regulations apply to listed co.'s that means unlisted co.'s can use all share security premium."

As per **section 63(2)** Bonus issue allowed if:

(a) Authorised by articles,

(b) Recommended by board & authorised in General meeting.

(c) It has not defaulted in payment of interest or principle of fixed deposit or debt securities, payment of statutory dues of employees like PF, Gratuity, and Bonus etc.

(d) Partly paid up shares if any are made fully paid up.

(e) It complies with other conditions as may be prescribed.

As per Section 63(2) of the Companies Act, 2013, bonus shares cannot be issued unless party paid-up shares are made fully paid-up.

Table F under Schedule I to the Companies Act, 2013 allows use of FREE RESERVES for paying up amounts unpaid on shares held by existing shareholders.

On a combined reading of both the provisions, it can be said that free reserves can be used for paying up amounts unpaid on shares held by existing shareholders (though securities premium account and capital redemption reserve cannot be used).

As per Section 63(3) Bonus issue shall not be in lieu of dividend.

Journal Entries

A) Issue of fully paid Bonus Shares

Particulars	Debit	Credit
1. Upon the sanction of an issue of bonus shares	Capital Redemption Reserve A/c Securities Premium A/c General Reserve Account A/c Profit & Loss Account A/c	Bonus to Shareholders A/c
2. Upon issue of bonus shares	Bonus to Shareholders A/c	Share Capital A/c

B) Conversion of partly paid up shares into fully paid up shares

Particulars	Debit	Credit
1. Upon the sanction of bonus by converting partly paid shares into fully paid shares	General Reserve Account A/c Profit & Loss Account A/c **"Only free reserve and profits can be utilized"**	Bonus to Shareholders A/c
2. On making the final call due	Share Final Call A/c	Share Capital A/c
3. On adjustment of final call	Bonus to Shareholders A/c	Share Final Call A/c

Regulation 294 - Restrictions on a bonus issue.

An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.

The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments at the time of conversion of such convertible debt instruments on the same proportion at which the bonus shares were issued.

A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose.

RIGHT ISSUE

Introduction

Provisions of section 62(1) (a) govern any company, public or private, desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital. Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them. The existing shareholders are given a right to subscribe these shares, if they like.

However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce).

In nutshell, the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely. In other words, the existing shareholders have right of first refusal, i.e., the existing shareholders enjoy a right to either subscribe for these shares or sell their rights or reject the offer.

Example

Assume a company makes a right issue of 10,000 shares when its existing issued and subscribed capital is 100,000 shares. This enables any shareholder having 10 shares to subscribe to 1 new share. Hence X, an existing shareholder holding 1,000 shares, may subscribe to 100 shares as a matter of right. The existing share percentage of X was 1% (1,000 / 100,000). If X subscribes these shares, his percentage holding in the company will be maintained (1,100 / 1,10,000). However, if X does not mind his share % diluting (1,000 / 1,10,000), he may renounce the right in favour of anyone else, say Y. Hence, these 100 shares will be issued to Y, at the insistence of X. X may charge Y for this privilege, which is technically termed as the value of right.

Conditions for issue of right issue

A company desirous of issuing new shares has to offer, as per Section 62(1) (a) of Conditions for issue of right issue Companies Act 2013, the shares to ***existing equity shareholders*** through a letter of offer subject to the following conditions, namely:

1. The offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
2. Unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice shall contain a statement of this right;
3. After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

Exceptions to the rights of existing equity shareholders

1. to employees under a scheme of ***employees***' stock option, subject to special resolution passed by company and subject to such conditions as may be prescribed; or
2. To any persons, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to certain specified conditions.
3. Sometimes companies borrow money through debentures / loans and give their creditor an option to buy equity shares of a company. An option is a right, but not an obligation, to buy equity shares on a future date (expiry date) at a price agreed in advance (exercise price).
4. It is a special situation where the loan has been obtained from the government, and government in public interest, directs the debentures / loan to be converted into equity shares.

Accounting for Right Issue in the books of Company

The accounting treatment of rights share is the same as that of issue of ordinary shares

Particulars	Debit	Credit
1. Issue of Share at Par	Bank A/c	Equity shares capital A/c
2. Issue of Share at Premium	Bank A/c	Equity shares capital A/c Security Premium A/c.

Value of Right

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share & after right issue is termed as Ex-right Market Price of the shares. The difference between the cum-right and ex-right value (average price) of the share is called value of right

Value of right = Cum-right value – Ex- right value

Ex-right value of the shares = [Cum-right value of the existing shares + (Rights shares X Issue Price)] / (Existing Number of shares + Number of right shares)

Normally, the further public issue to the existing shareholders are offered at a discounted price from the market value, to evoke positive response as well as to reward the existing shareholders.

Example

Assume 1,000 shares are issued (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of ₹ 14 per share. Mr. Narain has 100 shares of Company before rights issue. Current worth of holding = No. of shares X Cum-right Market Price = 100 X ₹ 25 = ₹ 2,500.

1. If Narain exercises his right, he will pay ₹ 14 X 10 shares = ₹ 140. His total investment in the company including right is ₹ 2,640 (₹ 2,500 + ₹ 140). On a per share basis, it is ₹ 2,640 /110 shares = ₹ 24, which is the Ex-right Market value of the share.
2. If Narain does not exercises his right to further issue, his holding's worth will decline to ₹ 24 X 100 shares = ₹ 2400. The law allows him to compensate for this dilution of shareholding by renouncing this right in favour of, say, Mr. Murthy. Narain can charge Murthy, in well-functioning capital markets, this dilution of ₹ 100 by renouncing his right to acquire 10 shares. Hence Murthy will be charged ₹ 10 per share (₹ 100 / 10 shares), in return for a confirmed allotment of 10 shares at ₹ 14 each.

For every share to be offered to Murthy, Narain must have ten shares at the back. Hence his holding of 10 shares fetches him right money of ₹ 10 or ₹ 1 per share held. This is exactly equal to the difference between Cum-right and Ex-right value of the share. It is termed as the Value of Right.

In a well-functioning capital market, this mechanism works in a fair manner to all the participants.

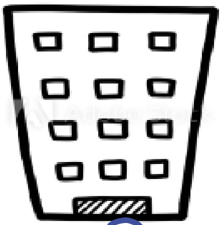
Murthy's total investment will be ₹ 140 (payable to Company) + ₹ 100 (payable to Narain, by way of value of right), or ₹ 240. He will end up holding ten shares at an average cost of ₹ 24, which is the Ex-right Market Price of the share.

Narain will have a final holding of ten shares worth ₹ 2400 + ₹ 100 by way of value of right received from Murthy. It matches with his cum-right holding valuation.

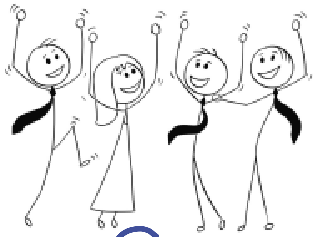
BONUS ISSUE

1. Authorised by Article of Association
2. Authorised in General Meeting
3. Not Defaulted in Payment (Interest or Principle of Debt, Statutory Payment of employees like PF, Gratuity Etc.)
4. Partly Paid up Shares if any Made Fully Paid up

Conditions for Issue of Bonus Shares



Bonus Shares (Shares at Free)



Accounting from Company's Point of View Covered Here

Accounting from Investors Point of View Covered in Investment Chapter – Recorded at Nil Value

Form of Bonus (Not In lieu of Dividend

Issue of Fully Paid up Bonus Shares

Conversion of Partly Paid up Shares into Fully Paid up Shares

Utilisation of Reserve (Capitalization of Profit)

Only Free Reserve and Profit can be utilized

1. CRR A/c
2. Security Premium A/c (Collected in Cash)
3. General Reserve A/c
4. Profit & Loss A/c

Revaluation Reserve Cannot be utilized

Restriction on a Bonus Issue

Reservation of Bonus Issue for Convertible Debt

Issue Bonus Shares at the time of Conversion in Same Proportion

RIGHT ISSUE

Company 1st offer shares to existing shareholders at a lower Price than Market Price

Right Issue

Accounting from Company's Point of View same as for Issue of Shares

Existing Shareholders have 3 Options

Accounting Covered in Investment Chapter

- Subscribe
- Sell Rights
- Lapse

Smart Investor will sell rights if not subscribe by him

Value of Right = Cum Right Value - Ex Right Value

Cum Right Value: Market Price before Right Issue

Ex Right Value: Market Price after Right Issue

$$\frac{\text{[Cum Right Value of the Existing Shares] + [Right Issue x Issue Price]}}{\text{Existing Shares + Right Shares}}$$

CLASS QUESTIONS

BONUS ISSUE

C.1. **[May 2018]** Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.

Issued and Subscribed Capital:

Particulars	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

C.2. **[RTP May 2022]** Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

General Reserve	₹ 1,60,000
Plant Revaluation Reserve	₹ 25,000
Securities Premium Account (Realised in cash)	₹ 60,000
Capital Redemption Reserve	₹ 80,000

Answer the following questions:

(a) What is the number of Bonus shares to be issued?

(b) Can company issue Bonus out of General Reserve only?

(c) Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.

(d) Is it possible for the company to issue partly paid-up bonus shares?

C.3. Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2011:

Notes	₹
Authorised Capital:	

50,000, 10% Preference Share of ₹ 10 each	5,00,000
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Issued and Subscribed Capital:	
40,000, 10% Preference Shares of ₹ 10 each fully paid	4,00,000
1,80,000, Equity Shares of ₹ 10 each of which ₹ 7.50 paid up	13,50,000
Reserve and Surplus:	
General Reserve	3,90,000
Securities Premium	50,000
Profit and Loss Account	3,00,000

On 1st April, 2011, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2011. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Securities Premium of ₹ 50,000 includes a premium of ₹ 20,000 for shares issued to vendor for purchase of a special machinery. Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any should form part of your answer.

C.4. [ICAI & Similar in July 2021] Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2021:

Particulars	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected incash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2021 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2021. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

C.5. **[ICAI]** The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2022:

Notes	₹ in Lakhs
(1) Share Capital	
Authorised:	
20 crore shares of ₹ 10 each	20,000
Issued and Subscribed:	
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and Paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus:	
Capital Redemption Reserve	1,485
Securities Premium	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss (Appropriation) Account	273
Total	4,798

On 2nd April 2022, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

C.6. The Balance Sheet of Hindustan Ltd., on 31st December, 2017 was as follows:

Liabilities	₹	Assets	₹
4,000 Equity shares of ₹100 each, ₹ 80 paid	3,20,000	Sundry Assets	10,00,000
Security Premium	60,000		
Capital Redemption Reserve A/c	70,000		
General Reserve A/c	1,00,000		
Profit & Loss A/c	3,00,000		
Sundry Creditors	1,50,000		
	10,00,000		10,00,000

The directors recommend the following with a view to capitalizing whole of share premium account, Capital Redemption Reserve Account, General Reserve and ₹ 50,000 out of Profit and Loss Account.

1. The existing shares are made fully paid without the shareholders having to pay anything.
2. Each shareholder to be given fully paid bonus shares at a premium of 25% for the remaining amount in proportion to his holdings. Assuming that the scheme is accepted and that all formalities are gone through.

Give journal entries and also show in what proportion bonus shares will be distributed among shareholders.

C.7. Universal Limited has 20,000 fully Paid Equity Shares of ₹ 100 each and 6,000 fully convertible Debentures of ₹ 200 each. Debenture are convertible into 10,000 number of fully paid equity shares after 6 months. Pass entries for the Bonus @ 1 for 4 shares held.

RIGHT ISSUE

C.8. **[May 2003]** Pragya Limited has issued 75,000 equity shares of ₹ 10 each. The current market price per share is ₹ 24. The company has a plan to make a right issue of one new equity share at a price of ₹ 16 for every four share held.

You are required to:

a) Calculate the theoretical post-rights price per share.

b) Calculate the theoretical value of the right alone.

c) Show the effect of the rights issue on the wealth of a shareholder, who has 1,000 shares assuming he sells the entire rights; and

d) Show the effect, if the same shareholder does not take any action and ignores the issue.

C.9. **[RTP May 2021]** Beta Ltd. having share capital of 20,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value. Assuming all the shareholders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.

C.10. A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150. Calculate the value of a right. What should be the ex-right market price of a share?

PRACTICE QUESTIONS

BONUS ISSUE

P.1. **[ICAI]** Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2021:

Particulars	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

P.2. **[ICAI]** Pass Journal Entries in the following circumstances:

a) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

b) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

P.3. **[ICAI]** Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2021

Authorised capital:	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000

Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2021, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.
Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2021 after bonus issue.

P.4. [ICAI & May 2014] Following items appear in the Trial Balance of Saral Ltd. as on 31.03.2014:

Particulars	₹
4,500 Equity Shares of Rs. 100 each	4,50,000
Securities Premium	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The Company decided to issue to Equibritety Shareholders, Bonus Shares at the rate of 1 Share for every 3 Shares held. The Company decided that there should be the minimum reduction in Free Reserves. Pass necessary Journal Entries in books of Saral Ltd.

P.5. [ICAI & RTP May 2018, Similar in RTP Nov. 2018, May 2019 & Nov. 2019] Following is the extract of the Balance Sheet of Manoj Ltd. as at 31 st March, 2011

Particulars	₹
Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2011, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2011. Thereafter, the company decided to capitalize its

reserves by way of bonus at the rate of one share for every four shares held.
You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 2011 after bonus issue.

P.6. [Jan. 2021] Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:

Particulars	₹
80,000 Equity shares of ₹10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April,2019, the Company has made final call on Equity shares @₹ 2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves.
Pass necessary journal entries in the Books of Star Ltd.

P.7. [ICAI] Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2021

	₹
Authorised capital:	
50,000 12% Preference shares of ₹10 each	5,00,000
5,00,000 Equity shares of ₹10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹10 each fully paid	5,00,000
4,00,000 Equity shares of ₹10 each, ₹8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000

Revaluation Reserve Profit and Loss Account	1,00,000 16,00,000

On 1st April, 2021, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 20X1. Thereafter, on 1st May 2021 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2021, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2021.
Show necessary journal entries in the books of the company for bonus issue and rights issue.

RIGHT ISSUE

P.8. [RTP - May 2018] Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200. You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

P.9. [RTP - Nov 2018] Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value (cum-right) of the share is ₹ 360 and the company is offering one right share of ₹ 180 each to its existing shareholders. You are required to calculate the value of a right. What should be the ex-right value of a share?

12

Redemption of Preference Share

Introduction

Redemption is the process of repaying an obligation, at prearranged amounts and timings. It is a contract giving the right to redeem preference shares within or at the end of a given time period at an agreed price. These shares are issued on the terms that shareholders will at a future date be repaid the amount which they invested in the company (along with frequent payment of a specified amount as return on investment during the tenure of the preference shares). The redemption date is the maturity date, which specifies when repayment takes place and is usually printed on the preference share certificate. Through the process of redemption, a company can also adjust its financial structure, for example, by eliminating preference shares and replacing those with other securities if future growth of the company makes such change advantageous.

Purpose of Issuing Redeemable Preference Shares

A company may issue redeemable preference shares because of the following:

1. It is a proper way of raising finance in a dull primary market.
2. A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
3. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

In India, the issue and redemption of preference shares is governed by Section 55 of the Companies Act, 2013

Provision of the Companies Act, 2013 (Section 52)

For securities premium account, Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

(b) To write off preliminary expenses of the company

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.

Note: It may be noted that certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

Provision of the Companies Act, 2013 (Section 55)

A company limited by shares if so authorised by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:

1. Preference shares can be redeemed either
   a) out of the proceeds of the fresh issue of shares or
   b) out of profits or
   c) a combination of fresh issue and profits.
2. Only fully paid shares can be redeemed.
3. If Redemption is made at Premium, premium (Extra amount payable over the face value) payable on redemption of preference shares must be provided out of the profits of the Company or out of Securities premium A/c. before shares are redeemed. (In case of prescribed companies following Accounting standards prescribed in Section 133 [Companies required to follow Ind AS] premium on redemption should be written off against Profits of the company)

REDEMPTION OUT OF PROFIT

1. Preference shares can be redeemed out of profits which otherwise would be available for dividend payment, like P & L A/c. balance, General Reserve, Dividend equalisation fund etc.
2. An amount equal to the Nominal Value of the shares being redeemed should be transferred to capital Redemption Reserve a/c.
3. This capital Redemption Reserve A/c. can be used only for issue of fully paid Bonus shares.

Journal Entries

Particulars	Debit	Credit
1. When preference shares are redeemed at par	Redeemable Preference Share Capital A/c.	Preference Shareholders A/c.
2. When preference shares are redeemed at a premium	Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c	Preference Shareholders A/c
3. When payment is made to preference shareholders	Preference Shareholders A/c.	Bank A/c

4. For adjustment of premium on redemption	Profit and Loss / Security Premium A/c.	Premium on Redemption of Preference Shares A/c
5. Amount equal to Nominal value of Pref. Share being redeemed, transferred to C.R.R. A/c	General Reserve A/c. Profit and Loss A/c.	Capital Redemption Reserve A/c

REDEMPTION OUT OF FRESH ISSUE OF SHARES

1. One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity share or preference share) and the proceeds from such new shares can be used for redemption of preference shares.
2. The proceeds from issue of debentures cannot be utilised for the purpose
3. A problem arises when a fresh issue is made for the purpose of redemption of preference shares, at a premium. The point to ponder is that whether the proceeds of a fresh issue of shares will include the amount of securities premium for the purpose of redemption of preference shares.
4. For securities premium account, Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;
   (a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities
   (b) To write off preliminary expenses of the company
   (c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company
   (d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.
   (e) For the purchase of its own shares or other securities.

   Any other way, except the above prescribed ways, in which securities premium account is utilised will be in contravention of law. Thus, the proceeds of a fresh issue of shares will not include the amount of securities premium for the purpose of redemption of preference shares.

Reasons for issue of New Equity Shares

A company may prefer issue of new equity shares in the following situations:

1. When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
2. When the balance of profit, which would otherwise be available for dividend, is insufficient.
3. When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares

1. No cash outflow of money is required – now or later.
2. New equity shares may be valued at a premium.

3. Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares

1. There will be dilution of future earnings;
2. Share-holding in the company is changed.

Journal Entries

Particulars	Debit	Credit
1. When new shares are issued at par	Bank A/c	Share Capital A/c
2. When new shares are issued at a premium	Bank A/c	Share Capital A/c Securities Premium A/c
3. When preference shares are redeemed at par	Redeemable Preference Share Capital A/c.	Preference Shareholders A/c.
4. When preference shares are redeemed at a premium	Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c	Preference Shareholders A/c
5. When payment is made to preference shareholders	Preference Shareholders A/c.	Bank A/c
6. For adjustment of premium on redemption	Profit and Loss / Security Premium A/c.	Premium on Redemption of Preference Shares A/c

REDEMPTION OUT OF PROFIT AND FRESH ISSUE (COMBINATION)

A company can redeem the preference shares partly from the proceeds from new issue and partly out of profits. In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer should be made from distributable profits (Profit & Loss Account, General Reserve and other Free Reserves) to Capital Redemption Reserve Account.

Formula:

1. Amount to be Transferred to Capital Redemption Reserve

Particulars	₹
Face value of shares redeemed Less: Proceeds from new issue	xxx xxx
Amount to be Transferred to Capital Redemption Reserve	xxx

2. Proceeds to be collected from New Issue

Particulars	₹
Face value of shares redeemed	xxx
Less: Profits available for distribution as dividend	xxx
Proceeds to be collected from New Issue	xxx

REDEMPTION OF PREFERENCE SHARES

Redemption is the process of repaying an obligation, at prearranged amounts and timings.

Redemption of Preference Shares

Preference shares can be redeemed either Out of Profit or Fresh Issue of Shares or combination of both

Securities Premium can be utilised for Premium on Redemption of Preference shares except those who follow Sec. 133

1st — Redemption Out of Profit

Profits otherwise would be available for dividend payment, like P & L A/c. balance, General Reserve, Dividend equalisation fund etc

Nominal Value of the shares being redeemed should be transferred to CRR a/c

CRR A/c. can be used only for issue of fully paid Bonus shares.

2nd — Redemption Out of Fresh Issue of Shares

Fresh issue of share means issue of new equity or preference shares not debentures

PROCEEDS of a fresh issue of shares will not include the amount of securities premium for the purpose of redemption of preference shares

Not transferred to CRR a/c

3rd — Redemption Out of Combination of Both

Amount to be Transferred to CRR	Proceeds to be collected from New Issue
Face value of shares redeemed Less: Proceeds from new issue	Face value of shares redeemed Less: Profits available for distribution as dividend

CLASS QUESTIONS

C.1. The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2017.

a) Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

b) Reserve & Surplus: Capital reserve ₹ 50,000; Securities premium ₹ 50,000; General reserve ₹ 75,000; Profit and Loss Account –₹ 35,000.

c) On 1st January 2018, the Board of Directors decided to redeem the preference shares at par by utilization of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

C.2. **[ICAI]** C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%. It was decided by the company to issue the following:

a) 25,000 Equity Shares of ₹ 10 each at par,

b) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

C.3. **[ICAI]** The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of 50 only.

C.4. **[ICAI]** The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2017).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) Rs.10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

C.5. **[ICAI]** The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

₹

50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 2021.

C.6. **[ICAI]** With the help of the details in Question 5 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices.

C.7. **[ICAI]** The books of B Ltd. showed the following balance on 31st December, 2013: 30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹10 each, ₹8 paid up (all shares issued on 1st April, 2012).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹80,000; General Reserve ₹ 1,20,000; Security Premium ₹ 15,000 and Capital Reserve ₹ 21,000. For redemption 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2014 at a premium of ₹ 2 Per Share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions.

C.8. The financial position of P Limited at 31stDecember, 2015 was as follows:

Liabilities	₹	Assets	₹
Authorised, Issued and Subscribed Capital	4,00,000	Sundry Assets	8,40,000

40,000, 5 % Redeemable Preference shares of ₹ 10 each, fully paid		Cash and Bank	3,00,000
20,000 Equity shares of ₹ 10 each, fully paid	2,00,000		
Securities Premium Account	50,000		
Profits and Loss Account	2,80,000		
Sundry Liabilities	2,10,000		
	11,40,000		11,40,000

As per the terms of issue of the Preference Shares these were redeemable at a premium of 10 % on 1st February, 2016 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of ₹ 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by issue Equity shares of ₹ 10 each at a premium of ₹ 2.50 per share.

You are required to give Journal Entries.

C.9. **[ICAI]** The Balance Sheet of X Ltd. as on 31st March, 2013 is as follows:

	Particulars	₹
	Equity & Liabilities	
1.	Shareholders' funds	
	a) Share capital	2,90,000
	b) Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
	Total	3,94,500
	Assets	
1.	Non-Current Asset	
	Tangible asset	3,45,000
	Non-current investments	18,500
2.	Current Assets	
	Cash and cash equivalents (bank)	31,000
	Total	3,94,500

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000(issued on 1.4.2011). Reserves and Surplus comprises Profit and Loss Account only. In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 to raise the balance of funds required.

You are required to pass: The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions

C.10. **[RTP May 2022]** Rohan Ltd. gives you following information as at 31st March, 2021:

Particulars		₹	₹
Equity and Liabilities			
Issued & subscribed capital:			
Equity shares capital:			
60,000 Equity shares of ₹ 10 each fully paid up		6,00,000	
12% Redeemable Preference share Capital:			
5,000 share of ₹ 100 each	5,00,000		
Less: Calls in arrear	(4,000)	4,96,000	10,96,000
(final call of ₹ 20 on 200 shares)			
Reserve & surplus			
Profit and Loss Account		3,00,000	
Securities Premium Account		30,000	3,30,000
Non- current liability			
Long term borrowings: 14% Debentures			1,50,000
Current liabilities			
Trade payables			74,000
Assets			
Non-current Assets			
(i) Property, Plant & Equipment			13,00,000
(ii) Non- current Investment			1,00,000
Current Assets			
(i) Inventory			50,000
(ii) Trade Receivables			20,000
(iii) Bank			1,80,000

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of ₹ 80,000. They also decided to issue sufficient number of equity shares of ₹ 10 at a premium of ₹ 1 per share and the balance in profit and loss account was to be maintained at ₹ 1,00,000. Premium on redemption can't be set off against securities premium account as Rohan Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.
You are required to show the journal entries and the balance sheet of the company immediately after completion of redemption as per Schedule III. Show working for availability of profits for redemption and determination of bank balance at the end. All the above formalities and transactions

were completed up to the end of 15th May, 2021

C.11. **[ICAI]** Trinity Ltd. gives you the following information as at 31.3.2021:

	₹
Property, Plant and Equipment:	
Gross Block	3,00,000
Less: Depreciation	1,00,000
	2,00,000
Investments	1,00,000
Inventory	45,000
Trade receivables	25,000
Cash and Bank Balances	50,000
Share Capital:	
Authorised:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
90,000 Equity Shares of ₹10 each	9,00,000
Issued, Subscribed and Paid-up Capital:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
10,000 Equity Shares of ₹ 10 each	1,00,000
Reserves and Surplus:	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	18,500
Current Liabilities and Provisions	11,500

For the year ended 31.3.2022, the company made a net profit of ₹35,000 after providing ₹20,000 depreciation.

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.2022 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2022, was the same as on 31.3.2021.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2022.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2022.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares

C.12. 20,000 12% Preference Shares of ₹ 100 each redeemable now. The terms of issue provided that the preference share could be redeemed at a premium of 10% either by payment in cash or by allotment of other preference shares, equity shares and/or debentures according to the option of the preference shareholders.

On 1st of January 2012 the company informed the preference shareholders to redeem the preference shares of ₹ 100 each at ₹ 120 per share or 10% debentures of ₹ 60 each at ₹ 55 per debenture or Equity share of ₹ 10 each at ₹ 20 per share.

Holders of 6,000 preference share accepted the offer of the 13% Preference shares, holders of 4,000 preference share accepted the offer of 10% debentures, holder of 8,000 preference share accepted the offer of equity shares and the rest demanded cash.

Give Journal Entries recording the above redemption/conversion.

PRACTICE QUESTIONS

P.1. **[ICAI]** Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

P.2. **[ICAI]** G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paidup. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

P.3. The following balances extracted from the books of S Ltd. 1,000, 11% Redeemable Preference Shares of ₹ 100 each fully paid.

1,000 10% Redeemable Preference Shares of ₹ 100 each ₹ 80 per shares paid up.
4,000 Equity Shares of ₹ 10 each, fully paid.

General Reserve ₹ 70,000, Profit and Loss A/c. ₹ 30,000.

The preference Shares are redeemed at a premium of 10%. For this purpose, the company makes the following issues.

a) 5,000 Equity Shares of ₹ 10 each at a premium of 10%

b) 1,000 8% Debentures of ₹ 10 each.

P.4. **[May 2018]** Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:
(i) 40,000 Equity Shares of ₹ 10 each at par
(ii) 2,000 12% Debentures of ₹100 each

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

P.5. The summarised Balance Sheet of Sterling Ltd. as on 31-12-2015 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Sundry Assets	34,00,000
Issued and paid up		Cash	6,00,000
10,000 8% Redeemable preference shares of ₹ 100 each	10,00,000		

1,00,000 Equity Shares of ₹ 10 each	10,00,000		
Capital Reserve	5,00,000		
General Reserve	2,00,000		
Profit and Loss Account	9,50,000		
Creditors	3,50,000		
	40,00,000		40,00,000

The Preference Shares were redeemable on 31-3-2016 at a premium of 25%. For the purpose, the company decided to issue 50,000 Equity Shares of ₹ 10 each at a premium of ₹ 4 per share payable in full on 15-3-2016. Show the necessary entries.

P.6. [RTP May 2018 & Similar in ICAI] The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2021:

Share capital: 50,000 Equity shares of ₹ 10 each fully paid – ₹ 5,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,50,000.

Reserve & Surplus: Capital reserve – ₹ 1,00,000; General reserve – ₹ 1,00,000; Profit and Loss Account – ₹ 75,000.

On 1st January 2022, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

P.7. [May 2019] The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars	(₹)
Equity & Liabilities	
1. Shareholder's funds:	
(a) Share Capital	5,80,000
(b) Reserves and Surplus	96,000
2. Current Liabilities:	
Trade Payables	1,13,000
Total	7,89,000
Assets	
1. Non-Current Assets	
(a) Property, Plant and Equipment	
Tangible Assets	6,90,000
(b) Non-current investments	37,000
2. Current Assets	
Cash and cash equivalents (Bank)	62,000
Total	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017). Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

a. to sell all the investments for ₹ 30,000.

b. to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

c. to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

i. Pass Journal Entries to record the above transactions.

ii. Prepare Balance Sheet after completion of the above transactions.

P.8. [Nov. 2020] The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

P.9. [RTP Nov. 2021] Neeraj Ltd.'s capital structure consists of 45,000 Equity Shares of ₹ 10 each fully paid up and 3,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2021. The other particulars as at 31.03.2021 are as follows:

	Amount (₹)

General Reserve	1,80,000
Profit & Loss Account	90,000
Investment Allowance Reserve (not free for distribution as dividend)	22,500
Cash at bank	2,92,500

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 60,000 shall be retained in General Reserve and which should not be utilized. Company also sold investment of 6,750 Equity Shares in Kumar Ltd., costing ₹67,500 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2021 of Neeraj Ltd. after the redemption is carried out.

13

Redemption of Debenture

Introduction

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.

Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.

Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.

Section 71 (4) provides that where debentures are issued by a company, the company should create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account should not be utilised by the company for any purpose other than the redemption of debentures.

Redemption of Debenture

Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period. Redeemable debentures may be redeemed:

- after a fixed number of years; or
- any time after a certain number of years has elapsed since their issue; or
- on giving a specified notice; or
- by annual drawing.

A company may also purchase its debentures, as and when convenient, in the open market and when debentures are quoted at a discount on the Stock Exchange, it may be profitable for the company to purchase and cancel them.

Debenture Redemption Reserve (DRR)

A company issuing debentures may be required to create a debenture redemption reserve account ***out of the profits available for distribution of dividend*** and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.

An appropriate amount is transferred from profits every year to Debenture Redemption Reserve and its investment is termed as Debenture Redemption Reserve Investment. In the last year or at the time of redemption of debentures, Debenture Redemption Reserve Investments are encashed and the amount so obtained is used for the redemption of debentures.

Requirement to Create Debenture Redemption Reserve (DRR)

Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. Section 71 states as follows:

1. Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.
2. The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.
3. The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.
4. Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

Adequacy of Debenture Redemption Reserve (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year (refer below), in accordance with the conditions given below—

a. the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
b. the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
2	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	

	a) All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
	b) Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
	a) All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
	b) Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

Investment of Debenture Redemption Reserve (DRR) Amount

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

a) All listed NBFCs
b) All listed HFCs
c) All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

a) in deposits with any scheduled bank, free from charge or lien;
b) in securities of the Central Government or of any State Government;
c) in securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
d) in bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non- convertible portion of debenture issue in accordance with this sub-rule.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Journal Entries

The necessary journal entries passed in the books of a company are given below

After Allotment of debentures

Particulars	Debit	Credit
1. For setting aside the fixed amount of profit for redemption	Profit and Loss A/c	Debenture Redemption Reserve A/c
2. For investing the amount set aside for redemption	Debenture Redemption Reserve Investment A/c	Bank A/c
3. For receipt of interest on Debenture Redemption Reserve Investments	Bank A/c	Interest on Debenture Redemption Reserve Investment A/c
4. For transfer of interest on Debenture Redemption Reserve Investments (DRRI)	Interest on Debenture Redemption Reserve Investment A/c	Profit and loss A/c

At the time of Redemption of Debentures

Particulars	Debit	Credit
5. For encashment of Debenture Redemption Reserve Investments	Bank A/c	Debenture Redemption Reserve Investment A/c
6. For amount due to debenture holders on redemption	Debentures A/c	Debenture holders A/c
7. For payment to debenture holders	Debenture holders A/c	Bank A/c
8. After redemption of debentures, DRR should be transferred to general reserve	DRR A/c	General Reserve A/c

CLASS QUESTIONS

C.1. The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2018: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.
The Interest on debentures had been paid up to December 31, 2018. On February 28, 2019, the investments were realised at par and the debentures were paid off at 101, together with accrued interest. Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

C.2. The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2011:

a) 12 % Debentures ₹ 7,50,000
b) Balance of DRR ₹ 25,000
c) DRR Investment ₹ 1,12,500 represented by 10% 1,125 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2012, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.
You are required to prepare the following accounts for the year ended 31st March, 2012:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

C.3. The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2011 is as under:

Liabilities	₹	Assets	₹
Share Capital:		Freehold property	1,15,000
Authorised:		Stock	1,35,000
30,000 Equity Shares of ₹ 10 each	3,00,000	Trade receivables	75,000
Issued and Subscribed:		Cash	30,000
20,000 Equity Shares of ₹ 10 each		Balance at Bank	2,00,000
fully paid	2,00,000		
Profit and Loss Account	1,20,000		
12% Debentures	1,20,000		
Trade payables	1,15,000		
	5,55,000		5,55,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

C.4. The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as on 30th June, 2011, stood as follows:

Liabilities	₹
Share Capital: 5,00,000 equity shares of ₹ 10 each fully paid	50,00,000
General Reserve	90,00,000
Profit And loss A/c	10,00,000
Debenture Redemption Reserve	10,00,000
13.5% Convertible Debentures, 1,00,000 Debentures of ₹ 100 each	1,00,00,000
Other loans	65,00,000
Current Liabilities and Provisions	1,25,00,000
	4,50,00,000
Assets :	
Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Reserve Investments	15,00,000
Cash and bank Balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holdings into equity shares at a predetermined price of ₹ 15.75 per share and the payment in cash.

Assuming that:

(i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) the investments were realised at par on sale; and

(iii) all the transactions are put through, without any lag, on 1st July, 2011.

Redraft the balance sheet of the company as on 1st July, 2011 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the necessary cash payment.

C.5. A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2011. The debentures are due for redemption on 1st July, 2012. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

C.6. **[Similar in Jan. 2021]** M Limited (unlisted company other than AIFI, Banking company, NBFC and HFC) recently made a public issue of debentures. The following information is available in respect of the issue:

a) 3,00,000 partly convertible debentures of face value and issue price of ₹ 100 per debenture were issued.
b) Conversion of 50% of each debenture is to be done on expiry of 6 months from date of close of issue.
c) Date of closure of subscription list is 1st June, 2012. Date of allotment is 1st July, 2012.
d) Interest on debenture at the rate of 12% is payable from date of allotment.
e) Equity share of no each are issued at ₹ 50 per share for the purpose of conversion.
f) Underwriting commission is 2%.
g) 2,25,000 debentures were applied for.
h) Interest on debentures is payable half yearly on 30th September and 31st March.

Give Journal entries for all transactions relating to the above, including cash and bank entries for the year ended 31st March, 2013.

C.7. **[RTP Nov. 2018]** The summarized Balance Sheet of Spices Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2018 read as under:

Particulars	₹
Liabilities:	
Share Capital: 9,000 equity shares of ₹ 10 each, fully paid up	90,000
General Reserve	38,000
Debenture Redemption Reserve	35,000
12% Convertible Debentures : 1,200 Debentures of ₹ 50 each	60,000
Unsecured Loans	28,000
Short term borrowings	19,000
	2,70,000
Assets:	

Property Plant & Equipment (at cost less depreciation)	72,000
Debenture Redemption Reserve Investments	34,000
Cash and Bank Balances	86,000
Other Current Assets	78,000
	2,70,000

The debentures are due for redemption on 1st April, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of ₹ 11 per share and the balance payment in cash.

Assuming that:

(i) Except for debenture holders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized ₹ 56,000 on sale,

(iii) All the transactions were taken place on 1st April, 2018

(iv) Premium on redemption of debentures is to be adjusted against General Reserve

You are required to

(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.

(b) Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

PRACTICE QUESTIONS

P.1. Libra Limited (unlisted company other than AIFI, Banking company, NBFC and HFC) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued - 2,00,000; face value and issue price - ₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists- 1.5.2011, date of allotment- 1.6.2011, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

(d) Underwriting Commission- 2%.

(e) No. of debentures applied for - 1,50,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2012 (including cash and bank entries).

P.2. A Company had issued 40,000, 13% Convertible debentures of ₹ 100 each On 1st April, 2017. The debentures are due for redemption on 1st July, 2019. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture-holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

14

Partnership Accounts

(Introduction, Treatment of Goodwill, Admission, Retirement & death of a Partner)

Introduction:

An individual i.e., a sole proprietor may not be in a position to cope with the financ ial and managerial demands of the present day business world. As a result, two or more individuals may decide to pool their financial and non-financial resources to carry on a business. Therefore, many businesses are constituted (organized) in partnership form. The terms and conditions as mutually agreed upon, govern inter relationship among partners as well as accounting. There is Indian partnership Act that also provides certain useful norms.

When change in constitution takes place (i.e. Admission, Retirement, Death or Change in profit sharing ratio) partner's mutual rights may get disturbed (i.e. somebody will be gainer and somebody will be looser) unless certain adjustment related to unaccounted or undivided old profits/ loss is made.

The new ratio has been agreed to apply to future profits/ losses. But if there exists any unaccounted or undivided profit or loss of old period, then that also will get divided in future, in new ratio instead of old ratio, to that extent someone will gain and someone will loose. This is to be adjusted at the time of change in constitution.

Dissolution of firm is not included in CA Foundation syllabus. Dissolution and other advance features are covered in Intermediate syllabus.

General Points Related to Partnership:

1. **Partnership:** Partnership is a relationship between two or more persons to do some commercial activity for mutual benefit. The activity is carried as mutually agreed for and on behalf of all. The organisation so created is commonly known as firm.

2. **Partnership deed:** Partners may put in writing the details of their mutually agreed terms and conditions to run and manage the partnership. Such document is known as partnership deed. This will help to avoid misunderstanding or future disputes among the partners.

3. **Issues on which partnership deed is silent**

   In the absence of any provision in partnership deed, following provision of Partnership Act, 1932 are applicable. (Para a. to d. below are as per section 13(a) to 13(d) of Partnership Act.)

   a. No salary is to be paid to any partner,
   b. No interest is to be allowed on capital
   c. No interest is to be charged on drawings,
   d. 6% per annum interest is to be given on partner's loan, even if there is loss.
   e. Profit/Loss sharing ratio will be equal,

   Note: Interest on capital and salary, if payable, will be paid only if there is profit unless agreement provides otherwise.

Student should use above, whenever question is silent with regard to this items.

4. **System of capital account maintenance:** To run the business the partners bring in cash, goods or other assets etc. which is called as their capital. Capital Accounts are maintained under two system (methods).

   1. Fluctuating capital system & 2. Fixed capital system

   Fluctuating Capital System: In this system only one A/c is maintained for each partner and all the adjustments i.e. capital introduced, interest, salary drawings, profit/loss etc. is debited/credited in the same Account. Therefore Capital Account balance keeps on fluctuating every time.

   Fixed Capital System: For each partner two accounts will be maintained namely Capital a/c and Current a/c. The capital introduced will be credited to capital a/c. All other regular adjustments like interest, Salary, drawings, share in profit/losses will be made in the current a/c and hence capital A/c remains fixed from year to year unless their is withdrawal of capital or Addition to capital.

5. **Profit Sharing: Sharing profit/losses:** Usually profit sharing is given by way of ratio like 5:3:2 or in % form like 20%. 40%, 40%, etc. If question is silent about profit sharing then consider them as equal partners as per the provision of partnership act. Profit should be shared in the ratio of capital only if specifically mentioned in the question, not otherwise. Partners can decide mutually any basis or mode of sharing profits and losses, there is no limit to it. So whenever question contains some new basis of sharing, read and interpret it correctly and make calculations according to it.

Change in Constitution:

1. Meaning: Change in the constitution of the firm

If any of the following happens, it is said to be change in the constitution of the firm.

(1) Admission of the new partner,

(2) Retirement/Death of a partner.

(3) Change in the profit sharing ratio,

Example: All the cases of change in constitution.

Whenever there is change in the constitution, the Partners & the Profit sharing Ratio: applicable till the date of change will be known as 'Old Partners' & Old Ratio' & those applicable after the date of change will be known as 'New Partners' & 'New Ratio'.

Solution:

(1) 'A' & 'B' sharing profits in 2:3 ratio, admits 'C' & the ratio then is 2:3:1

Then, Before Change : Old Partners A,B   Old Ratio 2:3

After Change : New Partners A,B,C   New Ratio 2:3:1

(2) 'X' 'Y' & 'Z' are Partners sharing profits in 4:5:3. 'Y' retires or dies.

Then, Before Change : Old Partners X,Y,Z   Old Ratio 4:5:3

After Change : New Partners X,Z   New Ratio 4:3

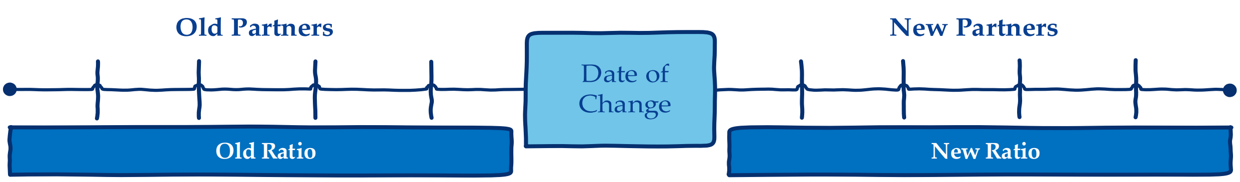
(Note: After retirement, how X & Z will share is not given, in such cases it will be assumed that they will continue to share in their old ratio).

(3) 'L' 'M' & 'N' sharing profits in 3:2:5, decides to change the ratio to 4:2:4.

Then, Before Change : Old Partners L,M,N   Old Ratio 3:2:5

After Change : New Partners L,M,N   New Ratio 4:2:4

2. The common factor in above cases and its significance:



The common factor in all above i.e. in Admission, Retirement, Death or change in ratio is that Profit Sharing Ratio Changes. Hence, if there is any old profit or loss unaccounted or undivided then the same should be adjusted at the time of change. Otherwise these profits/ losses whenever divided in future, the same will be shared by new partners in New Ratio. To that extent some partner will be gainer and the other will be looser. This shouldn't happen hence, we make adjustment at the time of change. The value of Building, Land or goodwill may be more than the value appearing in account books (in balance sheet) the increase in the value is an example of unaccounted profit. Sometime whole of the profit earned is not transferred to capital account, the balance appears in account like general reserve, it is an example of undivided profit. Divide old profit/loss among old partners in old ratio. Or If we want to keep the unaccounted/undivided profit or loss as it is then calculate the consequent gain and loss (it is the amount of difference between the share as per old ratio and new ratio) and adjust the same either in cash or by accounting.

3. Old profits/ losses referred to above may be classified under the following heads:

When there is a change in the constitution basically six under mentioned adjustments (to the extent applicable) will be required.

1. **Goodwill:** Goodwill is an asset but increase in its value otherwise than by purchase will have effect of profit)
2. **Revaluation of Assets & Liabilities:** Increase in value of asset over its book value will be a profit and decrease will be a loss. For liability it will be exactly opposite.
3. **Reserves / Profit & Loss a/c balance etc.**: These are undivided profits or losses
4. **Joint Life Policy**: Increase in its value/ claim amount over its book value will be a profit
5. **Profit or loss till the date of change:** When change in constitution takes place other than exactly on year end, then profit or loss from the beginning of year to the date of change is a old profit or loss
6. **Others**: Some old rectification items. (May result into profit or loss)

All the above items have effect of unaccounted or undivided profit/ loss of the period till the date of change referred here as old profit/ loss.

In accounting profits or losses also means the difference between the book value (i.e. the value/balance as per account books) and the real value (market value or today's value) of any asset or liability including goodwill, joint life policy etc

4. The other financial items which are not adjustment of old profits/ losses as described above:

- The Financial transactions like:
  - contributing capital in case of admission,
  - repayment of capital in case of retirement/death,
  - sale/realization of any asset,
  - settlement/ payment of any liability etc will be made as given in the question.
- Similarly adjustment of capitals in profit sharing ratio or in any other specified ratio will be made only if required by the question.
- These are not those adjustments of old unaccounted profit or loss which are necessarily required to be accounted otherwise mutual rights of partners will be disturbed.
- These are normal financial transactions not resulting into old profits or losses.

5. Ratios

a) Ratio of sacrifice: Ratio of Sacrifice = Old ratio (-) New Ratio

Sacrifice to a partner is the reduction in his profit sharing ratio compared to old ratio. When a partner is admitted, he gets some share in profits therefore he is the gainer and one or more old partner may be sacrificer. But it is not necessary that all the old partners will be sacrificer because ratio of some old partner may also increase.

b) Ratio of gain: Ratio of gain = New Ratio - old Ratio

Gain to a partner is the increase in his profit sharing ratio compared to his old ratio. When a partner retires/dies, he looses his share in profits therefore he is the sacrificer and one or more continuing partner may be gainer. But it is not necessary that all the continuing partners will be gainer because ratio of some of continuing partner may also decrease.

The term sacrifice or gain is used keeping in mind the amount of profit. But if applied to losses it will be exactly opposite i.e. a partner whose ratio increases will bear more loss thus will be a looser and one whose ratio decreases will bear less loss thus will gain.

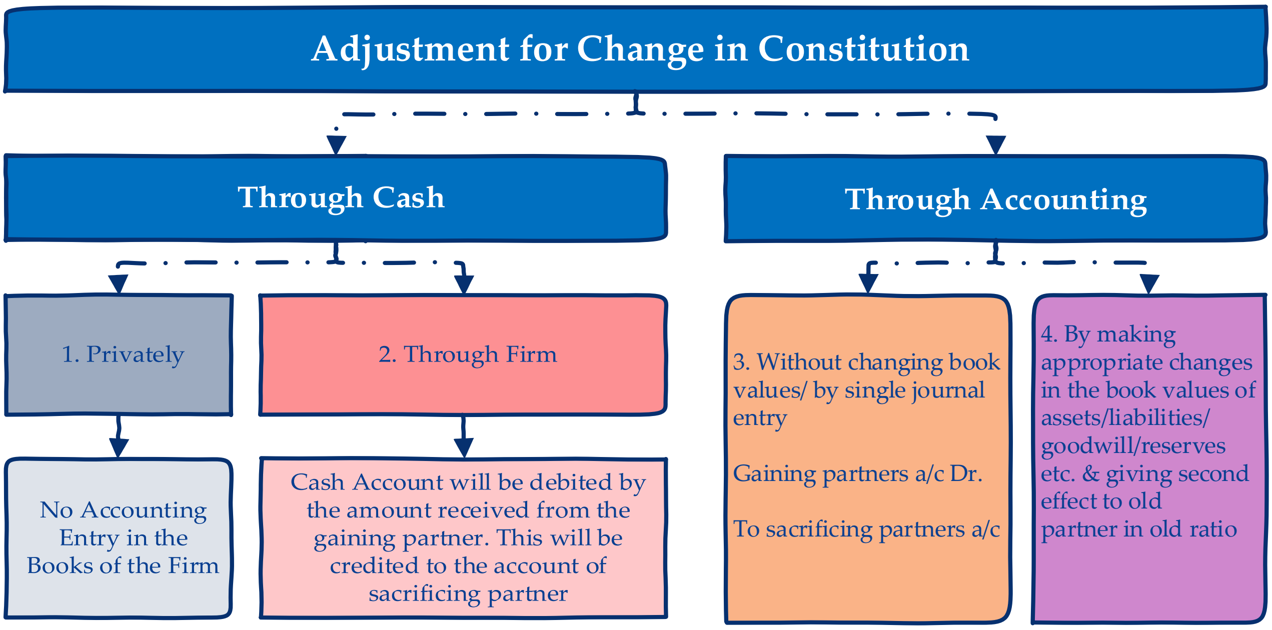
Calculation of New profit sharing ratio:

Whenever change in constitution takes place, the new profit ratio may be specified in the question or Basis of calculating the new ratio may be give n in the question, according to which new ratio will have to be calculated by the student. There is no limit to such alternative basis, some illustrations are given below. While solving ratios make their base i.e. denominators equal. Multiplying numerator and denominator by same number will not change the value but will convert it to the required base.

In multiplication, simply multiply both the numerators and both the denominators and the result is ready. In case of addition or subtraction if the base that is denominators are same, then simply add or subtract the numerators as the case may be, the result will have the same base.

6. Accounting For Change In Constitution:

The alternative modes to make adjustments for change in constitution. Alternative methods for Accounting Adjustment



Note: We will refer the above as method (1) to (4) in our latter discussion.

1. Any one of this method can be applied to all the above items of adjustment (namely goodwill, revaluation, reserves, profits, joint life polity, etc.) or different methods can be applied to different items. Examination questions are mostly solved by method (4) above except goodwill adjustment which is commonly solved by method (2) or (3).

2. All these are for the old unaccounted/ undivided profits or losses i.e. profits or losses upto the date of change. The profit or losses after the date of change in constitution will naturally belong to new partners in new profit sharing ratio.

3. These are equally applicable to admission, retirement, death or change in profit sharing ratio.

4. The amount in method (4) above will be the total old profit/ loss, whereas in method (1), (2) & (3) the amount will be the net amount of gain or sacrifice to partner (it is the difference of old profit/loss divided into old ratio and new ratio)

5. In method (1), (2) & (3) even though the mutual rights of the partners gets adjusted, but the old unaccounted / undivided profits or losses still remains unaccounted / undivided.

7. Accounting of Revaluation of Assets/Liabilities.

- Revaluation a/c is prepared.
- All the assets and liabilities on the date of change in constitution are revalued.
- The revaluation difference is debited/credited to the Revaluation a/c.

  (a) If value of asset is increased: (profit)

Asset a/c Dr. (With the increase in the value of asset)
To Revaluation a/c.

(b) If value of asset is decreased: (loss)

Revaluation a/c Dr. (With the decrease in the value of asset)
To Assets a/c

(c) If there is increase in the value of liabilities: (loss)

Revaluation a/c Dr. (With the amount of increase in the liability)
To Liability a/c

(d) If there is decrease in the value of liabilities: (profit)

Liability a/c Dr. (With the amount of decrease in the value of liability)
To Revaluation a/c

- The balance in Revaluation A/c. will be profit (if credit is more) or loss (if debit is more).
- It will be transferred to the old partners in their old profit sharing ratio. (method 4)

8. Memorandum Revaluation Account Method 3)

If the value of assets and liabilities are not to be changed in the books of Accounts. but at the same time the rights of the partners have to be properly adjusted on the admission/ death/ retirement/ change in profit sharing ratio of the partners. In such a case a Memorandum Revaluation A/c will be prepared.

(1) It will prepared in the same way as the Revaluation a/c, only difference is that debit/credit to asset/liability a/c's will not be made, whatever is the balance will be the profit or loss to which the old partners are entitled in their old profit sharing ratio.

(2) Then whatever was credited to Memorandum Revaluation a/c will be taken on debit side. And whatever was debited to the Memorandum Revaluation a/c as per above will be taken on credit side. The balance will be the same amount as in the above, but it will be loss, if earlier there was a profit and vice-versa. This balance is to be transferred to New partners in their new profit sharing ratio.

- The Net difference of (1) & (2) above will be Debited/Credited to Partners a/c.
- Thus there will be no debit/ credit to asset and liability accounts.

In the same way adjustment for Reserves etc can also be made, if the book values are not to be changed (method 3).

If instead of book adjustment cash is paid or received equal to the net difference calculated above it becomes method (1) if privately settled and method (2) if cash is paid/received through firm.

This amount is in the ratio of gain/ sacrifice.

9. General Reserve, P&L a/c., etc.:

At the time of any change in constitution the accumulated profit/loss balance laying in General Reserve, P&L a/c or in other a/c should be transferred to the old partners in their old profit sharing ratio (method 3). It is commonly followed, although other methods can also be followed.

General Reserve a/c. Dr. xxx
To Old Partners Capital a/c. xxx

10. Joint life policy:

A life insurance policy taken by a firm on the life of its partners is known as joint life policy.

- It can be either
  - one combined policy on the life of all partners or
  - separate policy on the life of each partner.
- Expenditure of insurance premium is borne by the firm hence this policies are the firm's assets.
- Death is an uncertain and unpredictable event.
- In case of death of any partner, his family members may be interested to take back their dues.
- The purpose of joint life policy is to help financial settlement in such eventuality.

Hence, even when question is silent, the claim money received should be utilized to settle the account (dues) of deceased partner.

- In case of combined policy the policy amount (face value/insurance value) will be received if any partner dies.
- But in case of separate policy, claim will be received of the policy on deceased partner's life only.

Accounting for Joint Life Policy Premium and adjustment in case of change in constitution:

- The firms can take joint life policy on the life of one or more partners.
- The premium will be paid out of the firm's income.
- Accounting of such premium can be done in either of the following four ways:

(1) Premium paid is debited in the respective years P&L a/c. No Policy (Asset) a/c is opened. It means that LIP paid & written off by debit to P&L a/c of the year.

P & L a/c Dr. 10,000
To Cash/ Bank a/c 10,000

- In such cases whenever claim is received (on death of a partner) from the Insurance Co. the total amount received will be a profit and will be shared by all the old partners. OR
- Whenever constitution of the firm is changed otherwise than by death then the Policy (asset) a/c may be created at surrender value by following entry:

  Joint Policy a/c Dr. (with the amount of surrender value)xxx
  To Revaluation a/c (or can be directly credited to old partners) xxx

(2) Policy a/c created: Whenever premium is paid the Policy a/c is created at surrender value and the balance is written off by passing following entry.

Policy a/c Dr. (With amount of surrender value) 6,000

P&L a/c Dr. (Premium paid (-) surrender value) 4,000

To Bank/cash a/c (With the amount of premium paid) 10,000

Note: surrender value Rs. 6000 is an assumed figure.

- In this case when amount is received (on death of a partner) it will be credited to Policy a/c. Balance will be profit and will be transferred to old partners in old profit sharing ratio.
- In case of change other than death, no adjustment will be required because policy already appears at surrender value, hence no profit on revaluation.

(3) Joint life policy reserve account: It is only a modified version of method (1) above. Here also full amount is written off to P & L but still policy account and policy reserve account appear on the asset and liability side of balance sheet at surrender value,

When premium paid -

(a) P&L A/c Dr. 10,000

To Bank A/c 10,000

Policy a/c created at surrender value & equal amount transferred to reserve A/c -

(b) Policy A/c Dr. 6,000

To Joint life policy reserve A/c 6,000

- At the time of change in constitution JLP reserve account will be transferred to old partners account in old ratio,
- alternatively it can be transferred to policy a/c. rest of the treatment will be same as in (1) above.
- Note: if this entry (b) is passed ,with full value then policy and reserve both will appear at full value but still effect is same.

(4) Joint life policy reserve account: modified version of (2) above.

When premium paid -

(a) Policy A/c Dr. 10,000

To Bank A/c 10,000

Amount equal to premium less surrender value transferred to Joint life policy reserve A/c -

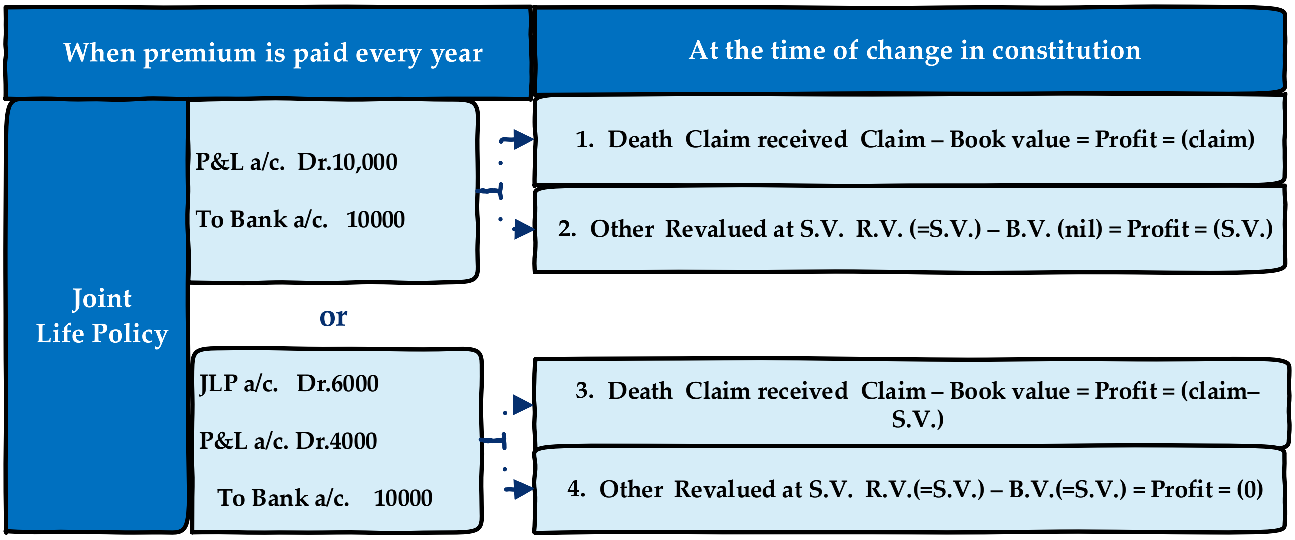
(b) P&L A/c Dr. 4,000

To Joint life policy reserve A/c 4,000

- As a consequence of above P&L is debited with premium in excess of surrender value and net balance of policy a/c. (-) Joint life policy reserve a/c, at any time is equal to surrender value. Thus it is same as (2) above.
- At the time of change in constitution

- the balance of Joint life policy reserve can be either transferred to old partners like other reserves or
- it can be credited to Policy a/c rest of the accounting is same as in (2) above.

Chart explaining treatment of Joint life policy.



Note:

1. Transfer above profit to old partners in old ratio.
2. Utilize claim money to settle deceased partners dues.
3. R.V. = Revalued value, S.V. = Surrender value, B.V. = Book value
4. In case J.L.P. reserve is created then B.V. = Policy a/c. – J.L.P. reserve a/c. Alternatively J.L.P. reserve can be separately transferred to old partners a/c in old ratio.

11. Profit/loss till the date of change in constitution:

- In case change in constitution takes place in between a Financial year, then
  - profit/loss till the date of change belongs to old partners in old ratio and
  - profit/loss after the date of change belongs to new partners in new ratio.
- Such profit/loss can be ascertained by preparing an Interim P&L a/c for that period otherwise average profit of the earlier years may be taken as basis for calculating profit/loss for the period.
- Generally this adjustment is given in case of death, although it can be applicable in the same way in any other type of change in constitution.
- In case of death/retirement the outgoing partner is also entitled to share profits/losses from the closure of last accounting year till the date of retirement/death.
- The outgoing partners share in the profit is accounted by way of the following entry. It should be proportionate to the No. of days/months he was partner in relation to whole year.

  P&L Adjustment a/c Dr. (With the amount of his share in the profit)
  To Outgoing Partners a/c

- Alternatively share of all old partners can be accounted.

When the profit sharing ratio in between remaining partners has changed then we must transfer total profit to all old partners a/c. and not the outgoing partners share only.

While preparing balance sheet, 2nd effect of such profit must be taken either on 1) cash or 2) working capital or 3) P&L adjustment a/c as it is can be shown in balance sheet.

12. Other Adjustments:

In addition to the adjustments discussed above some other adjustments/ entries may come if given in the question. For Example entry for rectification of some old errors, which gives rise to profit/loss.

13. If deceased or retired partner's dues are not settled immediately

- As per provisions of section 37 of the Partnership Act if full or part amount of outgoing partner is still balance then

a) He will be entitled to Interest or profit share or nothing as may be mutually agreed among them.

b) If nothing is agreed then outgoing partner or his representatives have choice to get either of the following untill final settlement

   i) Interest @6% p.a. on the balance amount

   ii) Share in the profit earned proportionate to their amount outstanding to total capital.

$$Share\ in\ profit = Total\ profit\ earned \times \frac{Outstanding\ amount\ of\ outgoing\ partner}{Capital\ of\ all\ partner + Balance\ of\ outgoing\ partner}$$

- Normally he will select the better of (i) or (ii). Hence, if required student should calculate both and give higher one. If concern incurs losses then he will opt for interest.

Goodwill:

1. Meaning Of Goodwill:

Goodwill is the value of reputation of the firm. It is the total of those unidentified benefits which firm enjoys, which help it to earn profit higher than normal profit. It is an intangible asset, hence difficult to value when it is self generated. But following are the methods which can be used for valuation.

a. Average profit method b. Super profit method c. Capitalization method d. Annuity method

The firm's goodwill may have value, but in the books of account it may be nil, hence it represents an unaccounted profit. Therefore at the time of change in constitution it needs to be valued and adjusted by any of the four methods discussed later. The Accounting standard 26 on Intangible Assets issued by the ICAI does not allow recognition of self-generated goodwill in the books of accounts.

2. Methods of Goodwill Calculation

1. Average Profit Method:

- Goodwill is calculated as a certain number of years purchase of the average profit of last few years.
- Number of year of purchase means that many times.
- Average profit is basically a future maintainable profit.
- Goodwill=Average Profit X number of year's purchase

2. Super profit method: Super profit is the excess of average profit (profit earned/future maintainable profit) over the normal profit (i.e. normally expected in the business).

Goodwill is calculated as certain number of years purchase of super profit.

3. Capitalization method:

$$\text{Capitalised value of the business} = \frac{\text{Profit Earned}}{\text{Normal rate of Return}} \times 100$$

From this capitalized value the amount of the net assets or capital employed (i.e. fixed assets + current asset - Current liabilities) are subtracted the balance is the value of the goodwill.

4. Annuity method: In the annuity method the effect of interest on the extra profit to be earned due to goodwill in the future years, is considered.
Goodwill = Super Profit x Cumulative Present value annuity factor

If in any of the above methods the figure of profit earned includes the effect of abnormal/ extra-ordinary/ non-re-occurring profits/losses the same should be eliminated. In fact the profit should be future maintainable profit which can be earned in normal course of business. The past average normal profit is taken as equal to future maintainable profit.
The concept of present value is not covered in any of the chapters of your syllabus hence it is not being elaborated here. It is a very important & common concept of financial management which is covered in Intermediate syllabus.

3. Alternative Treatment of Goodwill Accounting:

Following are the different ways in which goodwill may be accounted in case of Admission.

1st Alternative goodwill settled by the Partners privately. (method 1)

2nd Alternative the new partner bring in his share in goodwill in the form of cash. (method 2)

3rd Alternative (a) Total goodwill of the firm is raised & then written off. (method 3) or
(b) Goodwill a/c is not to be raised / direct adjustment to be made in capital a/c. (method 3)
Net effect of (a) and (b) will be same.

4th Alternative goodwill to be adjusted without bringing cash. Total goodwill of the firm is to be raised. (method 4)

Notes:

(1) All the above alternatives can be applicable in case of retirement/ death or change in profit sharing ratio also.

(2) Detailed accounting entries for all this alternatives is explained in illustration below.

(3) Alternatives 4 is not in compliance with AS-26 which permits raising of goodwill a/c. only when it is purchased. Hence, student should follow it only when specifically required by the question.

4. Special Points Related to goodwill

a) Inference of Goodwill: 'Inference of Goodwill' is calculation of goodwill when apparently it is not given in the question. This is done only when Capitals are said to be in Profit Sharing ratio and the New Partner brings in cash more than the proportionate Capital. Then the extra amount contributed is inferred as his contribution towards goodwill.

b) Calculation of partners share from firms goodwill and vice-a-versa:

(1) Calculation of partners share from total goodwill of the firm:

- Total goodwill is Rs.1,00,000.
- There are three partners A, B, & C Sharing profit/losses in the ratio of 2:3:5.
- Then Share in goodwill of each partner will be calculated as follows.
- A's Share = 1,00,000 × 2/10 = 20,000, B= 1,00,000 × 3/10 = 30,000, C = 1,00,000 × 5/10 = 50,000

(2) Calculation of total goodwill from a partners share:

- Mr. A is admitted as partner with 1/5 share and has brought Rs. 10,000 towards his share in goodwill.
- Total goodwill of the firm = 10,000 × 5/1 = Rs. 50,000

c) Withdrawal of Goodwill by Partners:

Sometimes it will be given in the question that old partners withdraws full or part of the goodwill. It simply means that they are withdrawing Cash equal to either full or part of their share in goodwill. In such cases also the above accounting of goodwill will remain same and one additional entry for drawings will come as follows:

Partners a/c. Dr. xxx

To Cash/Bank a/c. xxx

Thus withdrawal of goodwill has no effect on the goodwill a/c. It is so because goodwill is not a tangible asset which someone can withdraw, in reality partners have withdrawn money equal to share in goodwill.

d) Goodwill in books which is worthless:

Suppose goodwill appearing in the balance sheet is stated to be worthless then it will be written off by debiting to old partners in old ratio because it is an old loss.

e) Goodwill of Incoming partner:

If incoming partner has experience and name in that field then he can also have goodwill. He will get credit for his goodwill like partners of existing firm get credit for their goodwill. The debit of it can be kept in goodwill a/c. (i.e. goodwill is raised or it can be written off to new partners in new ratio).

Limited Liability Partnership (LLP)

1. Definition of LLP

Section 2 of the Limited Liability Partnership (LLPs) Act, 2008 defines limited liability partnership" as a partnership formed and registered under this Act; and "limited liability partnership agreement" means any written agreement between the partners of the limited liability partnership or between the limited liability partnership and its partners which determines the mutual rights and duties of the partners and their rights and duties in relation to that limited liability partnership.

2. Non-applicability of the Indian Partnership Act, 1932

Save as otherwise provided, the provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership.

3. Minimum number of partners in case of LLP

As per the LLP Act, any individual or body corporate may be a partner in a limited liability partnership; provided that an individual shall not be capable of becoming a partner of a limited liability partnership, if-

(a) he has been found to be of unsound mind by a Court of competent jurisdiction and the finding is in force;

(b) he is an undischarged insolvent; or

(c) he has applied to be adjudicated as an insolvent and his application is pending. Every limited liability partnership shall have at least two partners.

If at any time the number of partners of a limited liability partnership is reduced below two and the limited liability partnership carries on business for more than six months while the number is so reduced, the person, who is the only partner of the limited liability partnership during the time that it so carries on business after those six months and has the knowledge of the fact that it is carrying on business with him alone, shall be liable personally for the obligations of the limited liability partnership incurred during that period.

4. Distinction between an Ordinary Partnership Firm and an LLP

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 50	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

CLASS QUESTIONS

GENERAL POINTS RELATED TO PARTNERSHIP ACCOUNTS

C.1. **[Nov. 2009]** On 1st April, 2008, X, Y and Z enter into partnership introducing capital of ₹ 80,000, ₹ 50,000 and ₹. 50,000 respectively. They agree to share Profits and Losses equally. At the end of the accounting year on 31st March, 2009, X claims that he be paid interest on his additional Capital of ₹ 30,000 @ 10% per annum, while Z demands salary of ₹ 600 per month for the extra hours devoted by him daily at the shop. The partnership deed is silent on these matters. Decide the matters with reasons.

C.2. **[ICAI]** A and B start business on 1st January, 2019, with capitals of ₹ 30,000 and ₹ 20,000. According to the Partnership Deed, B is entitled to a salary of ₹ 500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2019 the firm earned a profit, before charging salary to B and interest on capital amounting to ₹ 25,000. During the year A withdrew ₹ 8,000 and B withdrew ₹ 10,000 for domestic purposes. Give journal entries relating to division of profit.

C.3. **[ICAI]** Ram, Rahim and Karim are partners in a firm. They have no agreement in respect of profit-sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits they have put forward the following claims:

a) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio. But Rahim and Karim do not agree.

b) Rahim has devoted full time for running the business and demands salary at the rate of₹ 500 p.m. But Ram and Karim do not agree.

c) Karim demands interest on loan of ₹ 2,000 advanced by him at the market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to ₹ 45,000 at the end of the first year of their business.

C.4. Black and White are partners started business with capital ₹ 30,000 and ₹ 20,000. Profits for the year ended 31st March, 2016 amounts to ₹ 27,100. It is agreed that 5% interest on capital as such shall be allowable. There is no agreement regarding sharing of profits or partnership salary.
Black is a whole time partner whereas white does not attend business regularly. Black claims ₹. 600 salary p.m. and 60% of balance profit. White advanced ₹ 10,000 loan and he now claims 10% interest. Show distribution of profit by a statement.

C.5. Prepare capital account under fluctuating capital system taking figures of Question 2.

C.6. Prepare capital & current account under fixed capital system taking figures of Question 2.

PROFIT SHARING

C.7. **[RTP May 2018]** 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 ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2017 before providing for interest on partners' capital was ₹ 1,59,000.You are required to prepare the Profit and Loss Appropriation Account.

C.8. A, B and C enter into partnership and agree to share profits and losses as under

A - $\frac{1}{2}$th of the profits/losses

B - 1/4th of the profits/losses

C - 1/8th of the profits/losses

Comment on the profits/loss sharing ratio agreed to by the partners

C.9. The Chartered Accountants X, Y and Z form a partnership, profits being divisible in the ratio of 3:2:1 subject to the following:

i. Z's share of profit is guaranteed to be not less than ₹15,000 p.a.

ii. Y gives guarantee to the effect that gross fees earned by him for the firm shall be equal to his average gross fee of the preceding five years when he was carrying on profession alone (which average works out at ₹ 25,000/-).

The profit for the first year of the Partnership is ₹ 75,000/-. The gross fees earned by Y for the firm are ₹ 16,000/-. You are required to show the distribution of profits.

C.10. A and B were in partnership sharing profits and losses in the ratio of 3:2. In appreciation of the services of their clerk C. Who was in receipt of a salary of ₹ 2,400 p.a. and a commission of 5% on the net profit after charging such salary and commission. They took him into partnership as from 1st April, 2015, giving him one-eight share of profits.

The agreement provided that any excess over his former remuneration to which, C becomes entitled will be born by A and B in the ratio of 2:3

The profit for the year ended 31st March, 2016, amounted to ₹ 44,400. Prepare statement showing the distribution of the profit amongst all the partners.

C.11. X,Y & Z start business in partnership, X put in ₹ 20,000 for the whole year, Y Puts ₹ 30,000 at first and increases it to ₹ 40,000 at the end of four months but withdraws ₹ 20,000 at the end of six months, while Z puts ₹ 40,000 at first but withdraws ₹ 10,000 at the end of nine-months. At the end of the year how should they divide a profit of ₹ 79,000 on the basis of effective capital employed by each partner?

C.12. Partners A & B are sharing in the ratio of 3:2 (i.e. 3/5 & 2/5). They admit C. Calculate new ratio in the following alternative cases.

a) 'C' is admitted with 1/6th share.
b) 'C' is admitted with 1/6th share & 'A' & 'B' decided to share equally in future.
c) 'C' is admitted with 1/6th share, which he purchased from B.
d) 'C' is admitted with 1/6th share which he bought from A & B in 2:3 ratio.
e) 'C' is admitted. He purchased 1/3rd of A's share & 2/3rd of B's share.

TREATMENT OF GOODWILL IN PARTNERSHIP ACCOUNTS

C.13. **[ICAI]** Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s. Lee and Lawson earned profits during 2016-2019 as follows:

Year	Profits ₹
2016	1,20,000
2017	1,25,000
2018	1,30,000
2019	1,50,000

On 31.12.2019 capital employed by M/s. Lee and Lawson was ₹ 5,00,000. Rate of normal profit is 20%.

Required: Find out the value of goodwill following various methods

C.14. M/s AB & Co. Wants to value the goodwill as 4 years purchase of the super profit. Their capital employed is ₹ 1,00,000/- The normal rate of return by the similar concerns is 15% p.a. Average profit of the firm is ₹ 20,000. (Future maintainable profit). Calculate Goodwill by

a) Super profit Method
b) Capitalization Method.
c) Annuity Method (The present value of annuity of Rs.1 for 4 years @10% is 3.169)

C.15. **[RTP May 2018 & Nov. 2019]** J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

a) By Capitalization Method; and

b) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

C.16. **[RTP May 2019 & May 2021]** The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

C.17. [ICAI] The following particulars are available in respect of the business carried on by Rathore

			₹
(1)	Capital Invested		1,50,000
(2)	Trading Results:		
	2016	Profit	40,000
	2017	Profit	36,000
	2018	Loss	6,000
	2019	Profit	50,000
(3)	Market Rate of interest on investment	10%	
(4)	Rate of risk return on capital invested in business	2%	
(5)	Remuneration from alternative employment of the proprietor (if not engaged in business).	₹ 6,000 per annum	

You are required to compute the value of goodwill on the basis of 5years' purchase of super profit of the business calculated on the average profits of the last four years

C.18. [RTP 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 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
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 ₹ 2,00,000 in 2019 and the partners withdrew ₹ 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.

C.19. [Alternative Treatment of Goodwill] X and Y are in partnership sharing profits and losses as 3:2. They admit Z into the firm, Z paying a premium (share in goodwill) of ₹ 36,000 for 1/6th share of the profits. As between themselves, X and Y agree to share future profits and losses equally. Draft journal entry showing the appropriation of premium (goodwill) money.

C.20. [Withdrawal of Goodwill by Partners] Hari and Ram were in partnership, sharing profits and losses in 4:2 ratio. On 1st January, 2016, 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 & Ram equally, paying ₹ 40,000 for share in goodwill. Hari & Ram withdraws 50% of their share in goodwill. Journalise the entries related to goodwill on Suraj's admission.

C.21. [Goodwill in books which is worthless] Hari and Ram were in partnership, sharing profits and losses in 4:2 ratio. On 1st January, 2016, 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 & Ram equally. The Goodwill appears in the books at ₹ 30,000/- but the present valuation is agreed as nil. Journalise the entries related to goodwill on Suraj's admission.

C.22. [Goodwill of Incoming partner] X and Y are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Z as a partner for 1/4th share. Z acquires his share from X and Y in the ratio of 2:1. Z brings in his personal goodwill worth ₹ 6,000 in the firm. Pass the necessary journal entries under each of the following alternative cases: Case (a) When adjustments is to be made through Goodwill Account and Goodwill Account is to be written off immediately. Case (b) When adjustment is to be made through capital Accounts.

JOINT LIFE POLICY

C.23. [ICAI] Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2016 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900; 2018 ₹ 2,000; 2019 ₹ 3,600. Black retires on 15th April, 2020.
Required Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

C.24. [ICAI] Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2016 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900: 2018 ₹ 2,000; 2019 ₹ 3,600.Black retires on 15th April, 2020.
Required: Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

ADMISSION OF A NEW PARTNER

C.25. A, B and C are partners, sharing profit and loss in the ratio of 3:2:1. They decide to admit D for $\frac{1}{4}$ share on 1.1.2016. For this purpose goodwill is valued at 4 years purchase of annual super profits. Profit of previous three years were as under:

2013 – ₹ 68,000; 2014 – ₹ 75,000; 2015 – ₹ 73,000.

Capital Employed on 1.1.2016 is ₹ 3,00,000.

Normal rate of return is 20%. New profit sharing ratio is 5:3:1:3.

a) Calculate value of goodwill as per super profit method.
b) Find out D's share in goodwill.
c) Calculate ratio of sacrifice by A, B and C.
d) Pass necessary journal entries, when D brings amount of goodwill in cash.
e) Pass necessary journal entries, when goodwill is raised and written off in the books.

C.26. **[ICAI]** Messrs Dalal, Banerji and Malick is a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as on 31st March, 2016, is shown as below:

Liabilities		₹	Assets	₹
Sundry Creditors		12,850	Land and Building	25,000
Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Stock of Goods	11,750
Capital Account:			Sundry Debtors	5,500
Mr. Dalal	12,000		Cash-in-hand	140
Mr. Banerji	12,000		Cash-at-bank	960
Mr. Malick	5,000	29,000		
		49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2016 on the following terms:

(a) Mr. Mistri shall bring ₹ 5,000 towards his capital,
(b) The value of stock should be increased by ₹ 2,500.
(c) Provision for bad and doubtful debts should be provided at 10% of the debtors,
(d) Furniture should be depreciated by 10%.
(e) The value of land and buildings should be enhanced by 20%
(f) The value of the goodwill be fixed at ₹ 15,000.
(g) General Reserve will be transferred to the Partners' Capital Accounts.
(h) The new profit sharing ratio of Dalal, Banerji, Malick and Mistri shall be 5:5:3:2,
(i) The goodwill account shall be written back to the Partners' Accounts in accordance with the new profit sharing proportion.
(j) The Outstanding liabilities include Rs.1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, and (ii) The Balance Sheet of the firm as newly constituted.

C.27. Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms Balance Sheet as on 31-03-2016 was as follows:

Liabilities		₹	Assets	₹
Capital Accounts			Fixed Assets	3,00,000
Gopal	1,20,000		Investments	50,000
Govind	80,000	2,00,000	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 01-04-2016 on the following terms:

Guru will be paid 40% of the profits. 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 cash for his share of Goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

- For the year ended 31-03-2014 Profit ₹ 20,000 (includes insurance claim received of ₹ 40,000).
- For the year ended 31.03.2015 Loss ₹ 80,000 (includes voluntary retirement compensation paid ₹ 1,10,000).
- For the year ended 31.03.2016 Profit of ₹ 1,05,000 (includes a profit of Rs.25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2016 as follows:

Fixed Assets	4,00,000
Investments	Nil
Current Assets	1,80,000
Loans and Advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Show goodwill calculation and prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 01.04.2016 after the admission of Guru.

C.28. The Balance Sheet of A & B, a partnership firm, as at 31st March, 2016 is as follows:

Liabilities		₹	Assets	₹
Capital Account:			Goodwill	14,000
A	26,400		Land and Building	14,400
B	33,600	60,000	Furniture	2,200
Contingency Reserve		6,000	Stock	26,000

Sundry Creditors	9,000	Sundry Debtors	6,400
		Cash at Bank	12,000
	75,000		75,000

A & B share profits and losses as 1:2, They agree to admit C (who is also in business on his own) as a third partner from 1.4.2016.

The Assets are revalued as under:

Goodwill – ₹ 18,000, Land and Building ₹ 30,000, Furniture ₹ 6,000.

C brings the following assets into the partnership- Goodwill ₹ 6,000, Furniture ₹ 2,800, Stock ₹ 13,600.

Profits in the new firm are to be shared equally by the three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.

C.29. The following is the balance sheet of A and B who share profits and losses as 4/7 and 3/7:

Liabilities	₹	Assets	₹
Creditors	15,000	Land and Buildings	36,000
Bills payable	5,000	Machinery	20,000
Capital Accounts		Furniture	2,000
A :		Stock	25,000
45,000	80,000	Sundry Debtors	16,000
B :			
35,000			
		Cash	1,000
	1,00,000		1,00,000

They agree to take C into partnership and give him a share of 20 paise in the rupee subject to the following terms and conditions:

i. C is to contribute capital @ ₹. 12000 for each 10 paise share in the rupee.
ii. Land and Buildings are to be increased to ₹ 40000.
iii. Machinery is to be depreciated by 10% and Furniture by ₹ 500.
iv. Stock is to be appreciated by ₹ 1000.
v. Goodwill of the firm is to be valued at 2 years' purchase of average profits of the last three years. (Profits for the last three years were ₹ 14500, ₹ 20000 and ₹. 22500.)
vi. A provision of $2\frac{1}{2}$% is to be made for bad debts and another of ₹ 2500 for outstanding expenses.
vii. A trade creditor for ₹ 1600 is not traceable for a number of years and the amount is to be written back.

Show Journal entries and capital accounts of the partners assuming no goodwill account is to be opened and the book values of assets and liabilities are not to be disturbed. Also prepare the Balance Sheet of the new firm.

C.30. **[ICAI & RTP 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:

1. He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.
2. The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
3. '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.
4. Furniture is to be written down by ₹ 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 ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.
5. It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

a) Revaluation Account.

b) Partners' Capital Accounts.

c) Balance Sheet of New Partnership firm after admission of 'C'.

C.31. Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200

Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors. Furniture to be reduced to ₹40,000
6. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

RETIREMENT OF A PARTNER

C.32. On 31st March 2016, the Balance Sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capitals, stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Buildings	2,00,000
Ram 3,00,000		Machinery	2,00,000
Rahul 2,00,000		Closing Stock	1,00,000
Rohit 1,00,000	6,00,000	Sundry Debtors	2,00,000
Sundry Creditors	2,00,000	Cash and Bank Balances	1,00,000
	8,00,000		8,00,000

On 31st March, 2016, Ram 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:

1. Land and Buildings be appreciated by 30%.

2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹ 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of Sundry Creditors ₹ 10,000 be written back.
6. Joint Life Policy of the partners surrendered and cash obtained ₹ 60,000.
7. Goodwill of the entire firm be valued at ₹ 1,80,000 and Ram's share of the Goodwill be adjusted in the Accounts of Rahul and Rohit who share the future profits equally. No Goodwill account being raised.
8. Total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis: 50% on retirement & the balance 50% within 1 year.

Prepare Revaluation Account, Capital Account of Partners, Rahul & Rohit. Loan Account of Ram, Cash Account and Balance Sheet as on 1.4.16 of M/s Rahul and Rohit.

C.33. 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 31-3-2016 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Goodwill	40,000
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	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 31.3.2016, the terms of which were as follows:

a) The Profit and Loss Account for the year ended 31.3.2016, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 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, 2015.

b) Goodwill was to be valued at two year's purchase of the average profits of five years. Profits for these five years ending on 31st March were as under:

	₹
31.3.2012	15,000
31.3.2013	23,000
31.3.2014	25,000
31.3.2015	35,000
31.3.2016	42,000

c) Fixtures are to be valued at ₹ 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 ₹ 3 lakhs 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.

C.34. [May 2018] 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 equipment		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 ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 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 ₹ 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.

C.35. **[RTP May 2018 & Nov. 2020]** 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:

1. Land and Building be appreciated by 20%.
2. Plant and Machinery be depreciated by 30%.
3. Stock of goods to be valued at ₹ 10,000.
4. Old credit balances of Sundry creditors, ₹2,000 to be written back.
5. Provisions for bad debts should be provided at 5%.
6. Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
7. Goodwill of the entire firm is valued at ₹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.
8. The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
9. 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.

RETIREMENT CUM ADMISSION

C.36. **[ICAI]** Aarav, Nirav and Purav are partners sharing profits and losses in the ratio of 3:2:1 Their Balance Sheet as on 31st March 2020 was as follows:

BALANCE SHEET AS ON 31st March 2020

Liabilities	₹	Assets	₹
Capital : Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Cash in hand	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2020 on the following terms:

1. Goodwill was to be valued at 2 years purchase of average profit of past
   3 years. 31st March 2018 Rs. 39,000
   31st March 2019 Rs. 50,000
   31st March 2020 Rs. 55,000
2. Goodwill was not to be raised in the books of accounts.
3. RDD was to be created on debtors at 5%.
4. Machinery is to be depreciated by 10% and stock is revalued at Rs. 71,000.
5. Building to be appreciated by 20%.
6. Aarav and Nirav to bring in additional capital of Rs. 35,000 and Rs.25,000 respectively.
7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after retirement.

C.37. **[ICAI]** Satyam Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March 2020 their Balance Sheet was as under :

Liabilities		₹	Assets	₹
Capitals :				
Satyam	1,95,000		Building	2,50,000
Shivam	1,48,000		Plant	1,60,000
Sundaram	1,12,000	4,55,000	Investments	85,000

General Reserve	80,000	Stock	45,280
Loan from Satyam	94,000	Trade Receivable	68,000
Sundry Creditors	75,000	Bank	95,720
	7,04,000		7,04,000

On 1st April 2020 Shivam retired on the following terms:

1. Goodwill is to be valued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %
3. Investments are to be taken over by the Satyam in full settlement of his loan
4. Provision of 5% is to be made on Trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam And Sunderam in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

C.38. **[ICAI & Similar in RTP – Nov. 2018]** Dowell & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The Balance Sheet of the firm as at 31st March, 2016 is as under:

Liabilities	₹	Assets	₹
Capital:		Land	10,000
Mr. A 80,000		Buildings	2,00,000
Mr. B 20,000		Plant and Machinery	1,30,000
Mr. C 30,000	1,30,000	Furniture	43,000
Reserves (Un-appropriated Profit)	20,000	Investments	12,000
Long Term Debt	3,00,000	Stock	1,30,000
Bank Overdraft	44,000	Debtors	1,39,000
Trade Creditors	1,70,000		
	6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2016. For this purpose, the following adjustments are to be made:

i. 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.

ii. Buildings and Plant & Machinery are to be depreciated by 5 percent and 20 percent respectively. Investments are to be taken over by the retiring partner at ₹ .15,000. Provision of 20 percent is to be made on debtors to cover doubtful debts.

iii. In the reconstituted firm, the total capital will be Rs.2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.

iv. The surplus funds, if any, will be used for repaying the Bank Overdraft.

v. The amount due to the retiring partner shall be transferred to his loan account.

You are to prepare:

(a) Revaluation A/c; (b) Partner's Capital Accounts;

(c) Bank Account; and (d) Balance Sheet of the reconstituted firm as on 1st April, 2016.

C.39. X, Y and Z are partners sharing profits and losses in the proportion of 3:2:2 respectively. The Balance Sheet of the firm as on 1-1-2016 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant and Machinery	36,000
		Furniture	14,000
X 50,000		Stock	56,000
Y 40,000		Sundry Debtors	48,000
Z 35,000	1,25,000	Cash-at-Bank	9,000
Bank overdraft	10,000		
Sundry Creditors	28,000		
	1,63,000		1,63,000

X retired on 1-1-2016, on which date R is admitted as a new partner. For the purpose of adjusting the rights as between old partners, goodwill to be valued at ₹ 42,000 and Sundry Debtors and stock to be reduced by Rs.8,000 and to ₹ 50,000 respectively. X is to receive ₹ 22,000 in cash on the date of retirement and the balance due to him is to remain as loan at 8% p.a. Repayment of loan to be made at the end of each year by annual installments representing 25% of the future profit before charging interest on loan.

R is to bring in ₹ 50,000 in cash as his capital on the date of admission. The new partners are to share profits and losses equally after paying the interest on X's loan.

The net profit for the year ended 31st Dec.2016, is ₹ 32,000 before taking into account the installment payable to X.

You are required to show :

a) Profit and Loss Appropriation Account for the year ended 31st Dec. 2016.
b) Capital Accounts of the new partners; and
c) X's Loan Account as on 31st Dec., 2016.

C.40. [Nov. 2020] M/s. TB 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 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	₹	Assets	₹
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		10,77,000

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 July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

DEATH OF A PARTNER

C.41. [RTP 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		₹	Assets		₹
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 ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 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.

C.42. [RTP May 2020] 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:

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		Cash in hand	2,800
Ramesh	15,000		Cash at Bank	2,200
Naresh	10,000	40,000		
		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 ₹ 8,000 towards his capital.

(ii) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 5% of the trade receivables.

(iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

(vi) The outstanding liabilities include ₹ 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

C.43. **[May 2019]** 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

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	(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:

1. Land and Building be valued at ₹ 1,75,000
2. Debtors were all good, no provision is required
3. Stock is valued at ₹ 13,500
4. 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.
5. 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.
6. 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

C.44. **[Nov. 2019]** Arup and Swarup were partners. The partnership deed provides inter alia:

(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: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 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.

C.45. **[ICAI]** The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of $\frac{1}{2}$, $\frac{1}{4}$ and $\frac{1}{4}$ and whose fixed capitals are ₹ 10,000; ₹ 6,000 and ₹ 4,000 respectively) provides as follows:

(a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.

(b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.

(c) That an insurance policy of ₹ 10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.

(d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.

(e) That the share of the partnership policy and goodwill be credited to the deceased partner as on 31st December following his death

A died on 30th September 2019, the amount standing to the credit of his current account on 31st December, 2018 was ₹ 450 and from that date to the date of death he had withdrawn ₹ 3,000 from the business.

An unrecorded liability of ₹ 2,000 was discovered on 30th September, 2019. It was decided to record it and be immediately paid off.

The trading result of the firm (before charging interest on capital) had been as follows: 2016 Profit ₹ 9,640; 2017 Profit ₹ 6,720; 2018 Loss ₹ 640; 2019 Profit ₹ 3,670.

Assuming the surrender value of the policy to be 20 percent of the sum assured.

Required: Prepare an account showing the amount due to A's legal representative as on 31st Decembe2019.

C.46. **[ICAI]** Peter, Paul and Prince were partners sharing profits and losses in the ratio 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:

(i) The balance in the capital Account

(ii) 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 to 31st December preceding the retirement or death

(iii) 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 year as increased by 25%

(iv) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(v) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2019. The books of Account are closed on calendar year basis from1st January to 31st December

The balance in the Fixed Capital Accounts as on 1st January, 2019 were Peter ₹ 10,000, Paul ₹ 5,000 and Prince ₹ 5,000. The balance in the Current Account as on 1st January, 2019 were Peter ₹ 20,000, Paul ₹ 10,000 and Prince ₹ 7,000. Drawings of Peter till 30th September, 2019 were ₹ 10,000. The profits of the firm before charging interest on capital for the calendar years 2016, 2017 and 2018 were ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,50,000 respectively. The profits include the following abnormal items of credit:-

	2016 ₹	2017 ₹	2018 ₹

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 ₹ 1,00,000. Besides the partners had severally insured their lives for ₹ 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, 2019 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹ 6,000 in the year 2018 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹ 20,000. Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2019 along with necessary workings

C.47. **[Jan. 2021]** The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(i) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(ii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iii) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(iv) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(v) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Loss ₹ 8,320

2020 Profit ₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years.

IF DECEASED OR RETIRED PARTNER'S DUES ARE NOT SETTLED IMMEDIATELY

C.48. **[Claim as per section 37 - May 2012]** X, Y and Z are partners sharing profits and losses equally. On 1st December, 2011 Z retired from the partnership firm. The capitals of the partners, after all necessary adjustments stood at ₹ 45,000, ₹ 75,000 and ₹ 50,000 respectively. X and Y continued to carry on the business without settling the accounts of Z. Final payment to Z made on 1st March, 2012. The partnership firm made profit amounting to ₹ 30,000 during the period from 1st December, 2011 to 29th February, 2012. What are the rights of Z to share subsequent profit as per the provisions of section 37 of the Indian Partnership Act.

PRACTICE QUESTIONS

GENERAL POINTS RELATED TO PARTNERSHIP ACCOUNTS

P.1. **[ICAI]** A and B start business on 1st January, 2019, with capitals of ₹ 30,000 and ₹ 20,000. According to the Partnership Deed, B is entitled to a salary of ₹ 500 per month and interest is to be allowed on opening capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2019 the firm earned a profit, before charging salary to B and interest on capital amounting to ₹ 25,000. During the year A withdrew ₹ 8,000 and B withdrew ₹ 10,000 for domestic purposes.Prepare Profit and Loss Appropriation Account.

P.2. A and B start business on 1st January, 2019, with capitals of ₹ 30,000 and ₹ 20,000. According to the Partnership Deed, B is entitled to a salary of ₹ 500 per month and interest is to be allowed on opening capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2019, the firm earned a profit, before charging salary to B and interest on capital amounting to ₹ 25,000. During the year A withdrew ₹ 8,000 and B withdrew ₹ 10,000 for domestic purposes.Prepare Capital Accounts of Partners A and B.

P.3. **[ICAI]** Ram and Rahim start business with capital of ₹ 50,000 and ₹ 30,000 on 1st January, 2019. Rahim is entitled to a salary of ₹ 400 per month. Interest is allowed on capitals and is charged on drawings at 6% per annum. Profits are to be distributed equally after the above noted adjustments. During the year, Ram withdrew ₹ 8,000 and Rahim withdrew ₹ 10,000. The profit for the year before allowing for the terms of the Partnership Deed came to ₹ 30,000. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

P.4. **[ICAI]** With the help of same information given in above queswtion, let us prepare the Capital and Current Accounts of Ram and Rahim.

P.5. **[ICAI]** A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹ 250,00,000. Total profits of the firm for the year ended 31st March, 2020 were ₹ 900,00,000. Calculate share of profits for each partner when:

- Guarantee is given by firm.
- Guarantee is given by A
- Guarantee is given by A and B equally.

P.6. **[ICAI]** Aarti, Bharati and Criti were in partnership sharing profits and losses in the ratio 3 : 4 : 3 their capitals as on 1st April 2019 were ₹ 3,00,000, 5,00,000 and 2,00,000 respectively. According to partnership deed, Criti is entitled to salary of ₹ 15,000 p.m., interest on opening capital is to be allowed @ 12% p.a. Aarti was entitled to rent @ ₹ 5,000/- p.a. for premises belonging to her, used for the partnership business. No interest to be charged on drawings. Rent paid to Aarti and salary paid to Criti were debited to drawings account of respective partners. Bharti had withdrawn ₹ 10,000 per month from the business .The profit of the firm for the year ended 31st March 2020, before charging interest in capital amounted to ₹ 4,60,000. You are required to prepare Profit and Loss appropriation Account and partners' capital Accounts

P.7. **[ICAI]** Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2019, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

a. Before becoming a partner, Ratan was getting a salary of ₹ 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

b. It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2019 is ₹ 1,10,000. Show the distribution of net profit amongst the partners

P.8. **[May 2010]** In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters:

a. Profit sharing ratio;

b. Interest rate at which interest is to be allowed to a partner on loan given to the firm by a partner.

CALCULATION OF RATIOS

P.9. **[May 2007]** A and B are equal partners. They admit C and D as partners with 1/5 and 1/6 share respectively. What is the profit sharing ratio of all the partners?

P.10. **[June 2009]** A and M are partners, sharing profit and losses in the ratio of 3:2. G is admitted for 1/4lh share. Thereafter, N enters the partnership for 20 Paisa in a Rupee. Compute new profit sharing ratio.

P.11. **[Nov. 2010]** Following problem is regarding issue in Partnership Account, kindly solve:
Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for 1/4th share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.

P.12. **[Nov. 2007]** A, B and C are partners sharing Profits and Losses in the ratio of 3:2:1. B retired from the firm. , Partners A and C decided to take his share in 3:1 ratio. What is the new ratio of the partners A and C ?

P.13. **[Nov. 2008]** P, Q and R share Profit and Losses in the ratio of 4:3:2 respectively. Q retires and P and R decide to share future Profits and Losses in the ratio of 5:3. Then immediately H is admitted of 3/10 shares of profits half of which was gifted by P and the remaining share was taken by H equally from P and R. Calculate the new Profit sharing ratio after H's admission and gaining ratio of P and R after Q's retirement.

P.14. **[Nov. 2011]** A and B are in partnership sharing profits and losses in the ratio of 3 : 2. The capitals of A and B are Rs.80,000 and Rs. 60,000 respectively. They admit C as a partner who contributes Rs. 35,000 as capital for 1/5th share of profits to be acquired equally from both A & B. The capital accounts of old partners are to be adjusted on the basis of the proportion of C's capital to his share in the business. Calculate the amount of actual cash to be paid off or brought in by the old partners for the purpose and pass the necessary Journal Entries.

ACCOUNTING & VALUATION OF GOODWILL

P.15. **[May 2011]** Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31st March, 2011, the balances of their capital accounts were Rs. 3,00,000 and Rs. 2,00,000 respectively. The average profits of the firm are Rs. 1,36,000 and the rate of normal profit is 20%.

On 1st April, 2011 they agreed to admit Hari as a partner for one fourth share. Hari will bring Rs. 1,00,000 as capital.

You are required to compute the value of the Goodwill of the firm on admission of Hari, if goodwill is to be calculated on the basis of:

(1) 5 years purchase of super profit

(2) Capitalisation method

(3) 3 years purchase of average profit

P.16. **[Nov. 2009]** P, N and T are equal partners. The decided to change their profit sharing ratio into 5:4:3.They'raised the goodwill in the books to the extent of Rs. 2,40,000 and it is to be written off immediately. Show Journal entries with narration to be passed for raising the goodwill and for its subsequent write off.

P.17. **[Nov. 2010]** Following problem is regarding issue in Partnership Account, kindly solve:

The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Goodwill A/c

		Rs.			Rs.
1-4-2010	To R's Capital A/c	24,800	1-4-2010	By R's Capital A/c	12,400
1-4-2010	To S's Capital A/c	18,600	1-4-2010	By S's Capital A/c	12,400
			1-4-2010	By H's Capital A/c	18,600
		43,400			43,400

P.18. **[May 2011)** X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. On 31st March, 2011 Y retires and X and Z decide to share profits and losses in the ratio of 5 : 3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at Rs. 2,16,000. W brings required amount of goodwill. Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.

ADMISSION OF PARTNER

P.19. **[ICAI]** The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2020:

Liabilities	₹	Assets	₹
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		60,000

On this date Shyam was admitted on the following:

1. He is to pay ₹ 25,000 as his capital and ₹ 10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.
3. The assets are to be revalued as under:

	₹
Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for ₹ 1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

P.20. **[ICAI]** Leena and Meena were in partnership business sharing profits and losses in the ratio of 2:3 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	60,000
Leena	60,000	Building	60,000
Meena	1,40,000	Plant	45,000
General Reserve	40,000	Furniture	23,500
Creditors	42,600	Debtors	38,400
Bills Payable	17,400	Bills Receivable	12,500
		Stock	42,600
		Bank	18,000
	3,00,000		3,00,000

On 1st April, 2020, they decided to admit Neena into the partnership giving her a 1/5th share in future profits. She brings in ₹ 80,000 as his share of capital. The partners decided to revalue the Assets as follows :

Goodwill ₹ 1,00,000 Plant ₹ 40,000, Debtors ₹ 38,000, Stock ₹ 42,000, Building ₹ 90,000, Furniture ₹ 20,000, Bills Receivable ₹ 12,000.

Goodwill was appearing in the Balance Sheet on 31st March, 2020 as it was purchased. The partners also decided not to show goodwill in the books of the new firm.

You are required to show the following accounts in the books of the firm

(a) Profit & Loss Adjustment Account

(b) Partners' Capital Accounts

(c) The Balance Sheet of the new firm.

P.21. **[ICAI]** Alpha and Beeta were partners in a firm namely Meta-Chem sharing profits and losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2020

Liabilities		₹	Assets	₹
Capital :			Factory Building	4,78,000
Alpha	3,00,000		Plant & Machinery	3,41,000
Beeta	2,00,000	5,00,000	Office Furniture	55,850
General Reserve		1,80,000	Inventory	77,740
Workmen compensation fund		60,000	Trade Receivables	1,43,210

Term loan from IDFC bank	2,78,000	Bank	44,200
Trade payables	1,22,000		
	11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2020 on the following terms:

1. He shall have one-sixth share in future profits.
2. He shall bring Rs.2,50,000 as his capital.
3. Goodwill of the firm is valued at Rs. 3,00,000
4. Factory Building is to be appreciated by 20% and inventory is revalued at Rs. 70,000.
5. Machinery to be appreciated by 20%.and Office furniture to be revalued at Rs.50,000
6. Of the trade receivables Rs. 3,210 are bad and 5% be provided for bad & doubtful debts.
7. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

P.22. **[ICAI]** Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms Balance Sheet as on 31-03-2006 was as follows:

Liabilities	Rs.	Assets-	Rs.
Capital Account:		Fixed Assets	3,00,000
Gopal 1,20,000		Investments	50,000
Govind 80,000	2,00,000	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 01-04-2006 on the following terms:

Guru will be paid 40% of the profits. 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 cash for his share of Goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

- For the year ended 31-03-2004 Profit Rs.20,000 (includes insurance claim received of Rs.40,000).
- For the year ended 31.03.2005 Loss Rs.80,000 (includes voluntary retirement compensation paid Rs.1,10,000).
- For the year ended 31.03.2006 Profit of Rs.1,05,000 (includes a profit of Rs.25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2006 as follows:

Fixed Assets	4,00,000
Investments	Nil
Current Assets	1,80,000
Loans and Advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass Journal Entries on admission, show goodwill calculation and prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 01.04.2006 after the admission of Guru.

P.23. [Nov. 2001] The Balance Sheet of A & B, a partnership firm, as at 31st March, 2006 is as follows:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Goodwill	14,000
A 26,400		Land and Building	14,400
B 33,600	60,000	Furniture	2,200
Contingency Reserve	6,000	Stock	26,000
Sundry Creditors	9,000	Sundry Debtors	6,400
		Cash at Bank	12,000
	75,000		75,000

A & B share profits and losses as 1:2, They agree to admit C (who is also in business on his own) as a third partner from 1.4.2006.

The Assets are revalued as under:

Goodwill – Rs. 18,000, Land and Building Rs. 30,000, Furniture Rs. 6,000.

C brings the following assets into the partnership- Goodwill Rs. 6,000, Furniture Rs. 2,800, Stock Rs. 13,600.

Profits in the new firm are to be shared equally by the three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.

P.24. [May 2011] Amit and Sumit are partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities	Amount	Assets	Rs.
Capital Accounts:		Land & Building	3,20,000
Amit	1,76,000	Investments	
Sumit	2,54,000	(Market value Rs. 55,000)	50,000
Loan from Puneet	3,00,000	Debtors 3,00,000	
General Reserve	30,000	Less: Provision for	
Employer's Provident Fund	10,000	doubtful debts 10,000	2,90,000
Creditors	50,000	Stock	1,10,000
		Cash at Bank	50,000
Total	8,20,000	Total	8,20,000

They decided to admit Puneet as a new partner from 1st April, 2011 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) Punnet'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.

You are required to prepare:

a) Revaluation A/c

b) Partner's Capital A/c

c) Balance Sheet of the firm after admission of new partner.

P.25. **[Nov. 2007]** The following was the Balance Sheet of 'A' and 'B', who were sharing profits and losses 'the ratio of 2:1 on 31.12.2006:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant and machinery	12,00,000
A	10,00,000	Building	9,00,000
B	5,00,000	Sundry debtors	3,00,000
Reserve funds	9,00,000	Stock	4,00,000
Sundry creditors	4,00,000	Cash	1,00,000
Bills payable	1,00,000		
	29,00,000		29,00,000

They agreed to admit 'C' into the partnership on the following terms:

a) The goodwill of the firm was fixed at Rs. 1,05,000.
b) That the value of stock and plant and machinery were to be reduced by 10%.
c) That a provision of 5% was to be created for doubtful debts.
d) That the building account was to be appreciated by 20%.
e) There was an unrecorded liability of Rs. 10,000.
f) Investments worth Rs. 20,000 (Not mentioned in the Balance Sheet) were taken into account.
g) That the value of reserve fund, the values of liabilities and the values of assets other than cash are not to be altered.
h) 'C' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

P.26. **[May 2014]** The Balance Sheet of Amit, Bhushan and Charan, who share Profits and Losses as 3:2:1, as on 01.04.2013 is as follows

Liabilities		Rs.	Assets		Rs.
Capital Accounts:	Amit	1,80,000	Machinery		1,50,000
	Bhushan	1,60,000	Furniture		1,50,000
	Charan	1,40,000	Debtors	80,000	
Current Accounts :	Bhushan	16,000	Less: Provision	4,000	76,000
Creditors		1,20,000	Stock		2,10,000
			Cash		20,000
			Current Accounts:		
			Charan		10,000
Total		6,16,000	Total		6,16,000

Dev is admitted as a Partner on the above date for 1/5th Share in the Profit and Loss. Following are agreed upon:

1. The Profit and Loss sharing ratio among the Old Partners will be equal.
2. Dev brings in Rs. 1,50,000 as Capital, but is unable to bring the required amount of premium for Goodwill.
3. The Goodwill of the Firm is valued at Rs. 60,000.
4. Assets and liabilities are to be valued as follows: Machinery Rs. 2,06,000: Furniture Rs. 1,28,000: Provision for Doubtful Debts @ 10% on Debtors.
5. Necessary adjustments regarding Goodwill and Profit / Loss on Revaluation are to made through the Partner’s Current Accounts.
6. It is decided that the revalued figures of Assets and Liabilities will not appear in the Balance Sheet of the New Firm.

7. Capital Accounts of the Old Partners in the New Firm should be proportionate to the new profit and loss sharing Ratio, taking Dev's Capital as base. The Existing Partners will not bring cash for further capital. The necessary adjustments are to be made through the Partner's Current Accounts.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the New Firm after admission.

P.27. **[Nov. 2018]** 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:

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		Cash in hand	2,800
Ramesh 15,000		Cash at Bank	2,200
Naresh 10,000	40,000		
	72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

a) Suresh shall bring ₹ 8,000 towards his capital.

b) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

c) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

d) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.

e) The new profit sharing ratio shall be divided equally among the partners.

f) The outstanding liabilities include ₹ 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.

RETIREMENT OF PARTNER

P.28. **[ICAI]** A and B are partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2020 is given below:

Liabilities		₹	Assets	₹
Capital Accounts			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15,000
Reserve Account		15,000	Balance at Bank	6,000
Trade payables		7,500	Cash in hand	500
		57,500		57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:

a) The goodwill of the firm is valued at ₹ 25,000.

b) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.

c) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required:: Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2020. Give also the opening Balance Sheet of A.

P.29. **[ICAI]** A, B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2019 was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2020, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2014 for₹ 1,00,000 and its surrender value as on 31.12.2019 was ₹ 25,000. For the purpose of A's retirement goodwill was raised for ₹ 1,00,000. Sundry Fixed Assets was revalued for ₹ 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance ₹ 25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries.

P.30. **[ICAI]** F, G and K were partners sharing profits and losses at the 2:2: 1. K wants to retire on 31.12.2019. Given below is the Balance Sheet of the partnership as well as other information:

Liabilities	₹	Assets	₹
Capital A/cs			
F	1,20,000	Sundry Fixed Assets	1,50,000
G	80,000	Inventories	50,000
K	60,000	Trade receivables	70,000
Reserve	10,000	(Including Bills Receivable 20,000)	
Trade payables	50,000	Bank	50,000
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3: 2 in future. Value of Goodwill is taken to be ₹ 50,000. Sundry Fixed Assets are revalued upward by ₹ 30,000 and Inventories by ₹ 10,000. Bills Receivable dishonoured ₹ 5,000 on 31.12.2019 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain ₹ 75,000 bank balance for working capital.

Required:

Pass necessary journal entries and draft the Balance Sheet of M/s F & G. Also prepare capital accounts of partners and draft the Balance Sheet of Ms/ F & G after K's retirement.

P.31. **[ICAI]** A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2020 was as under:

Liabilities	₹	Assets	₹
Capital accounts:		Goodwill	40,000
A	1,35,930	Fixtures	8,200
B	95,120	Inventories	1,57,300
C	61,170	Trade receivables	93,500
Trade payables	41,690	Cash	34,910
	3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2020, the terms of which were as follows:

a) The profit and loss account for the year ended 31st March, 2020 which showed a net profit of ₹ 48,000 was to be re-opened. B was to be credited with ₹ 4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2019, as 3:4:4.

b) Goodwill was appearing in the Balance Sheet on 31st March, 2020 as it was purchased goodwill. It was decided by the partner to write off this goodwill. Presently goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

The valuations arising out of the above agreement were goodwill ₹ 56,800 and fixtures ₹ 10,980. B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to eliminate goodwill from the balance sheet, to retain the fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%

Required:

Submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

P.32. **[ICAI]** K, L & M are partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2020 and admit his son N in his place.

Liabilities	₹	₹	Assets	₹
Capital:				
K	40,000		Furniture	20,000
L	60,000		Trade receivables	50,000
M	30,000	1,30,000	Inventory in Trade	50,000
Reserve		50,000	Cash and Bank balances	80,000
Trade payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: furniture ₹ 10,000 and Inventory in trade ₹ 30,000. 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 was valued at Rs.50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.

You are required to give:

(i) Necessary journal entries; (ii) balance sheet of M/s K, M and N as on 1.4.2020; (iii) capital accounts of partners.

P.33. **[Nov. 2012]** Atul, Balbir and Chatur were carrying on a business in partnership sharing profits in the ratio of 5:3:2 respectively. On 31st March, 2012 their Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.	Rs.
Atul's Capital	6,25,000	Goodwill		80,000
Balbir's Capital	3,75,000	Land and Buildings		7,00,000
Chatur's 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 for Doubtful Debts	3,600	1,76,400
		Cash at Bank		1,52,600
Total	15,60,000			15,60,000

Atul retired on the above mentioned date and partners agreed that :

a) The current value of goodwill be taken to be equal to the book value of the asset.

b) Land and Buildings be considered worth Rs. 9,00,000.

c) The provision for bad debts on trade debtors be raised to 5%.

d) Provision be made for compensation of Rs. 5,000 to an ex-employee.

e) Half of the amount due to Atul be paid immediately in cash and the 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 Accounts of all the partners and Bank Account. Also draw the Initial Balance Sheet of Balbir and Chatur, immediately after Atul's retirement.

RETIREMENT CUMN ADMISSION OF PARTNER

P.34. **[Nov. 2005]** Ram, Rahim and Robert are partners, sharing Profits and Losses in the ratio of 5 : 3 : 2. It -was decided that Robert would retire on 31.3.2005 and in his place Richard would be admitted as a partner with new profit sharing ratio between Ram, Rahim and Richard at 3 : 2 : 1.

Balance Sheet of Ram, Rahim and Robert as at 31.03.2005

Liabilities	Rs.	Assets	Rs.
Capital Accounts : Ram	1,00,000	Cash in Hand	20,000
Rahim	1,50,000	Cash at Bank	1,00,000
Robert	2,00,000	Sundry Debtors	5,00,000
General Reserve	2,00,000	Stock in Trade	2,00,000
Sundry Creditors	8,00,000	Plant & Machinery	3,00,000
Loan from Richard	2,00,000	Land & Building	5,30,000
	16,50,000		16,50,000

Retirement of Robert and admission of Richard is on the following terms:

a) Plant & Machinery to be depreciated by Rs. 30,000.

b) Land and Building to be valued at Rs. 6,00,000.

c) Stock to be valued at 95% of book value.

d) Provision for doubtful debts @ 10% to be provided on debtors.

e) General Reserve to be apportioned amongst Ram, Rahim and Robert.

f) The firm's goodwill to be valued at 2 years purchase of the average profits of the last 3 years.

The relevant figures are:

Year ended 31.3.2002 - Profit Rs. 50,000

Year ended 31.3.2003 - Profit Rs. 60,000

Year ended 31.3.2004 - Profit Rs. 55,000

(g) Out of the amount due to Robert Rs. 2,00,000 would be retained as loan by the firm and the balance will be settled immediately.

(h) Richard's capital should be equal to 50% of the combined capital of Ram and Rahim.

Prepare:

(i) Capital accounts of the partners; and

(ii) Balance Sheet of the reconstituted firm.

P.35. [May. 2008 & Similar in ICAI] 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 31.3.2008:

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	Investments (Market value Rs. 75,000)	60,000
Contingency Reserve	75,000	Stock	6,50,000
Long Term Loan	15,00,000	Sundry Debtors	6,95,000
Bank Overdraft	2,20,000	Advertisement Suspense	25,000
Sundry Creditors	8,00,000		
	34,45,000		34,45,000

It was decided that B would retire from the partnership on 1.4.2008 and D would be admitted as a partneron 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 intheir 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.

P.36. **[Nov. 2013]** Pathak, Quereshi, Ranjeet were partners sharing profits in the ratio of 7: 5 : 3 respectively. On 31st March, 2013 Quereshi retired when the firm's Balance Sheet was as fallows

Liabilities	Rs.	Assets		Rs.
Capital Accounts :		Land and Building		10,00,000
Pathak	8,50,000	Plant & Machinery		4,65,000
Quereshi	6,20,000	Furniture, Fixtures & Fitting		2,30,100
Ranjeet	3,70,000	Stock		1,82,200
General Reserve	2,25,000	Trade Debtors	2,00,000	
Trade Creditors	1,13,000	Less : Provision for Bad Debts	6,000	1,94,000
		Cash at Bank		1,06,700
Total	21,78,000	Total		21,78,000

It was agreed that :

a) Land & Building be appreciated by 20%
b) Plant & Machinery be depreciated by 10%
c) Provision for Bad Debts be made equal to 4% of Trade Debtors.
d) Outstanding repairs bill amounting to Rs. 1,500 be recorded in the books of account.
e) Goodwill of the firm be valued at Rs. 3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account .
f) Half of the account due to Qureshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.

After Quereshi's retirement, Pathak and Ranjeet admitted Swamy as a new partner with effect from 1st April, 2013. Pathak, Ranjeet and Swamy agreed to share profit in the ratio of 2:1:1 respectively. Swamy brought patents valued at Rs. 20,000 and Rs. 3,80,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of Rs. 4,00,000 was credited to Swamy's Capital Account. Adjustment were made in the capital account for Swamy's share of goodwill.

You are required to:

(a) Pass Journal Entries for all of the above transaction without any narration, and
(b) Prepare a capital account of all the partners.

DEATH OF PARTNER

P.37. **[ICAI]** The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2019. Mr. Z died on 31st December, 2019. His account has to be settled under the following terms

Balance Sheet of Om & Co. as on 31.3.2019

Liabilities	₹	₹	Assets	₹
Trade payables		20,000		
Bank loan		50,000	Building	1,20,000
General reserve		30,000	Computers	80,000
Capital accounts:			Inventories	20,000
X	40,000		Trade receivables	20,000
Y	80,000		Cash at bank	50,000
Z	80,000	2,00,000	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 three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	profit/loss
31.3.2019	30,000
31.3.2018	20,000
31.3.2017	(10,000) Loss

Profit for the period from 1.4.2019 to 31.12.2019 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years

During the year ending on 31.3.2019 a car costing ₹ 40,000 was purchased on 1.4.2018 and debited to traveling 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:

Inventory at ₹ 16,000, building at ₹ 1,40,000, computers at ₹ 50,000; investments at ₹ 6,000. Trade receivables were considered good.

Required:

a) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2019 to 31.12.2019.

b) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

c) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2019

P.38. **[ICAI]** The following is the Balance Sheet of M/s. ABC Bros as at 31st December, 2019.

Balance Sheet as at 31st December, 2019

Liabilities	₹	Assets		₹
Capital		Machinery		5,000
A	4,100	Furniture		2,800

B	4,100	Fixture		2,100
C	4,500	Cash		1,500
General Reserve	1,500	Inventories		950
Trade payables	2,350	Trade receivables	4,500	
		Less: Provision for Doubtful debts	300	4,200
	16,550			16,550

C died on 3rd January, 2020 and the following agreement was to be put into effect.

a) Assets were to be revalued: Machinery to ₹ 5,850; Furniture to ₹ 2,300; Inventory to ₹ 750.

b) Goodwill was valued at ₹ 3,000 and was to be credited with his share, without using a Goodwill Account

c) ₹ 1,000 was to be paid away to the executors of the dead partner on 5th January, 2020.

Required to show:

1. The Journal Entry for Goodwill adjustment.
2. The Revaluation Account and Capital Accounts of the partners
3. Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C

P.39. **[ICAI]** B and N were partners. The partnership deed provides inter alia:

(i) That the accounts be balanced on 31st December each year.

(ii) That the profits be divided as follows:

B: One-half; N: 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:

(a) the capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2019

Particulars	Dr. (₹)	Cr. (₹)
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	

Trade payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2017: ₹ 42,000; 2018: ₹ 39,000 and 2019: ₹ 45,000. N died on 1st May, 2020.

Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account

P.40. **[ICAI]** Diya Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2.

On 31st March 2020 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2020.

The partnership deed provides as follows:

(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

(b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2016-17	1,62,000
2017-18	1,99,000
2018-19	1,87,000
2019-20	1,96,000

Average capital during preceding four years may be assumed as Rs. 3,00,000

(c) Profits till the date of death to be ascertained on the basis of average profit of previous four years

(d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. ₹ 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare
1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2020, assuming other Assets and liabilities remaining the same

P.41. **[July 2021]** Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017	Nil
2018	₹ 900
2019	₹ 2,000
2020	₹ 3,600

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160
- 31st March, 2020· ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

P.42. **[ICAI]** The Balance Sheet of Seed, Plant and Flower as at 31st December, 2019 was as under :

Liabilities		₹	Assets	₹
Trade payables		20,000	Fixed Assets	40,000
General Reserve		5,000	Debtors	10,000
Capital:			Bills Receivable	4,000
Seed	25,000		Inventories	16,000
Plant	15,000		Cash at Bank	10,000
Flower	15,000	55,000		
		80,000		80,000

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2020 Plant died. It was agreed that:

(a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:

2016	₹ 10,000	2018	₹ 12,000
2017	₹ 13,000	2019	₹ 15,000

(b) The deceased partner to be given share of profits upto the date of death on the basis of the previous year.

(c) Fixed Assets were to be depreciated by 10%. A bill for ₹ 1,000 was found to be worthless. These are not to affect goodwill.

(d) A sum of ₹ 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed and Flower agreed to share profits and losses in future in the ratio of 3: 2. Give necessary journal entries.

P.43. **[ICAI]** Peter, Paul and Prince were partners sharing profits and losses in the ratio 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:-

(i) The balance in the capital Account

(ii) 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 to 31st December preceding the retirement or death.

(iii) His share of profits from the beginning of the accounting year of to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%

(iv) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(v) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/ credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2019. The books of Account are closed on calendar year basis from 1st January to 31st December

P.44. **[May 2013]** P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of Rs. 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance sheet stood as follows:

Balance Sheet as at 31st March, 2012

Liabilities	Rs.	Assets	Rs.
P's Capital	7,00,000	Freehold Land and Building	8,00,000
Q's Capital	5,70,000	Machinery	3,50,000
R's Capital	4,30,000	Furniture & Fixtures	1,02,000
Creditors	79,400	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
		Cash at Bank	73,500
Total	17,84,300	Total	17,84,300

P died on 31st August, 2012, According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2009-2010 and 2010-2011 were as follows:-

	Rs.
For the year ended 31st March, 2010	2,90,000
For the year ended 31st March, 2011	3,40,000

Drawings by P from 1st April, 2012 to the date of his death totaled Rs. 46,000.

On revaluation, Freehold Land and Building was appreciated by Rs. 1,00,000; Machinery was depreciated by Rs. 10,000 and a Provision for Bad Debts were created @ 5% on Debtors as on 31st March, 2012. P's sole heir was given Rs. 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

15

Dissolution of Partnership Firm

Introduction

Apart from readjustment of rights of partners in the share of profit by way of change in the profit sharing ratio and admission of a new partner or for retirement/death of a partner, another important aspect of partnership accounts is how to close books of accounts in case of dissolution. In this chapter, we will discuss the circumstances leading to dissolution of a partnership firm and accounting treatment necessary to close its books of accounts. Also we will discuss the special problems relating to insolvency of partners and settlement of partnership's liabilities.

Dissolution before expiry of Fixed term (Refund of Premium)

A partner who, on admission, pays a premium to the other partners with a stipulation that the firm will not be dissolved before the expiry of a certain term, will be entitled to a suitable refund of premium or of such part as may be reasonable, if the firm is dissolved before the term has expired. No claim in this respect will arise if:

1. the firm is dissolved due to the death of a partner;
2. the dissolution is mainly due to the partner’s (claiming refund) own misconduct; and
3. the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

The amount to be repaid will be such as is reasonable having regard to the terms upon which the admission was made and to the length of period agreed upon and that already expired. Any amount that becomes due will be borne by other partners in their profit- sharing ratio.

When partners decide to dissolve the firm (i.e. close it down). All its assets are realized (converted into cash bank form) and with this amount firms liabilities are settled and then partner’s a/c’s are settled. With this books of account of firm will get closed.

Sell of all assets

1. There are various claimants on the firms asset like creditors, lender and then partners.
2. The assets at the 1stplace cannot practically be divided among such large number of claimants and secondly such persons may not be interested in taking this assets,
3. Hence assets are sold and cash realized and with that money liabilities are settled.
4. Sometimes some of the assets may be taken by partners and
5. Even sometimes creditors or loan creditor can also take some assets if mutually agreed.

Order of Payment (Distribution)

Payment to be made in following order (order of distribution)
1. Third party liabilities
2. Advances/loans of the partners (don't transfer this a/c's to Realizations a/c)
3. Capitals of the partners
4. Surplus (if any) will be distributed among partners in their profit sharing ratio.

Entries for Accounting of Dissolution

Journal entry on dissolution - Accounting will be done with an objective to close the books of account as all assets will be realised and all liabilities including capital account will be settled hence nothing will be left in the firm's books of account.

Particulars	Debit	Credit
1. At the book value, all Assets except cash and Bank balance is transferred to realization a/c Note: Fictitious assets/accumulated losses, shown as assets should be transferred to the partners capital A/c. in their profit sharing ratio.	Realization a/ c A/c Dr.	To Asset a/ c
2. At Book value, all liabilities except capital, loan of partner etc. is transferred to realization a/c.) Reserves/P&L a/c etc, will be transferred to partners capital a/c in their profit sharing ratio	Liabilities a/ c A/c Dr.	To Realization a/c
3. Assets sold/realised: Irrespective of whether such asset was in books or not	Cash/Bank a/c Dr. At market value i.e. actual sale proceeds	To Realization a/c
4. If partner takeover any asset, it should be adjusted in the partners capital a/c.	Partners Capital a/c Dr. (At agreed purchase value)	To Realization a/c.
5. Payment of liabilities (Irrespective of whether that liability was recorded in the books or not)	Realization a/c Dr. (Actual amount paid)	To Cash/Bank a/c.
6. If some of the liabilities is taken over by the partner.	Realization a/c Dr. (Actual amount agreed)	To Partner's a/c
7. Realization Expenses paid:	Realization a/c Dr (Amount of Expenses paid)	To Cash/Bank a/c
8. Now the realization a/c. will be balanced and the profit/loss on	Realization a/ c Dr. (Profit on realization transferred)	To Partners capital a/c

realization will be transferred to the partners in their profit sharing ratio.	Note: If there is a loss, the entry will be just reverse of this.	
9. Then capital a/c's will be balanced: If there is debit balance in any partners a/c then the concerned partner will bring in cash:	Cash/Bank a/c Dr	To Partners capital a/c
10. Now the balance in cash/bank a/c will be equal to the credit balance in the other partners capital a/c. and the amount will be distributed to them. ***With this all accounts will get closed.***	Partners Capital a/c Dr.	To Cash/Bank a/c

If question is silent about

1. Realization of a tangible asset like furniture, vehicle, debtors, etc. - then assume that it realizes equal to its book value.
2. Realization of intangible assets like patent, goodwill, etc. - then assume that it does not have any realizable value hence is nil.
3. Settlement of any liability - then assume that amount equal to book value is paid.

Accounting for Realization Expenses

1. Basically it is firm's expense and should be paid by firm.
2. But sometimes a partner may pay it.
3. Sometimes in lieu of some commission etc, a partner may even bear this expense.
4. Summary of alternative situation is given below –

Sr. No.	Paid by whom	Borne by whom (who will bear it)	Entry in the books of the firm
1	Firm	Firm	Realization a/c. Dr. xxx To Cash / Bank a/c. xxx
2	Partner	Firm	Realization a/c. Dr. xxx To Partners a/c. xxx
3	Firm	Partner	Partner a/c. Dr. xxx To Cash / Bank a/c. xxx
4	Partner	Partner	No entry

If nothing otherwise is clarified by the question then treat it as per 1 above.

Insolvency of Partner and its consequences

1. On dissolution when a partner has debit balance after making all the adjustments and he has become insolvent.
2. In such cases that partner may not be able to pay anything or may pay some part amount.
3. The balance in his account will be called as Insolvent Partners Deficiency.
4. This deficiency is unrecoverable, therefore, it has to be borne by other solvent partners.
5. It will be debited to the solvent partners either (1) In profit sharing ratio, or (2) As per Gamer vs. Murry Rule, (or partners can mutually agree to share such deficiency on any other basis).
6. Deficiency of one or more partners is borne by other partners, therefore outsiders get their dues in full and hence firm is solvent.

Treatment of Deficiency as per Garner vs. Murray rule

1. As per this rule, the deficiency should be debited to solvent partners in the ratio of their capitals, immediately before dissolution i.e. without considering the realization Profit/Loss.
2. When the capital accounts are fluctuating accounts, the balance after credit of Profit & Loss A/c, General Reserve etc if any, will be considered.
3. But if it is fixed capital A/c's then capital A/c. balance as it will be considered, because adjustments for Profit & Loss A/c, General Reserve etc. is made to the current A/c.
4. Capital a/c. for this purpose will not include current a/c.
5. Capital means partners contribution in firm hence it should have credit balance, if it has debit balance then the same will be ignored in case of Garner vs Murray rule. That means deficiency will not be debited to such partner.
6. This rule will also not be applicable if all partners are insolvent or when there are only two partners or when partnership agreement provides some other basis for allocating deficiency.

Will deficiency be charged to a solvent partner having debit capital balance

1. Insolvent partners deficiency will not be debited to a solvent partner who is having debit balance in capital a/c, just before dissolution, in case of Garner Vs. Murray rule.
2. But in case deficiency is to be borne in profit sharing ratio, then it will be debited to even a partner having debit balance in his capital a/c but is solvent.

[May 2019] Garner vs Murray rule is non-applicable in the following cases:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of a nother partner.

2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.

4. When all the partners of the firm are insolvent.

When all the Partners are Insolvent

1. When all partners are insolvent the firm will not be able to pay in full its outside liabilities.
2. Therefore while preparing Realization a/c we should not transfer the liabilities to the Realization A/c.
3. Whatever cash will be available from the assets realised and amount received from the partners will be paid to those creditors (liabilities).
4. The balance then in liabilities a/c's will be transferred (credited) to deficiency A/c.
5. Rest of the accounting will be same.
6. Debit balance in partner's a/c will also be transferred (debited) to Deficiency a/c.
7. With this all the accounts will get closed (including Deficiency a/c).

Piecemeal Distribution

1. Sometimes it happens that assets are realised in part-part on various dates, and partners wants that the amount should be distributed, as and when it is realised (received) this is known as Piecemeal distribution.
2. First third party liabilities will be paid, then the loans of the partner will be paid on pro-rata basis.
3. Then if the balance is there, it will be distributed against their capitals.
4. Because at the time when amount is to be distributed, the Realisation is not yet complete, therefore we don't know the actual loss on Realisation but the distribution of amount should be made in such a way that the balance left in capital a/c should be in the ratio in which they have to share losses.
5. Therefore the distribution can be made either:
   as per Maximum Loss Method, or as per Adjusted Capital (Relative higher capital) Method.

Maximum Loss Method

1. At each stage of realisation the amount realised is assumed as the final realisation and hence the balance of capital loss this realisation is called as Maximum loss.
2. This maximum loss will be transferred in the profit/loss sharing ratio.
3. The balance if debit in any partners account is transferred to other partners like in case of insolvency (even though it is not insolvent partners deficiency).
4. Thereafter the credit balance left in the partners account will be equal to the amount available for distribution and the same will be paid to them.
5. This process will be repeated at each stage to find out who should be paid how much & this is only a paper working.
6. The entry will be passed only for the amount paid to the partners & at the end for the actual loss.

Adjusted Capital (Relative Higher Capital) Method

1. In this case the capital of partners is adjusted in the profit sharing ratio taking that partner as the base who has lowest capital per share of profit.
2. By repeating this process we ascertain the excess capital of a partner as compared to others.
3. The excess capital is paid 1st and then the remaining capital in the order of priority.

When capitals are in profit sharing ratio then there will be no excess or short capital & hence no method is required. Distribute the cash in their profit sharing ratio. That is Maximum loss and Adjusted capital Method are required only when capitals are not in profit sharing ratio.

Limited Liability Partnership Firm

The Limited Liability Partnerships (LLPs) in India were introduced by Limited Liability Partnership Act, 2008 which lay down the law for the formation and regulation of Limited Liability Partnerships.

Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried circumstances.

Distinction between an ordinary partnership firm and LLP

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian 1932 Partnership Act	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes

6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 But no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

Explain the provisions related with liability of Limited Liability Partnership (LLP) and its partners as per LLP Act, 2008.

Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

What are circumstances when LLP can be wound up by the Tribunal. Explain in brief.

Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;

- If for a period of more than six months, the number of partner s of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years

CLASS QUESTIONS

GENERAL QUESTIONS

C.1. **[Nov. 2008]** X, Y and Z are partners of the firm XYZ and Co., sharing profits and losses in the ratio of 4:3:2. Following is the balance sheet of the firm as at 31st March, 2008.

Balance Sheet as at 31st March, 2008

Liabilities	₹	Assets	₹
Partner's Capital		Fixed assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above said date. It was found that a credit purchase of ₹ 20,000 in January, 2008 had not been recorded in the books of the firm.

Fixed assets realized ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by Partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹ 6,000

You are required to prepare –

i) Realization account

ii) Partners capital account

iii) Cash account

C.2. **[Nov 2018 & Similar in RTP Nov. 2020]** P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2018 when their Balance sheet was as under:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	90,000
P	40,000	Plant & Machinery	30,000
Q	40,000	Furniture	17,000
General Reserve	41,000	Investments	10,000
R's Loan A/c.	10,000	Books Debts 40,000	
Loan from D	80,000	Less: Provision for DD 4000	36,000
Trade creditors	20,000	Stock	24,000
Bills Payable	8,000	Bank	9,000
Outstanding Salary	5,000	Deferred Adv. Expense	8,000

		Capital withdrawn 'R'	20,000
	2,44,000		2,44,000

The following information is given to you:

1. Realisation expenses amounted to Rs.12,000 out of which ₹ 2,000 was borne by P.
2. A creditor agreed to takeover furniture of book value ₹ 8,000 at ₹ 7,200. The rest of the creditors were paid off at a discount of 6.25%
3. The other assets realised as follows:
   Furniture - Remaining taken over by R at 90% of book value.
   Stock - Realised 120% of Book Value.
   Book Debts - ₹ 8,000 of debts proved bad, remaining were fully realised
   Land & Building - ₹ 1,10,000
   Investments - Take over by P at 15% discount
4. For half of his loan, D accepted Plant & Machinery and ₹ 15,000 cash. The remaining amount was paid at a discount of 10%.
5. Bills payable were due on an average basis of one month after 31st March 2018, but they were paid immediately on 31st March @ 6% discount 'per annum'

Prepare the realisation account. Bank account and partners' capital account in columnar form in the books of partnership firm.

INSOLVENCY OF PARTNERS

C.3. **[May 2010]** A, B and C are partners A became insolvent on 15.4.2010. The capital account balance of partner B is on the debit side. Partner B is solvent. Should partner B bear the loss arising on account of the insolvency of partner A?

C.4. The following Balance Sheet of M/s. Ideal Works in which A, B and C were partners sharing profits and losses in the ratio of 6:3:5.

Balance Sheet of M/s. Ideal Works as at 31-3-2011

Liabilities	₹	Assets	₹
A's Capital Account	25,000	Land and Building	10,000
C's Capital Account	15,000	Furniture	5,000
A's Current Account	1,000	Stock-in-Trade	23,100
C's Current Account	500	Sundry Debtors	30,000
Sundry Creditors	30,000	Cash at Bank	2,500
Loan on mortgage of Land & Building	4,000	B's Current Account	4,900
	75,500		75,500

It was decided to dissolve the partnership as on the date of the Balance Sheet. The assets of the firm was realised as under:

Land and Building ₹ 6,000; Furniture ₹ 2,000; Stock-in-trade ₹ 15,000 and Sundry Debtors ₹ 20,000. The expenses of realisation amounted to ₹ 2,000. The Sundry Creditors agreed to receive 75 paise in a rupee in full satisfaction of their claim. Loan on mortgage was paid. It was ascertained that B had become insolvent. B's estate had contributed only 50 paise in a rupee.

Write up the Realisation Account, Bank Account, Capital Account and Current Account of the partners following the rule given in Garner vs. Murray.

C.5. Ajay, Vijay, Ram and Shyam are partners in a firm sharing profits and losses in the ratio 4:1:2:3. The Balance Sheet as on 31st March, 2011:

Liabilities		₹	Assets		₹
Sundry creditors		3,00,000	Sundry debtors	3,50,000	
Capital a/c's			Less: Doubtful debts	50,000	3,00,000
Ajay	7,00,000		Stock		2,00,000
Shyam	3,00,000	10,00,000	Cash in hand		1,40,000
			Other Assets		3,10,000
			Capital A/c's		
			Vijay		2,00,000
			Ram		1,50,000
		13,00,000			13,00,000

On 31st March, 2011 the firm is dissolved and the following points are agreed upon:

- Ajay is to take over sundry debtors at 80% of book value.
- Shyam is to take over the stocks at 95% of the value and
- Ram is to discharge sundry creditors.

Other assets realise ₹ 3,00,000 and the expenses of realisation come to ₹ 30,000. Vijay is found insolvent and ₹ 21,900 is realised from his estate.

Prepare realization account and Capital accounts of the partners. Show also the cash a/c. The loss arising out of capital deficiency may be distributed following the decision in Garner Vs Murray.

C.6. **[Nov. 2011]** P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4: 3:2:1. They decide to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011.

Liabilities		₹	Assets	₹
Capital A/c's			Land & Building	2,46,000
P	1,68,000		Furniture & Fixtures	65,000
Q	1,08,000	2,76,000	Stock	1,00,000
General Reserve		95,000	Debtors	72,500
Capital Reserve		25,000	Cash in hand	15,500

Sundry Creditors	36,000	Capital overdrawn		
Mortgage loan	1,10,000	R	25,000	
		S	18,000	43,000
	5,42,000			5,42,000

(i) The assets were realized as under:

Land & Building	2,30,000
Furniture & Fixtures	42,000
Stock	72,000
Debtors	65,000

(ii) Expenses of dissolution amounted to ₹ 7,800.

(iii) Further creditors of ₹ 18,000 had to be met.

(iv) R became insolvent and nothing was realized from his private estate.

Applying the principles lay down in Garner vs. Murray, prepare the Realisation Account, Partner's Capital Accounts and Cash Account.

C.7. **[Nov. 2010]** A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2010 when their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital A/c's		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		3,06,000

Following information is given to you:

a) A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.

b) Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

c) A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.

d) The other assets realized as follows:

Building	105% of book value
Stock	₹ 78,000
Investments	The rest of investments were sold at a profit of ₹ 4,800

Debtors The rest of the debtors were realized at a discount of 12%

e) The bills payable were settled at a discount of ₹ 400.

f) The expenses of dissolution amounted to ₹ 4,900.

g) It was found out that realization from C's private assets would only be ₹ 4,000.

Prepare the necessary Ledger Accounts.

ALL PARTNERS ARE INSOLVENT

C.8. P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 :1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,18,000
P	50,000		Fixtures	34,000
Q	48,000		Stock	90,000
R	24,000	1,22,000	Sundry debtors	48,000
Reserve fund		10,000	Cash	10,000
Loan from Bank		70,000		
(having charge on Machinery)				
Creditors		98,000		
		3,00,000		3,00,000

They decided to dissolve the firm. The following are the amounts realized from the assets:

	₹
Plant and Machinery	72,000
Fixtures	18,000
Stock	34,000
Sundry debtors	24,400

Loan was settled from the proceeds of machinery and realization expenses amounted to ₹ 3,500. All the partners are insolvent. Final recovery from the personal estates of the partner was P: ₹ 1,000, Q: ₹ 2,000 & R: ₹ 1,000

You are required to prepare:

(a) Realisation account

(b) Partners capital account

(c) Cash account

(d) Creditors account

(e) Deficiency account

C.9. **[May 2014 & Similar in Nov 2018]** W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the firm will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium,

(i) List the criteria for the calculation of the amount of refund,

(ii) Also list any two conditions when no claim in this respect will arise.

C.10. **[May 2015]** X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings.

X died on 31.3.2013 and on that date, the partners' balance were as under:

Capital Account: X - ₹ 60,000, Y - ₹ 40,000, Z - ₹ 20,000.

Current Account: X - ₹ 40,000 (Cr.), Y - ₹ 30,000 (Cr.), Z - ₹ 10,000 (Dr.)

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum installment of ₹ 30,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @ 6% p.a. was to be credited half yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 60,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 40,000 matured on 1.4.2013, realizing ₹ 52,000; payments of ₹ 30,000 each were made to X's Executors on 1.4.2013, 30.9.2013 and 31.3.2014. Y and Z continued trading on the same terms as previously and the· net profit for the year ending 31.3.2014 (before charging the interest due to X's estate) amounted to -- ₹ 52,000. During that period, the partners' drawings were Y - ₹ 15,000; and Z -₹ 8,000.

On 1.4.2014, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.2014.

The balance due to X's estate, including interest, was paid on 30.6.214 and on that day, Y and Z received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.4.2013 to 30.6.2014. Show also the account of the executors of X.

PIECEMEAL DISTRIBUTION

C.11. **[May 2010]** Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31,2010 on which date they dissolve partnership. They share profit in the ratio of 5:3:2.

Liabilities	₹	Assets	₹
Creditors	80,000	Plant and machinery	60,000

Loan A/c – Amar	20,000	Premises	80,000
Capital A/c -		Stock	60,000
Amar	1,00,000	Debtors	1,20,000
Akbar	30,000		
Antony	90,000		
	3,20,000		3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realized, viz.

April 15, 2010 ₹ 60,000,
May 1, 2010 ₹1,46,000,
May 31, 2010 ₹ 94,000

Prepare a statement showing how the distribution should be made under maximum loss method.

C.12. **[Nov 2018]** E, F and G were partners in a firm, sharing profit and losses in the ratio of 3:2:1 respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December 2017. The balance sheet on that date was as follows:

Liabilities		₹	Assets	₹
Capital accounts:			Machinery	1,54,000
E	1,13,100		Furniture & Fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current Account: F	18,000
Reserve		1,08,000		
Loan account: G		15,000		
Creditors		51,600		
		3,87,000		3,87,000

The realization of assets is spread over the next few months as follows:

February:	Debtors	₹ 51,900
March:	Machinery	₹1,39,500
April:	Furniture etc	₹ 18,000
May:	G agreed to take over investment at ₹ 6,300	
June	Stock	₹ 96,000

Dissolution expenses, originally provided, were ₹ 13,500, but actually amounted to ₹ 9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹ 50,400, all cash received should be distributed at the end of each month in the most equitable manner.

C.13. **[May 2012 & Similar in Nov. 2016]** Ajay Enterprise, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. The balance sheet of the firm as on 31st December, 2011 is as below:

Liabilities	₹	Assets	₹
A's Capital	15,000	Factory Building	24,160
B's Capital	7,500	Plant & Machinery	16,275
C's Capital	15,000	Debtors	5,400
B's Loan A/c	4,500	Stock	12,390
Sundry Creditors	16,000	Cash at Bank	275
	58,500		58,500

On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.
Assets were realized piecemeal as under:

First instalment	₹ 18,650
Second instalment	₹ 17,320
Third instalment	₹ 10,000
Last instalment	₹ 7,000
Dissolution expenses were provided for estimated amount of	₹ 3,000
The creditors were settled finally for	₹ 15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher relative capital method'.

C.14. **[May 2014 & Similar in Jan. 2021]** The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	₹	Assets	₹
Capital A/c's		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
	1,63,500		1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows:

January 2014

- ₹ 9,000 - collected from debtors; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 -Liquidation expenses paid.
- ₹ 6,000 - Cash retained in the business at the end of month

February 2014

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 - Cash retained in the business at the end of month

March 2014

- ₹ 38,000 - received on the sale of remaining plant and machinery.
- ₹ 10,000 - received from the sale of entire stock.
- ₹ 1,700 - Liquidation expenses paid.
- ₹ 41,000- Received on sale of land & building.
- No cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

PRACTICE QUESTIONS

P.1. **[Nov. 2009]** P, Q and R are partners sharing profits and losses in the ratio of 2:2:1. Their balance sheet as on 31st March, 2009 is as follows –

Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the firm. Following are the amounts realized from the assets –

	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. A bill for ₹ 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare –

b. Realisation account

c. Partner's capital account

d. Cash account

PIECEMEAL DISTRIBUTION

P.2. **[RTP May 2019]** A partnership firm was dissolved on 30th June, 2018. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	Assets	₹
Capitals:			Cash	21,600
A	1,52,000		Sundry Assets	3,78,400
B	96,000			
C	72,000	3,20,000		
Loan A/c – B		20,000		
Sundry Creditors		60,000		

		4,00,000		4,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 58,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 10,800 but actual amount spent was ₹ 8,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2018	50,400
On 30th August, 2018	1,20,000
On 15th September, 2018	1,60,000

The partners shared profits and losses in the ratio of 2: 2: 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

16

Accounting – Theoretical Framework

Meaning of Accounting:

According to AICPA (American Institute of Certified Public Accountant), "Accounting is," the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof".

From the above, it is clear that accounting refers to:

1. a procedure of writing financial transactions and events.
2. a system of recording, classifying, summarizing, analyzing, interpreting & reporting periodically, in terms of money, which provides necessary financial information.

The said financial information is used for taking necessary and proper decisions about the allocation of economic resources.

Accounting accumulates data systematically and supplies the necessary information to the users of financial statements by which the users can take proper economic decisions and also may make proper predictions, i.e., in short, it conveys financial information about an entity for a specified period.

Objective of Accounting:

The objectives of accounting can be given as follows:

1. **Systematic recording of transactions** – Basic objective of accounting is to systematically record the financial aspects of business transactions i.e. book-keeping. These recorded transactions are later on classified and summarized logically for the preparation of financial statements and for their analysis and interpretation.

2. **Ascertainment of results of above recorded transactions** – Accountant prepares profit and loss account to know the results of business operations for a particular period of time. If revenue exceed expenses then it is said that business is running profitably but if expenses exceed revenue then it can be said that business is running under loss. The profit and loss account helps the management and different stakeholders in taking rational decisions. For example, if business is not proved to be remunerative or profitable, the cause of such a state of affair can be investigated by the management for taking remedial steps.

3. **Ascertainment of the financial position of the business** – Businessman is not only interested in knowing the results of the business in terms of profits or loss for a particular period but is also anxious to know that what he owes (liability) to the outsiders and what he owns (assets) on a

certain date. To know this, accountant prepares a financial position statement popularly known as Balance Sheet. The balance sheet is a statement of assets and liabilities of the business at a particular point of time and helps in ascertaining the financial health of the business.

4. **Providing information to the users for rational decision**-making – Accounting as a 'language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. Accounting aims to meet the information needs of the decision-makers and helps them in rational decision-making.

5. **To know the solvency position –** By preparing the balance sheet, management not only reveals what is owned and owed by the enterprise, but also it gives the information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in the long-run (solvency position) as and when they fall due.

Functions of Accounting:

The main functions of accounting are as follows:

1. **Measurement:** Accounting measures past performance of the business entity and depicts its current financial position.
2. **Forecasting:** Accounting helps in forecasting future performance and financial position of the enterprise using past data and analysing trends.
3. **Decision-making:** Accounting provides relevant information to the users of accounts to aid rational decision-making.
4. **Comparison & Evaluation:** Accounting assesses performance achieved in relation to targets and discloses information regarding accounting policies and contingent liabilities which play an important role in predicting, comparing and evaluating the financial results.
5. **Control:** Accounting also identifies weaknesses of the operational system and provides feedbacks regarding effectiveness of measures adopted to check such weaknesses.
6. **Government Regulation and Taxation:** Accounting provides necessary information to the government to exercise control on the entity as well as in collection of tax revenues

Meaning of Book-Keeping:

Book-keeping is an activity concerned with the recording of financial data relating to business operations in a significant and orderly manner. It covers procedural aspects of accounting work and embraces record keeping function. Obviously, book-keeping procedures are governed by the end product, the financial statements. The term 'financial statements' means Profit and Loss Account, Balance Sheet and cash flow statements including Schedules and Notes forming part of Accounts.

Objectives of Book-Keeping:

1. **Complete Recording of Transactions –** It is concerned with complete and permanent record of

all transactions in a systematic and logical manner to show its financial effect on the business.

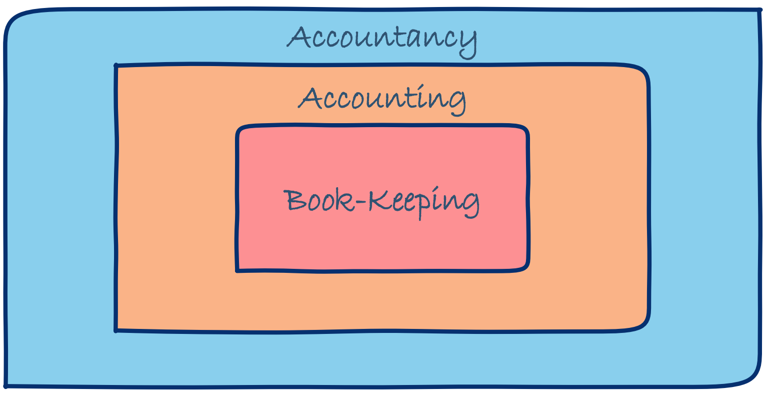
2. **Ascertainment of Financial Effect on the Business** – It is concerned with the combined effect of all the transactions made during the accounting period upon the financial position of the business as a whole.

Distinction between book-keeping & Accounting:

Some people mistake book-keeping and accounting to be synonymous terms, but in fact they are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records. Book-keeping is the recording phase while accounting is concerned with the summarising phase of an accounting system. Book-keeping provides necessary data for accounting and accounting starts where book-keeping ends.

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

Relationship of Accounting and Book-keeping can be depicted in the following chart as



Branches or Sub-fields of Accounting:

The various sub-fields of accounting are:

1. **Financial Accounting** – It covers the maintenance of Books of Accounts of an enterprise, recording & classifying all its financial transactions & events with a view to prepare Financial Statement to be used by various interest groups. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.
2. **Management Accounting** – It is concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control and decision- making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. Management Accounting will be dealt with at higher levels of the Chartered Accountancy Course.
3. **Cost Accounting** – Generally manufacturing concerns maintains cost accounts with a view to ascertain the cost of goods manufactured or services rendered with proper break-up of cost & also providing useful data to management for effective cost control.
4. **Social Responsibility Accounting** – The demand for social responsibility accounting stems from increasing social awareness about the undesirable by-products of economic activities. As already discussed earlier, social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.
5. **Human Resource Accounting** – Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

The Users of Financial Statement & Their Information Needs:

S.No.	Users	Their information needs
1	Investors (providers of risk capital and their advisors)	Information to determine whether they should buy, hold or sell, the shares of the company. The owners of proprietary/ partnership concerns wants to assess performance & financial health, to decide the continuance of such unit.
2	Employees (Employees and their representative groups i.e. unions)	Information that enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities. To assess their Bonus & other claims.
3	Lenders	Information that enables them to determine whether their loans and the interest thereon, will be paid when due.
4	Suppliers and other trade creditors	Information that enables them to determine whether the amounts owing to them will be paid when due.

5	Customers	Information about the continuance of an enterprise especially when they have a long-term involvement with, or are dependent on the enterprise.
6	Government and their agencies	Information to regulate the activities of enterprises, to determine taxation policies and as the basis of national income and similar statistics.
7	Public	Information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

Limitations of Accounting: [Nov. 2018 & RTP - May 2019: Discuss the limitations which must be kept in mind while evaluating the Financial Statements.]

Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

1. The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
2. Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
3. Accounting ignores changes in some money factors like inflation etc.
4. There are occasions when accounting principles conflict with each other.
5. Certain accounting estimates depend on the sheer personal judgement of the accountant.
6. Different accounting policies for the treatment of same item adds to the probability of manipulations.

Role of Accountant in the Society: [Nov. 2020: What services can a Chartered Accountant provide to the society?]

a) An accountant with his education, training, analytical mind and experience is best qualified to provide multiple need-based service to the ever-growing society.

b) The accountants of today can do full justice not only to matters relating to taxation, costing, management accounting, financial planning, company law and procedures but they can act in the fields relating to financial policies, budgetary polices, information technology, Software development and even economic principles.

c) The services rendered by accountants to the society include the following:

   1. To maintain the Books of Accounts in a systematic manner.
   2. To act as a Statutory Auditor (for example under the Companies Act, Income Tax Act, Co-operative Societies Act)
   3. To act as an Internal Auditor.
   4. To act as Taxation Advisor.

5. To act as Management Accountant.
6. To act as Financial Advisor
7. To provide Management Consultancy Services.
8. To act as Company Law Advisor.
9. To act as Liquidator.
10. To act in the field of software development.

Relationship of Accounting with others:

Relationship of Accounting with other Disciplines like:

a) Economics
b) Statistics
c) Mathematics
d) Law
e) Management

a) *Accounting and Economics:*

Economics is viewed as a science of rational decision making about the use of scarce resources. It is concerned with the analysis of efficient use of scarce resources for satisfying human wants. Accounting is viewed as a system which provides data to the users to permit informed judgement and decisions. Accounting overlaps economics in many respects and contributes a lot in improving the management decision making process. However, there exists a wide gulf between economists' and accountant's concepts of income and capital. Accountants got the ideas of value, income and capital maintenance from economists, but brushed suitably to make them usable in practical circumstances.

Accountants developed the valuation, measurement and decision making techniques which may owe to the economic theorems for origin but these are molded in the work environment and suitably tempered with reference to relevance, variability, freedom from bias, timeliness, comparability, reliability and understandability. At the macro-level, accounting provides the data base over which the economic decision models have been developed; micro-level data arranged by the accounting system is summed up to get macro-level data base.

b) *Accounting and Statistics:*

The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise, it is exact to the last paisa. But such precision is not essential for making business decisions and hence statistical approximations are sought. In accounts all values are important individually because they relate to business transactions. As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations. Therefore, wherever a need arises for only broad generalizations or the average of relationships, statistical methods have to be applied to accounting data. Accounting records generally take a short-term view of events and are confined to a year while statistical analysis is more useful if a longer view is taken for the purpose of decision making. Statistical methods are helpful in developing accounting data and in their interpretation & are useful even in valuation. Therefore, the study and application of statistical methods would add extra edge to the accounting data.

c) Accounting and Mathematics:

Knowledge of arithmetic and algebra is a pre-requisite for accounting computation and measurements. The fundamental dual aspect concept of accounting is expressed in the form of a mathematical equation, popularly known as 'accounting equation'. With the advent of the computer, mathematics is becoming a vital part of accounting. Statistical and econometric models are largely used for developing decision models for the users of accounts. The use of the technique of operations research has made accounting all the more mathematical. Presently graphs and charts are being extensively used for communicating accounting information. In addition to statistical knowledge, knowledge in geometry and trigonometry is also essential to have a better understanding about the accounting communication system.

d) Accounting and law:

An economic entity operates within a legal environment. Every country has set of economic, fiscal and labour laws. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc. The entity itself is created and controlled by laws. For example, a partnership business is controlled by Partnership Act and a company is created and controlled by the Companies Act. etc. Very often the accounting system to be followed is prescribed by law. For example, the Companies Act has prescribed the format of financial statements of companies and requires accrual principle to be applied. However, legal prescription about the accounting system is the product of developments in accounting knowledge. That is to say, a legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline. In that way accounting influences law and is also influenced by law.

e) Accounting and Management:

Management is broad occupational field which comprises many functions and encompasses application of many disciplines including those mentioned above. Accountants are well placed in the management and play a key role in the management team. A large portion of accounting information is prepared for management decision making. In the management team, an accountant is in a better position to understand and use such data. In other words, since an accountant plays an active role in management, he understands the data requirements. So the accounting system can be moulded to serve the management purpose. 'Management accounting' processes accounting data for management decision making. This indicates the linkage between management and accounting. Accounting is an essential service function of management.

Evolution of Accounting as a Social Science:

In its oldest form, accounting aided the stewards to discharge their stewardship function. The wealthy men employed stewards to manage their property; the stewards in turn rendered an account periodically of their stewardship. This 'Stewardship Accounting' was the root of financial accounting system. The presently followed system of double-entry book-keeping has been developed only in the 15th Century. However, historians found records of debit and credit dating back to the 12th Century. Although double-entry system was followed, 'stewardship accounting' served the purpose of businessmen and wealthy persons at that time. In most of the countries, stewardship accounting was prevalent till the emergence of large-scale enterprises in the form of public limited companies.

In the second phase, the idea of financial accounting emerged with the concept of Joint Stock Company and divorce of ownership from the management. To safeguard the interest of the shareholders and investors, disclosure of financial statements (mainly, profit and loss account and balance sheet) and other accounting information was moulded by law. Financial statements give periodic performance report by way of profit and loss account and financial position at the end of the period by way of Balance Sheet. It got the legal status due to changing relationships between the owners, economic entity and the managers. With the democratisation of society, the relationships between the enterprise on the one hand, the investors, employees, managers and governments on the other, have also undergone a sea-change. Also the prospective investors and other business contact groups want to know a lot about the business before entering into transactions. Thus, financial accounting emerged as an information system to identify, measure and communicate useful information for informed judgements and decisions by a broad group of users. In the third phase, accounting information was generated to aid management decision- making in particular. It contributed a lot to improve the quality of management decisions. This new dimension of accounting is called Management Accounting and it is the development of 20th Century only. It is pervasive enough to cover all spheres of management decisions.

Lastly, Social Responsibility Accounting is in the formative process, which aims at accounting for the social cost incurred by business as well as the social benefit, created by it. It emerges from the growing social awareness about the undesirable by-products of economic activities. While earning profit, an enterprise incurs numerous social costs like pollution, using the resources of society like materials, land, labour etc. To compensate for this social cost, in today's world, an enterprise is expected to generate some social benefits also like employment opportunities, recreation activities, more choice to customers at reasonable price, better quality products etc. Therefore it is demanded that the accounting system should produce a report measuring the social cost incurred and social benefits generated.

Social Science study man as a member of society; they concern about social processes and the results and consequences of social relationships. The usefulness of accounting to society as a whole is the fundamental criterion to treat it as a social science. Although individuals may benefit from the availability of accounting information, the accounting system generates information for social good. It serves social purposes, it contributes for social progress; also it is being adapted to keep pace with social progress. So, accounting is treated as a social science.

ACCOUNTING PRINCIPLES & CONVENTIONS

ACCOUNTING

PRINCIPLE

1. Entity concept
2. Money measurement concept
3. Periodicity concept
4. Accrual concept
5. Matching concept
6. Going Concern concept
7. Cost concept
8. Realisation concept
9. Dual aspect concept

CONVENTION

1. Disclosure
2. Conservatism
3. Consistency
4. Materiality

Accounting Principle (Concept) & Conventions:

Accounting Principles (Concept)

It is a principle which is taken to be self-evident or axiomatic (i.e., something which does not require to be proved). Which has already been proved to be true.

1. Entity concept

- According to this principle, business is considered to be separate and distinct from its owners. Business transactions, therefore, are recorded in the books of account from the business point of view and not from that of the owners.
- The owner is treated as a creditor of the business to the extent of capital invested by him in the business.
- The capital is treated as a liability of the firm.
- Because of this principles, the owner's house, his personal investment, his personal car and personal income and expenditure are kept separate from the accounts of business entity.
- Also if the owner has some other business entity doing another business, the records of that business should also be kept separate.
- This principle applies to every form of enterprise including proprietorship firms.

2. Money measurement concept [RTP - May 2018]

- According to the Money Measurement Principle, only those transactions and events are recorded in accounting which are capable of being measured in terms of money.
- For example, accounting does not record a quarrel between the employer and employee and it does not account strike by workers. These facts cannot be measured in terms of money thus are not recorded in the books.
- Transactions and events that cannot be measured in money terms are not recorded in the books of account, even though important they may be to the enterprise. For example, human resources with the enterprise are important to the enterprise but are not reflected in the financial statements because they cannot be measured and expressed in money terms.

3. Periodicity concept

- As the business is intended to continue indefinitely for a long period, the true results of the business operations can be ascertained only when the business is completely wound up.
- The users of the financial statements needs to know the results of the business at frequent intervals. Thus the entire life of the business is divided into time intervals for the measurement of the profits of the business.
- Twelve month period is usually adopted for this purpose.
- In India financial year beginning on 1st April and ending on 31st March in the next calendar year.
- In view of the above, the life of the enterprise is broken into smaller periods (usually one year) which is termed as the 'Accounting Period'.

4. Accrual concept (Mercantile System)

- According to Accrual Concept, the income & expenses should be recognised (i.e. accounted), in the accounting period to which they relate (i.e. the period in which goods/ service is given) Not in the period in which actual money is received or paid.
- Thus, revenue is recognised when it is realised, i.e., when sale **is** complete or services are rendered; it is immaterial whether cash is received or not.

- Similarly, expenses are recognised as expenses in the accounting period in which the expenses are incurred, whether paid in cash or not.
- For example, M/s. ABC & Co. not paid salary to its employee for the month of March 2021 amounting to ₹ 50,000 to be paid on 5th April, 2021 still salary will be recorded as expenses on 31st March because services has been received in the month of march.

5. Matching concept [RTP - May 2018]

- This principle is very important for correct determination of net profit.
- It is necessary to match 'revenues' of the period with the 'expenses' of that period to determine correct profit (or loss) for the accounting period.
- Profit earned by the business during a period can be correctly measured only when the revenue earned during the period is matched with the expenditure incurred to earn that revenue.
- It is not relevant when the payment was made or received.
- Therefore, as per this concept, adjustments are made for all outstanding expenses, prepaid expenses, etc.
- In brief according to this concept, the expenses for an accounting period are matched against related revenues, rather than cash received and cash paid.

6. Going Concern concept [May 2019]

- According to this assumption, it is assumed that business shall continue for a foreseeable period and there is no intention to close the business or scale down its operations significantly.
- This implies that it will not be dissolved in the immediate future unless there is a clear evidence of closure.
- It is because of this concept that a distinction is made between a capital expenditure, i.e., expenditure that will give benefit for a long period and revenue expenditure, i.e., one whose benefit will be consumed within the accounting period.
- On the basis of this concept, fixed assets are recorded at their original cost and depreciated in a systematic manner without reference to their market value. For example, a machine purchased is expected to last 10 years. The cost of the machinery is spread on a suitable basis over the next 10 years for ascertaining the profit or loss for each year. The total cost of the machine is not treated as an expense in the year of purchase itself.

7. Cost concept [May 2019]

- According to the Cost Concept, an asset is recorded in the books of account at the price paid to acquire it.
- Asset is recorded at cost at the time of its purchase but is systematically reduced in value by charging depreciation.

- The market value of an asset may change with the passage of time but for accounting purposes it continues to be shown in the books of account at its book value (i.e., cost at which it was purchased minus depreciation provided up-to-date).
- For example, an asset is purchased for ₹ 15,00,000 and if its market value is say, ₹ 14,00,000 or ₹ 17,00,000, yet the asset shall be recorded at its purchase price of ₹ 15,00,000.

8. Realisation concept

- Income is accounted only when it is realised.
- Realised means cash is **received or a right to receive is established.**
- A sale is recognised as income even when amount is not yet collected.
- For example: An enterprise sells goods in March 2021 and receives the amount in April 2021. Revenue of this sales should be recognised in March 2021, i.e., when the goods are sold. It is so because the legal obligation has been established (upon sales) in March 2021.

9. Dual aspect concept

- According to the Dual Aspect Concept, every transaction entered into by an enterprise has two aspects, a debit and a credit of equal amount.
- In other words for every debit there is a credit of equal amount.
- The system of recording transactions based on this principle is called as 'Double Entry System'
- It is because of this principles that two sides of the Balance Sheet are always equal and the following accounting equations
  - Assets = Liabilities + Capital
  - Capital = Assets - Liabilities
  - Liabilities = Assets - Capital
- For example, Raju commences business with ₹ 10 lakh in cash and taken a loan of ₹ 5 lakh from the ICICI bank, these ₹ 15 lakh are used in buying some assets say furniture and machinery.
  - Assets = Liabilities + Capital
  - ₹ 15 = ₹ 5 + ₹ 10

Accounting Conventions

It refers to the general agreement on the usage and practices in social or economic life, i.e., it is a customary practice, rule, method or usage. In other words, it is an accounting procedure followed by the accounting community on the basis of long-standing customs.

1. Convention of Disclosure

- All material information which is relevant for the proper disclosure of true & fair position, should be disclosed prominently in the accounts & financial statements.
- Disclosure of specified information is required by law and by accounting standards also, which is the minimum disclosure.

2. Convention of Materiality

- An item should be regarded as material if there is a reason to believe that knowledge of it would influence the decision of an informed investor.
- Thus, whether an item is material or not will depend on its nature or amount.
- It, thus, means that it is a matter of exercising judgement to decide which item is material and which is not.
- An item may be material for one enterprise but may not be material for another.
- For example, amount spend on tea expenses for the month say ₹ 2,500 is material for an enterprise having a turnover of say ₹ 50,000 but it is not material for an enterprise having a turnover of say ₹ 5,00,00,000.

3. Convention of Consistency

- According to the Consistency Assumption, accounting practices once selected and adopted, should be applied consistently year after year.
- The concept helps in better understanding of accounting information and makes it comparable with that of previous years.
- Under the assumption, method once chosen and applied should be applied consistently year after year. But, it does not mean that practice once adopted cannot be changed.
- The accounting practice may be changed
  - if the law or
  - Accounting Standard requires it or
  - the change will result in more meaningful presentation.

4. Convention of Conservatism

- The Prudence Principle says "Do not anticipate a profit, but provide for all possible losses." In other words, it takes into consideration all prospective losses but not the prospective profits.
- The application of this concept ensures that the financial statements present a realistic picture of the state of affairs of the enterprise and do not paint a better picture that what it actually is.
- For example, making the provision for doubtful debts on debtors in anticipation of actual bad debts, closing stock is valued at Cost price or realisable value whichever is lower
- Conservatism does not record anticipated revenues but provides all anticipated expenses and losses, thus, it may overstate liabilities.
- The Concept of Conservatism needs to be applied with more caution and care so that the results reported are not distorted.

Fundamental Accounting Assumptions:

1. Fundamental accounting assumptions underline the preparation and presentation of financial statements.

2. They are usually not specifically stated because their acceptance and use are assumed.
3. Disclosure is necessary if they are not followed.
4. The Institute of Chartered Accounts of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:
   (i) Going Concern (ii) Consistency (iii) Accrual

Qualitative Characteristics of Financial Statement:

- Qualitative Characteristic are the attributes (features) that makes the information provided by financial statement useful to the users.
- Qualitative Characteristic are as follows:

1. **Understandability:** The information should be readily understandable to those who have reasonable knowledge of business & economic activity.
2. **Relevance:** Information has relevance when it influences the users decision making. Nature of information & materiality will be considered to decide relevance.
   Materiality: An information is material (significant) if its misstatement or non-statement can influence decision maker.Ex: Small-small expenses are clubbed under one head like Office expenses /General expenses. etc. or Stationary, postage such items are treated as expense and generally no stock is ascertained & adjusted.
3. **Reliability:** Information is reliable if it is error free, it is unbiased (neutrality) & gives faithful representation.
   a) **Neutrality:** If it influences users into predetermined actions, then it is not neutral (then information is biased).
   b) **Faithful Representation:** To be reliable it should give information what it purports to give. Example. If an asset is shown in Balance Sheet entity must have it.
      Substance over form: Substance of transactions & not merely its legal form should be reflected by information. Example. Item purchased under hire-purchase system is treated as an asset from the beginning and depreciation charged even though legal ownership will be transferred only when the last installment is paid.
   c) **Prudence:** Application of prudence will make information neutral & consequently reliable.
   d) **Completeness:** To be reliable information should be complete.
4. **Comparability:** It should be comparable with its own past data & also with other similar enterprises.

CLASS QUESTIONS

ACCOUNTING EQUATION

C.1. **[ICAI]** Develop the accounting equation from following information available at the beginning of accounting period:

Particulars	(₹ in 000)
Capital	51,000
Loan	11,500
Trade payables	5,700
Fixed Assets	12,800
Inventory	22,600
Trade receivables	17,500
Cash and Bank	15,300

At the end of the accounting period the balances appear as follows:

	₹
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720
Inventory	22,900
Trade receivables	17,500
Cash at Bank	15,600

1. Reset the equation and find out profit.
2. Prepare Balance Sheet at the end of the accounting period.

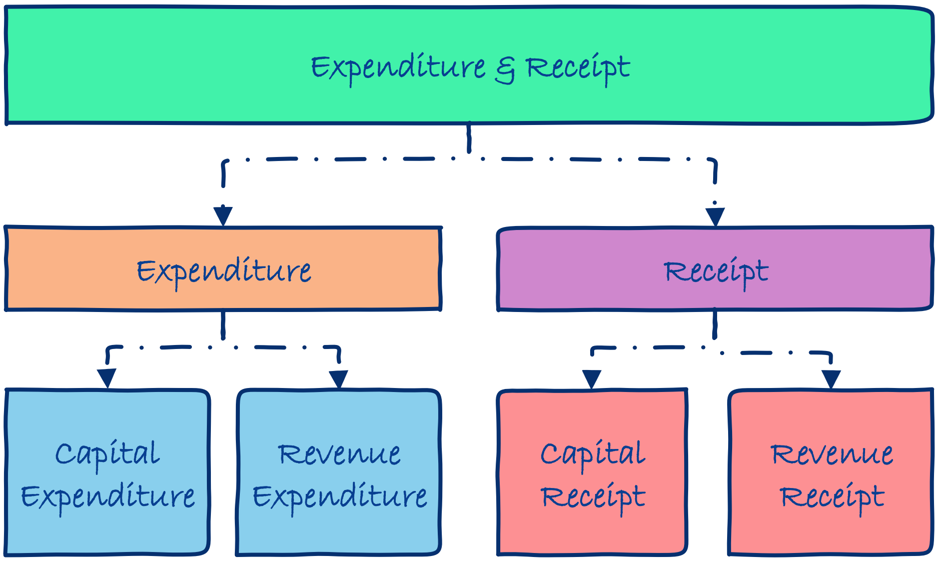
C.2. **[ICAI]** Mr. Dravid. has provided following details related to his financials. Find out the missing figures:

Particulars	(₹ in'000)
Profits carved during the year	5,000
Assets at the beginning of year	A
Liabilities at the beginning of year	12,000
Assets at the end of the year	B
Liabilities at the end of the year	C
Closing capital	35,000
Total liabilities including capital at the end of the year	50,000

CAPITAL & REVENUE EXPENDITURE & RECEIPTS

Introduction

Accounting aims in ascertaining and presenting the results of the business for an accounting period. For ascertaining the periodical business results, the nature of transactions should be analyzed whether they are of capital or revenue nature.



Capital Expenditure:

1. Capital Expenditure is that expenditure which results in the **acquisition of an asset** (tangible or intangible)
   - which can be later sold and converted into cash or
   - Which results in an increase in the earning capacity of the business or
   - which affords some other advantage to the firm.
2. In a nutshell, if the benefits of an expenditure are expected to accrue for a long time, the expenditure is capital expenditure. Examples of capital expenditure are land, building, machinery, patents, etc.
3. All these things stay with the business and can be used over and over again.
4. Expenditure which does not result in increase in capacity or in reduction of day-to-day expenses is not capital expenditure, unless there is a tangible asset to show for it.
5. All amounts spent upto the point an asset is ready for use should be treated as capital expenditure. Examples are; fees paid to a lawyer for drawing up the purchase deed of land, overhauling expenses of second-hand machinery etc.
6. Any expenditure incurred to bring such asset into usable condition for the 1st time is also a capital expenditure like installation expenses etc.

Revenue Expenditure:

1. An item of expenditure whose benefit expires within the year or expenditure which merely seeks to maintain the business or keep assets in good working conditions is revenue expenditure.
2. Examples are: Salaries and Wages, power used to drive machinery, electricity used to light the factory or offices, etc.
3. Such expenditure does not increase the efficiency of the firm, nor does it result in any acquisition of fixed asset.
4. Diminution in the value of assets due to wear and tear or passage of time is revenue expense.
5. For instance, a piece of machinery is bought in the beginning of the year for ₹ 10,000. At the end of the year its value to the business may only be ₹ 9,000. This diminution in value ₹ 1,000 is a revenue loss.
6. Stocks of materials bought will be an asset unless consumed, to the extent the materials are used up, they will be revenue expenditure.
7. Capital expenditure are shown in the Balance Sheet as assets whereas revenue expenditures are debited to P & L a/c.

CLASS QUESTIONS

CAPITAL AND REVENUE EXPENDITURE

C.1. **[RTP May 2018 & Nov. 19]** Classify the following expenditures as capital or revenue expenditure:

1. Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
2. Travelling expenses of the directors for trips abroad for purchase of capital assets.
3. Amount spent to reduce working expenses.
4. Amount paid for removal of stock to a new site.
5. Cost of repairs on second-hand car purchased to bring it into working condition.

C.2. **[RTP Nov 2018]** Classify each of the following transactions into capital or revenue transactions:

1. Complete repaint of existing building
2. Installation of a new central heating system.
3. Repainting of a delivery van.
4. Providing drainage for a new piece of water-extraction equipment.
5. Legal fees on the acquisition of land.
6. Carriage costs on a replacement part for a piece of machinery.

C.3. **[RTP May 2019]** Classify the following expenditures and receipts as capital or revenue:

1. ₹ 10,000 spent as import duty on machinery purchased.
2. Amount received from debtors during the year.
3. Cost of testing whether the equipment is functioning properly.
4. Insurance claim received on account of a machinery damaged by fire.

C.4. **[RTP May 2020]** Classify the following expenditures as capital or revenue expenditure:

1. Money spent to reduce working expenses.
2. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.
3. Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.
4. Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement

C.5. **[RTP Nov. 2020]** Classify the following expenditures as capital or revenue expenditure:

1. Travelling expenses of the directors for trips abroad for purchase of capital assets.
2. Amount spent to reduce working expenses
3. Amount paid for removal of stock to a new site.
4. Cost of repairs on second-hand car purchased to bring it into working condition

C.6. **[RTP May 2021]** Classify each of the following transactions into capital or revenue transactions:

1. Inauguration expenses of a new manufacturing unit in an existing Business.
2. Installation of a new central heating system.

3. Repainting of a delivery van.
4. Providing drainage for a new piece of water-extraction equipment.
5. Legal fees on the acquisition of land.
6. Carriage costs on a replacement part for a piece of machinery

C.7. **[ICAI]** Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2020.

1. Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹ 1,000. The furniture was installed by own workmen, wages for this being ₹ 200.
2. Expenses in connection with obtaining a license for running the cinema worth ₹ 20,000. During the course of the year the cinema company was fined ₹ 1,000, for contravening rules. Renewal fee ₹ 2,000 for next year also paid.
3. Fire insurance, ₹ 1,000 was paid on 1st October, 2019 for one year.
4. Temporary huts were constructed costing ₹ 1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.

Point out how you would classify the above items.

C.8. **[ICAI]** State with reasons, how you would classify the following items of expenditure:

1. Overhauling expenses of ₹ 25,000 for the engine of a motor car to get better fuel efficiency.
2. Inauguration expenses of ₹ 25 lacs incurred on the opening of a new manufacturing unit in an existing business.
3. Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

C.9. **[ICAI]** Classify the following expenditures and receipts as capital or revenue:

1. ₹ 10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.
2. Amount received from Trade receivables during the year.
3. Amount spent on demolition of building to construct a bigger building on the same site.
4. Insurance claim received on account of a machinery damaged by fire.

C.10. **[ICAI]** Are the following expenditures capital in nature?

1. M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was ₹ 20,000.
2. M/s New Delhi Financing Co. sold certain goods on installment payment basis. Five customers did not pay installments. To recover such outstanding installments, the firm spent ₹ 10,000 on account of legal expenses.
3. M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent ₹ 40,000 for transportation of such machinery. The year ending is 31st Dec,

2019.

C.11. **[ICAI]** State with reasons whether the following are Capital or Revenue Expenditure:

1. Expenses incurred in connection with obtaining a license for starting the factory for ₹ 10,000.
2. ₹ 1,000 paid for removal of Inventory to a new site.
3. Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.
4. Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) ₹ 8,000 for installing telephone in the office.
5. A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred in the construction of temporary huts for storing building material.

C.12. **[ICAI]** State with reasons whether the following statements are 'True' or 'False'.

1. Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.
2. Money spent to reduce working expenses is Revenue Expenditure.
3. Legal fees to acquire property is Capital Expenditure.
4. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
5. Amount spent for replacement of worn out part of machine is Capital Expenditure.
6. Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.
7. Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.
8. 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.

C.13. **[May 2018]** State with reasons, whether the following statements are true or false: Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

C.14. **[Nov 2018]** State with reasons, whether the following statements are true or false: Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.

C.15. **[May 2019]** State with reasons, whether the following statements are true or false: 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.

Capital & Revenue Receipts: [RTP – May 2018 & Nov. 2019: Define revenue receipts and give examples. How are these receipts treated? Explain.]

1. Receipts which are obtained in the course of normal trading operations are revenue receipts (e.g. sale of goods, interest income etc.).
2. On the other hand, receipts which are not revenue in nature are capital receipts (e.g. sale of fixed assets, secured or unsecured loans, owners' contribution etc.).
   - Subscriptions by shareholders towards share capital of a company or for purchasing its debentures are considered by the company as capital receipts.
   - By the same criterion, contributions by partners or proprietors to capital of their business are capital receipts.
   - Sale value of fixed assets is also a capital receipts since these are distinguishable from revenue receipts.
3. Revenue and capital receipts are recognized on accrual basis as soon as the right of receipt is established.
4. Treatment of receipt
   - Revenue receipts are credited to the profit and loss account.
   - On the other hand, capital receipts are not directly credited to profit and loss account. For example, when a fixed asset is sold, the entire capital receipts is not credited to Profit and Loss Account. Profit or loss on sale of fixed assets is calculated and recorded in Profit and Loss Account.

CONTINGENT LIABILITIES & CONTINGENT ASSETS

Liability

1. A liability is a present obligation of the enterprise.
2. An obligation is a duty or responsibility to act or perform in a certain way.
3. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement.
4. Obligations also arise from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner

Contingent Liability

1. A contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
   a. Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at
   b. the balance sheet date is considered not probable. or
2. A contingent liability is a present obligation that arises from past events but is not recognised because:
   a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
   b. a reliable estimate of the amount of the obligation cannot be made.

It is said to be 'probable' if chances of its happening are more than not happening i.e. probability is more than half.

Distinguish between Contingent Liabilities and Liabilities

The distinction between a liability and a contingent liability is generally based on the judgment of the management. A liability is defined as the present financial obligation of an enterprise, which arises from past events. The settlement of a liability results in an outflow from the enterprises of resources embodying economic benefits. On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability. Examples of contingent liabilities are claims against the enterprise not acknowledged as debts, guarantees given in respect of third parties, liability in respect of bills discounted and statutory liabilities under dispute etc. In addition to present obligations that are recognized as liabilities in the balance sheet, enterprises are required to disclose contingent liability in their balance sheets by way of notes.

Distinguish between Contingent Liabilities and Provisions

Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy".

It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows

	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.

Let us take an example to understand the distinction between provisions and contingent liabilities. The Central Excise Oflcer imposes a penalty on Alpha Ltd. for violation of a provision in the Central Excise Act. The company goes on 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.

[May 2018, Nov. 2019 & RTP – May 2020] Differentiate between provision and contingent liability.

Accounting of Contingent Liability

1. An enterprise should not recognise a contingent liability i.e. an enterprise should not make provision for a contingent liability.
2. It should only disclose contingent liability in the notes to accounts.

3. If the possibility of an outflow of resources embodying economic benefits is remote then even disclosure is not required.

Example: Suppose customers are demanding compensation for defects in goods and have filled case in the court against entity. In the opinion of Advocates the chances of losing the case i.e. claim against entity will arise is

1. Probable: i.e. chances of losing is more than of winning hence make provision for the loss and treat it as liability.
2. Possible: i.e. chances of losing is less than 50% hence make no provision for the loss and disclose it as contingent liability.
3. Remote: i.e. chances of losing is very less hence neither provision for the loss nor disclosure as contingent liability is required.

Contingent Asset

1. A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
2. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.
3. An enterprise should not recognise a contingent asset.
4. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
5. A contingent asset is not disclosed in the financial statements.
6. It is usually disclosed in the report of the approving authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable.

ACCOUNTING POLICY

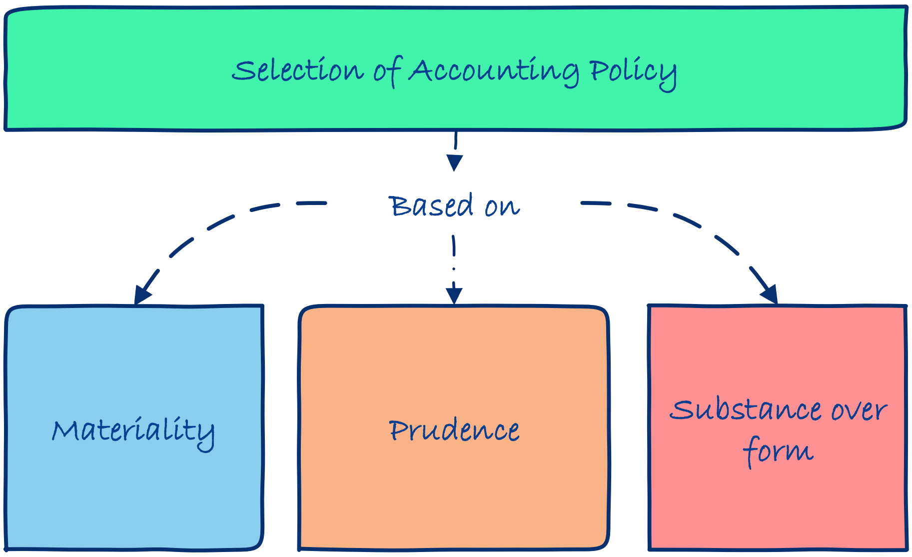
Meaning of Accounting Policy

1. The accounting policies refers to –
   - the specific accounting principles and
   - the methods of applying those principles
2. Adopted by the enterprise in the preparation and presentation of financial statements.
3. Management has to select, follow & disclose Accounting policies which it followed in preparation & presentation of financial statement, out of the different alternatives which may be permissible. Example: Write off Depreciation by SLM or WDV, Value inventory cost by FIFO or Weighted Average.

[RTP – May 2019] Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

Preparation of financial statements is the responsibility of the management of an enterprise. This includes selecting appropriate accounting policies and applying them consistently from one period to another.

Selection of Accounting Policies



Choice of accounting policy is an important policy decision which affects the performance measurement as well as financial position of the business entity. Selection of inappropriate accounting policy may lead to understatement or overstatement of performance and financial position. Thus, accounting policy should be selected with due care after considering its effect on the financial performance of the business enterprise from the angle of various users of accounts.

It is believed that no unified and exhaustive list of accounting policies can be suggested which has universal application.

1. the **primary consideration** in the selection of accounting policies by an enterprise is that
   - The financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the financial position & performance.
2. the **major considerations** governing the selection and application of accounting policies are
   - Prudence, substance over form and materiality.

Sometimes a wrong or inappropriate treatment is adopted for items in Balance Sheet, or Profit & Loss Account, or other statement. Disclosure of the treatment adopted is necessary in any case, **but disclosure cannot rectify a wrong or inappropriate treatment.**

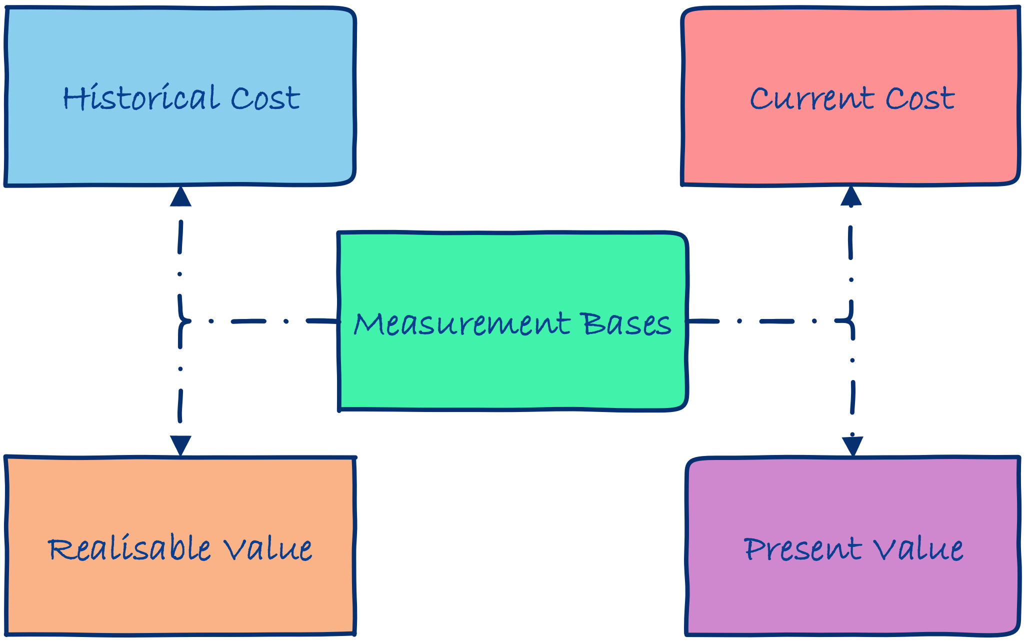
Change in Accounting Policies [RTP – May 2018, May 2021 & June 2022] Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

A change in accounting policies should be made in the following conditions:

1. Required by some statute or
2. Compliance with an Accounting Standard.
3. Change would result in more appropriate presentation of financial statement.

Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight-line method to written-down value method, or if cost formula used for inventory valuation is changed from weighted average to FIFO, all these may increase or decrease the net profit. Therefore, it is necessary to quantify the effect of change on financial statement.

MEASUREMENT BASES (VALUATION PRINCIPLE)



There are four generally accepted measurement bases or valuation principle. These are:

1. Historical Cost
2. Current Cost
3. Realisable Value
4. Present Value

Historical Cost

It means acquisition price. For example, the businessman paid ₹ 7,00,000 to purchase the machine and spend ₹1,00,000 on its installation, its acquisition price including installation charges is ₹ 8,00,000. The historical cost of machine would be ₹ 8,00,000.

According to this base, assets are recorded at an amount of cash or cash equivalent paid at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation. In some circumstances a liability is recorded at the amount of cash or cash equivalent expected to be paid to satisfy it in the normal course of business.

When one Mr. X a businessman, takes ₹ 5,00,000 loan from a bank @ 10% interest p.a., it is to be recorded at the amount of proceeds received in exchange for the obligation. Here the obligation is the repayment of loan as well as payment of interest at an agreed rate i.e. 10%. Proceeds received are ₹ 5,00,000 - it is historical cost of the transactions.

Take another case regarding payment of income tax liability. You know every individual has to pay income tax on his income if it exceeds certain minimum limit. But the income tax liability is not settled immediately when one earns his income. The income tax authority settles it sometime later, which is technically called assessment year. Then how does he record this liability? As per historical cost base it is to be recorded at an amount expected to be paid to discharge the liability

This base is most commonly followed in accounting.

Current Cost

Current cost gives an alternative measurement base. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

Take that Mr. X purchased a machine on 1st January, 2011 at ₹ 7,00,000. As per historical cost base he has to record it at ₹ 7,00,000 i.e. the acquisition price. As on 1.1.2020, Mr. X found that it would cost ₹ 25,00,000 to purchase that machine. So as per current cost base, the machine value is ₹ 25,00,000.

Take also that Mr. X took loan from a bank as on 1.1.2011 ₹ 5,00,000 at 18% p.a repayable at the end of 15th year together with interest. As on 1.1.2020 the bank announces 1% prepayment penalty on the loan amount if it is paid within 15 days starting from that day. As per historical cost the liability is recorded at ₹ 5,00,000 at the amount or proceeds received in exchange for obligation and asset is recorded at ₹ 7,00,000. So as per current cost base, the value of bank loan is ₹ 5,05,000.

At CA Foundation level of study you may not use it anywhere in Accounting

Realisable Value

As per realisable value, assets are carried at the amount of cash or equivalent that could currently be obtained by selling the assets in an orderly disposal. Haphazard disposal may yield something less.

Liabilities are carried at their settlement values; i.e., the undiscounted amounts of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

Suppose Mr. X found that he can get ₹ 20,00,000 if he would sell the machine purchased, on 1.1.2011 paying ₹ 7,00,000 and which would cost ₹ 25,00,000 in case he would buy it currently. Take also that Mr. X found that he had no money to pay off the bank loan of ₹ 5,00,000 currently.

So the machine should be recorded at ₹ 20,00,000 the realisable value in an orderly sale while the bank loan should be recorded at ₹ 5,00,000 the settlement value in the normal course of business.

You may find use of it only in Inventory Valuation which is valued at cost or net realisable value whichever is lower

Present Value

As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.

Example: Building purchased Ram on 1.1.21 can work for another 10 years and is supposed to generate cash ₹ 75,000 p.a. and scrap value ₹ 50,000.

Present value of building = 75,000 X 5.019 + 50,000 X .247 = 3,76,425 + 12,350 = ₹ 3,88,775

Liabilities are carried at the present discounted value of future net cash flows that are expected to be required to settle the liabilities in the normal course of business.

Example: Also that bank loan taken by Ram is to be repaid as on 31.12.2030, annual interest is ₹ 60,000.

Present value of loan = 60,000 X 5.019 + 4,00,000 X .247 = 3,01,140 + 98,800 = ₹ 3,99,940

(For above discounting 15% rate has been assumed. Present Value Annuity Factor for 10 year = 5.019 and Present Value Factor for 10th year = 0.247)

This also you may not use in your CA Foundation study. The above used Present value factors @15% are available from Statistical tables. The calculation thereof is covered in Intermediate syllabus.

ACCOUNTING ESTIMATES

Accounting Estimates

The measurement of certain assets and liabilities is based on estimates of uncertain future events. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated.

Therefore, the management makes various estimates. Such estimates are made in connection with the computation of depreciation, provisions and employee benefit obligations. Also estimates may be required in determining the bad debts, useful life and residual value of an item of plant and machinery and inventory obsolescence. The process of estimation involves judgments based on the latest information available.

An estimate may require revision if changes occur regarding circumstances on which the estimate was based, or as a result of new information, more experience. Change in accounting estimate means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the current period.

Few examples of situations wherein accounting estimates are needed can be given as follows:

1. A company incurs expenditure of ₹ 10,00,000 on Machinery. Now the company has to estimate that for how many years the machinery would benefit the company. This estimation should be based on the latest information and logical judgement.
2. Company has to provide for taxes which is also based on estimation as there can be some interpretational differences on account of which tax authorities may either accept the expenditure or refuse it. This will ultimately lead to different tax liability.

ACCOUNTING STANDARDS

Introduction

Generally accepted accounting principles: Generally accepted accounting principles (GAAP) refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements.

GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. At international level such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India we have authoritative standards named as AS and IND-AS.

Accounting Standards

a) An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principle and methods to be chosen out of several alternatives on a particular issue.

b) Standards conform to applicable laws, customs, usage's and business environment.

c) Hence, there is no universally acceptable set of standards. Even standard on same issue allows more than one accounting policy to be followed.

d) Therefore, to reduce the alternatives to acceptable few and to recommend the principles and procedures to be followed and disclosures to be made in financial statement, the Institute of Chartered Accountants of India (ICAI) issues Accounting Standards each one of which covers a particular point or area of accounting.

Meaning of Accounting Standard (AS)

a) It is an authoritative statement issued by ICAI (The Institute of Chartered Accountants of India) a premier body of Accounting in our country.

b) It deals with the accounting issues related to a particular area which that standard wants to address.

Coverage of AS

AS generally covers one or more of the following four things related to the subject matter of AS.

a) Recognition: How and when to account/ recognize the relevant item. It can provide more than one alternatives also. Whether to treat an item as asset or as expense.

b) Measurement: How to measure the particular item, what to include, what not to include in the valuation.

c) Presentation: Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

d) Disclosure: The information to be disclosed in the annual financial statement regarding that area.

Benefits of setting Accounting Standard (AS)

The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

Limitations of Accounting Standard (AS)

There are some limitations of setting of accounting standards:

a) Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

b) There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

c) Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

Responsibility

a) Responsibility for the preparation of financial statement and for adequate disclosures is that of the management of the enterprise.

b) The auditor's responsibility is to form his opinion and report on such financial statements

Law Prevail over Accounting Standard (AS)

a) Efforts will be made to issue Accounting Standards which are in conformity with the provisions of the applicable laws, customs, usages and business environment of our country.

b) However, if due to subsequent amendments in the law, a particular Accounting Standard is found to be not in conformity with such law, the provision of the said law will prevail and the financial statement should be prepared in conformity with such law.

Accounting Standards Setting Process

The Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by constituting the Accounting Standards Board (ASB) in 1977. The ICAI has taken significant initiatives in the issuing of Accounting Standards to ensure that the standard-setting process is fully consultative and transparent. ASB is a body constituted by the Council of the ICAI, it (ASB) is independent in the formulation of accounting standards and Council of the ICAI is not empowered to make any modifications in the draft accounting standards formulated by ASB without consulting with the ASB. It may be noted that ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional body's viz. ICSI, ICAI, representatives from

ASSOCHAM, CII, FICCI, etc.

The standard-setting procedure of Accounting Standards Board (ASB) can be briefly outlined as follows:

1. Identification of broad areas by ASB for formulation of AS.
2. Constitution of study groups by ASB
3. Study group prepare preliminary drafts of the proposed accounting standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the standard, recognition and measurement principles wherever applicable and presentation and disclosure requirements.
4. Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.
5. Circulation of draft of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments.
6. Meeting with the representatives of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard.
7. Finalisation of the exposure draft of the proposed accounting standard and its issuance inviting public comments.
8. Consideration of comments received on the exposure draft and finalisation of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
9. Consideration of the final draft of the proposed standard and by the Council of the ICAI, and if found necessary, modification of the draft in consultation with the ASB is done.
10. The accounting standard on the relevant subject is then issued by the ICAI.

ACCOUNTING STANDARDS SETTING PROCESS

ASB will formulate the issue or area on which AS is required

ASB will set up a study group comprising of members of the institute and others

Study group will prepare a preliminary draft of proposed AS

ASB will consider it and if necessary revise or refer back to study group for revision

The draft now will be circulated to Central Council Members of ICAI and the specified bodies whose representative are appointed in ASB

ASB will hold meeting with representatives of specified bodies to consider their views on the draft of proposed AS

ASB will finalize the exposure draft of proposed AS and will be issued for the comments by the members of the Institute and the public. It will be specifically send to the specified bodies, stock exchange, etc.

ASB will finalize the draft of proposed AS after considering the comments received and submit it to the council of ICAI.

Council of ICAI will consider the final draft and if necessary modify in consultation with ASB

Then the AS on relevant subject will be issued by ICAI

How Many Accounting Standards

The Council of the Institute of Chartered Accountants of India has, so far, issued twenty nine Accounting Standards. However, AS 6 on 'Depreciation Accounting' has been withdrawn on revision of AS 10 'Property, Plant and Equipment' and AS 8 on 'Accounting for Research and Development' has been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets'. Thus effectively, there are 27 Accounting Standards at present. The 'Accounting Standards' issued by the Accounting Standards Board establish standards which have to be complied by the business entities so that the financial statements are prepared in accordance with generally accepted accounting principles. The following is the list of Accounting Standards with their respective date of applicability

AS No.	AS Title	Date
1	Disclosure of Accounting Policies	01/04/1993
2	Valuation of Inventories (Revised)	01/04/1999
3	Cash Flow Statement	01/04/2001
4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)	01/04/1998
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	01/04/1996
7	Construction Contracts	01/04/2002
9	Revenue Recognition	01/04/1993
10	Property, Plant and Equipment (Revised)	01/04/2016
11	The Effects of Changes in Foreign Exchange Rates	01/04/2004
12	Accounting for Government Grants	01/04/1994
13	Accounting for Investments (Revised)	01/04/1995
14	Accounting for Amalgamations (Revised)	01/04/1995
15	Employee Benefits	01/04/2006
16	Borrowing Costs	01/04/2000
17	Segment Reporting	01/04/2001
18	Related Party Disclosures	01/04/2001
19	Leases	01/04/2001
20	Earnings Per Share	01/04/2001
21	Consolidated Financial Statements (Revised)	01/04/2001
22	Accounting for Taxes on Income	01/04/2006
23	Accounting for Investments in Associates in Consolidated Financial Statements	01/04/2002
24	Discontinuing Operations	01/04/2004
25	Interim Financial Reporting	01/04/2002
26	Intangible Assets	01/04/2003

27	Financial Reporting of Interests in Joint Ventures	01/04/2002
28	Impairment of Assets	01/04/2008
29	Provisions, Contingent Liabilities and Contingent Assets (Revised)	01/04/2004

Need For Convergence Towards Global Standards

The last decade has witnessed a sea change in the global economic scenario. The emergence of transnational corporations in search of money, not only for fuelling growth, but to sustain on-going activities has necessitated raising of capital from all parts of the world, cutting across frontiers.

Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin. Therefore, translation and re-instatements are of utmost importance in a world that is rapidly globalising in all ways. Further, the accounting standards and principle need to be robust so that the larger society develops degree of confidence in the financial statements, which are put forward by organisations.

International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings. The harmonization of financial reporting around the world will help to raise confidence of investors generally in the information they are using to make their decisions and assess their risks.

Also, a strong need was felt by legislation to bring about uniformity, rationalisation, comparability, transparency and adaptability in financial statements. Having a multiplicity of accounting standards around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self- evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and facilitates fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public. Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.

International Accounting Standard Board

With a view of achieving these objectives, the London based group namely the International Accounting Standards Committee (IASC), responsible for developing International Accounting Standards, was established in June, 1973. It is presently known as International Accounting Standards Board (IASB), The IASC comprises the professional accountancy bodies of over 75 countries (including the Institute of Chartered Accountants of India). Primarily, the IASC was established, in the public interest, to formulate and publish, International Accounting Standards to be followed in the presentation of financial statements. International Accounting Standards were issued to promote acceptance and observance of International Accounting Standards worldwide. The members of IASC have undertaken a responsibility to support the standards promulgated by IASC and to propagate those standards in their respective countries.

Between 1973 and 2001, the International Accounting Standards Committee (IASC) released International Accounting Standards. Between 1997 and 1999, the IASC restructured their organisation, which resulted in formation of International Accounting Standards Board (IASB). These changes came into effect on 1st April, 2001. Subsequently, IASB issued statements about current and future standards IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). However, IASB has not rejected the standards issued by the ISAC. Those pronouncements continue to be designated as "International Accounting Standards" (IAS).

International Financial Reporting Standards as Global Standards

The term International Financial Reporting Standards (IFRS) comprises IFRS issued by IASB; IAS issued by International Accounting Standards Committee (IASC); Interpretations issued by the Standard Interpretations Committee (SIC) and the IFRS Interpretations Committee of the IASB.

International Financial Reporting Standards (IFRSs) are considered a "principles- based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. Large number of authorities permits public companies to use IFRS for stock- exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. So over the next few years, number of companies will adopt the international standards. This requirement will affect thousands of enterprises, including their subsidiaries, equity investors and joint venture partners. The increased use of IFRS is not limited to public-company listing requirements or statutory reporting. Many lenders and regulatory and government bodies are looking to IFRS to fulfil local financial reporting obligations related to financing or licensing.

List of IND AS & IFRS

Ind AS	IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
101	1	First Time Adoption of Indian Accounting Standards	-	-
102	2	Share Based Payment	GN 18	Guidance Note on Accounting for Employee Share-based Payments

103	3	Business Combinations	AS 14	Accounting for Amalgamations
104	4	Insurance Contracts	-	-
105	5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations
106	6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
107	7	Financial Instruments: Disclosures		
108	8	Operating Segments	AS 17	Segment Reporting
109	9	Financial Instruments		
110	10	Consolidated Financial Statements	AS 21	Consolidated Financial Statements
111	11	Joint Arrangements	AS 27	Financial Reporting of Interests in Joint Ventures
112	12	Disclosure of Interests in Other Entities	-	-
113	13	Fair Value Measurement	-	-
114	14	Regulatory Deferral Accounts	GN	Accounting for Rate Regulated Activities
115	15	Revenue from contracts with customers	AS 7 AS 9	Construction Contract Revenue Recognition
116	16	Leases	AS 19	Leases
1	1	Presentation of Financial Statements	AS 1	Disclosure of Accounting Policies
2	2	Inventories	AS 2	Valuation of Inventories
7	7	Statement of Cash Flows	AS 3	Cash Flow Statements
8	8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	10	Events after the Reporting Period	AS 4	Contingencies and Events Occurring After the Balance Sheet date

12	12	Income Taxes	AS 22	Accounting for Taxes on Income
16	16	Property, Plant and Equipment	AS 10	Property, Plant and Equipment
19	19	Employee Benefits	AS 15	Employee Benefits
20	20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants
21	21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates
23	23	Borrowing Costs	AS 16	Borrowing Costs
24	24	Related Party Disclosures	AS 18	Related Party Disclosures
27	27	Separate Financial Statements	-	-
28	28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements
29	29	Financial Reporting in Hyperinflationary Economies	-	-
32	32	Financial Instruments: Presentation		
33	33	Earnings per Share	AS 20	Earnings per Share
34	34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	36	Impairment of Assets	AS 28	Impairment of Assets
37	37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets
38	38	Intangible Assets	AS 26	Intangible Assets
40	40	Investment Property	AS 13	Accounting for Investment
41	41	Agriculture	-	-

Becoming IFRS Compliant

Any country can become IFRS compliant either by adoption process or by convergence process. Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB. Convergence means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

Convergence with IFRS will result in following benefits:

a) Improves investor confidence across the world with transparency and comparability
b) Improves inter-unit/ inter-firm/inter-industry comparison
c) Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
d) Acceptability of financial statements stock exchanges across the globe, which will facilitate entry of any Indian company to any stock exchange

Indian Accounting Standards (IND AS)

Indian Accounting Standards, (abbreviated as Ind AS) are a set of accounting standards which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. Now India will have two sets of accounting standards viz. existing accounting standards and IFRS converged Indian Accounting Standards (Ind AS).
Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).