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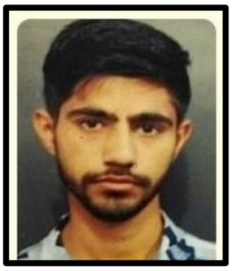

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CA FOUNDATION MARATHON PART 1

CHAPTER-1 BANK RECONCILIATION STATEMENT

Points of revision:

- **Cash book – maintained by the firm.**
- **Pass book – duplicate copy of firm's account maintained by the bank.**
- **We are reconciling bank column of cash book with pass book.**

- **The bank reconciliation statement can be prepared either starting from the bank passbook or cashbook balances.**

Always keep in your mind:

Debit balance in cash book	Credit balance in pass book	Positive balance (favourable)
Credit balance in cash book	Debit balance in pass book	Negative balance (overdraft/ unfavourable)

Debited in cash book	Credited in pass book	Increase of account
credited in cash book	Debited in pass book	Decrease of account

- **Reasons of differnces between cash book and pass book:**

i. **Cheques received entered/debited in the cash book but the same has not deposited into bank.**

ii. **The received cheque has been deposited into bank but the cheque has not been realised and the bank has not given a credit to the customer.**

iii. **Cheques issued to the creditor/supplier but not presented for payment.**

iv. **Bank charges debited by the bank but not entered into the cash book.**

v. **Bank collected payment on behalf of customer(firm) but not entered in the cash book.**

vi. **Bank credited interest/income into the pass book but not entered into the cash book.**

vii. **The bank has made payments on behalf of firm according to the standing instruction but not recorded in the cash book.**

viii. **Entry recorded twice either in the cash book or pass book.**

ix. **Entry omitted to be recorded either in cash book or pass book.**

x. **Some other errors may be recorded either in the cash book or pass book.**

- **Methods of Preparation of the Bank Reconciliation Statement:**

1. **Without preparing adjusted cash book**
2. **After preparing adjusted cash book.**

4. how to prepare BRS- simple trick

Practice question 1. When COC Education Pvt Ltd. received a bank statement showing a favourable balance of ₹ 10,39,000 for the period ended on 30th June 2021, they did not agree with the balance in the cash book. An examination of the cash book and bank statement disclosed the following:

a. **A deposit of ₹3,09,000 on 29th June 2021 had not been credited by the bank until 1st July 2021.**

b. **On 30th march 2021, the company had entered into hire purchase agreement to pay by bank order a sum of ₹3,00,000 on the 10th day of each month, commencing from April 2021. No entries had been made in cash book.**

c. **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.**

d. **Bank charges amounting to ₹3,000 had not been entered in cash book.**

e. **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.**

f. **₹11,200 paid into the bank had been entered twice in the cash book.**

g. **One out-going cheque ₹40,000 was recorded twice in debit side of cash book.**

h. **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 2021.**

i. **Payment side of cash book was overcast by ₹20,000.**

j. **One deposit of ₹1,50,000 was recorded in the cash book as if there is no bank column therein.**

k. **Out of the total cheques amounting to ₹11,500 drawn in last week of June 2021, cheques aggregating ₹8,000 were encashed in June 2021. Prepare BRS as on 30th June 2021.**

MCQ BASED QUESTIONS- PRACTICE SESSION 1

1. When preparing a bank reconciliation statement, if you start with debit balance as per cash book, cheques sent to bank but not collected should be

(a) Added (b) Deducted
(c) Not required to be adjusted (d) None

2. Balance as per adjusted cash book Rs.274. Cheques not yet presented Rs.730. Cheques deposited not yet recorded by bank Rs.477. Balance as per pass book will be

(a) Rs.52 (b) Rs.527
(c) Rs.500 (d) None

3.Which of these items are taken in to consideration for preparation of adjusted cash book.

(a) Mistake in cash book
(b) Mistake in pass book
(c) Cheque issued but not presented for payment
(d) Cheques deposited but not cleared

4.When overdraft as per cash book is the starting point, a cheque of Rs.500 deposited in to bank but not recorded in cash book will be:

(a) Added by Rs.500 (b) Deducted by Rs.500
(c) Added by Rs.1000 (d) Deducted by Rs.1000

5. Bank has directly paid Rs.1250 for rent as per standing instructions. In BRS starting with pass book overdraft

(a) Rs.1250 will be added to pass book overdraft
(b) Rs.2500 will be added to pass book overdraft
(c) This amount will be ignored
(d) Rs.1250 will be deducted from pass book overdraft.

CHAPTER 2. VALUATION OF INVENTORIES(AS-2)

Objective: Objective of AS-2 is the determination of the value at which inventories are carried in the financial statements .

Definitions: Inventories are assets:

(a) held for sale in the ordinary course of business;
(b) in the process of production for such sale; or
(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services, other than machinery spares, servicing equipment and standby equipment.

Significance/need of inventory valuation:

(i) determination of income
(ii) ascertainment of financial position.
(iii) Short term Liquidity analysis.
(iv) Statutory compliance.

Basis of inventory valuation/ MEASUREMENT OF INVENTORIES:

According to AS-2 inventories should be valued at the lower of cost and net realisable value.

Meaning of Net Realisable Value:

In case of Finished goods :This is the estimated selling price in the ordinary course of business less the estimated cost necessary to make sale. E.g commission on sale, transport expenses to complete the sale etc.

Example 1. Cost of stock of finished goods Rs 2,00,000.
Market price of stock of finished goods Rs 2,20,000.
Commission on sale Rs 18,000.
Transportation cost to complete the sale Rs 15,000.
Calculate value of stock of finished goods.

In case of work in progress: expenses and overheads required to be incurred to convert WIP into finished goods and making it ready for sale will also be reduced from selling price.

Example 2. Units of WIP = 1500 units.
Cost incurred till date = Rs 1200 per unit.
Selling price of finished goods = Rs 250/unit
Additional cost to be incurred for becoming finished goods = Rs 100/unit
Commission on sale = 10%.
Calculate value of stock of WIP.

In case of raw material :replacement cost is generally considered as NRV.
Example 3.
Case 1. If sale of finished goods are profitable.

Case 2. If sale of finished goods are not profitable.

Note: An assessment is made at each balance sheet date, inventories are value at lower of cost and NRV on an item by item basis.

Cost of Inventories: The cost of inventories should comprise:-

Direct material cost (cost of purchase)	XXXX
Add: conversion cost:	
Direct labour cost(wages)	XXXX
Factory overheads (e.g electricity charges,indirect material etc)	XXXX
Add: other cost (expenses incurred to bring the stock in its present location and condition e.g transport expenses to bring stock in godown, primary packing)	XXXX
Total cost of finished goods	**XXXX**

Important note: 1. Costs of purchase includes:

Add: Purchase price of raw material

Add:Taxes on purchase(non-recovrable)

Add:Commission on purchase

Add:Freight/cartage/carriage inward

Less: trade discount/rebate/duty drawback.

Exclusions from the Cost of Inventories (important for theory):

(a) **abnormal amounts of wasted materials, labour, or other production Overheads;**
(b) **storage costs, unless those costs are necessary in the production process prior to a further production stage;**
(c) **administrative overheads that do not contribute to bringing the inventories to their present location and condition; and**
(d) **selling and distribution costs.**

Inventory record systems/ Inventory system:

a. **Periodic inventory system: actual physical count (for measure or weight) of all the inventory items on hand on a particular date on which inventory is valued.**
Therefore *the inventories used during the year* is calculated by adding opening stock to purchases and deducting closing stock of inventories.

b. **Perpetual inventory system: system of recording inventory balances after each receipt and issue.**

Distinction between periodic Inventory System and Perpetual Inventory System (most imp)

Periodic Inventory System	Perpetual Inventory System
➢ This system is based on physical verification.	➢ It is based on book records.
➢ 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.
➢ This system determines inventory and takes cost of goods sold as residual value.	➢ It directly determines cost of goods sold and computes inventory as balancing figure.
➢ 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.
➢ Under this method, inventory control is not possible.	➢ Under this method, control can be exercised on inventory.
➢ This system is simple and less expensive	➢ This system is costilier and time consuming method.

and less time consuming. ➢ It requires closure of business for counting of inventory.	➢ Inventory can be determined without affecting the operations of the business.

Cost Formulae/ method to determine cost of inventory/ inventory valuation techniques:

Historical cost method:

(i) specific identification method.
(ii) FIFO Method
(iii) LIFO Method
(iv) Simple average price method.
(v) Weighted average price method.

Example 4: **Opening stock(1st April 2021) = 400 kg@ Rs 24**
On 12 April – 500 kg purchased @ Rs22
On 16 April – 300 kg purchased @ Rs20
On 18 April – 450 kg purchased @ Rs25
On 24 April – 200 kg purchased @ 24
On 28 April company issued 1000 kg to the factory.

Calculate value of closing stock and cost of issue under periodic system by different inventory valuation techniqus under historical cost method.

Non- historical method:

(a) adjusted selling price method.
(b) Standard cost method.

Example 5. **Y has stock of 500 pkd of shampoo. Retail price/pkd Rs 90. G.P. Rate 20%. Calculate cost of stock.**

Example 6. **Following information are obtained from records of a retail shop for the year ended 31st March 2021.**
Goods received from suppliers ₹15,75,500(subject to trade discount and taxes)
Trade discount 3% and GST 11%
Packaging and transportation charges ₹87,500.
Sales during the year ₹22,45,500.
Sales price of closing inventories ₹2,35,000.

Example 7. **X ltd has stock of 100 kg of shampoo. Standard cost per kg ₹40. Calculate cost of stock.**

Example 8. The company deals in three products, A, Band C, which are neither similar nor interchangeable. At the time of closing of its account for the -year 2021-22. The Historical Cost and net realisable value of the items of closing stock are determined as follows:

Items (₹ in lakhs)	Historical Cost (₹ in lakhs)	Net Realisable Value
A	40	28
B	32	32
C	16	24

What will be the value of Closing Stock**?**

Some more practice questions:

Practice question 9: from the following particulars ascertain the value of inventories as on 31st March 2021.

Inventory on 1-4-2020 ₹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 2020, 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% on sales.

Solution:

Particulars		Amount	Particulars		Amount
Opening stock	1,42,500		By sales	12,45,000	
Excess cost of abnormal loss	32,500	1,10,000	Sale of damaged goods	45,000	12,00,000
Purchases		7,62,500			
Manufacturing expenses		1,50,000			
Gross profit (12,00,000 x 1/5)		2,40,000	By closing stock(bal fig)		62,500

Practice question 10 : a trader prepared his accounts on 31st March each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April 2021 on which date the total cost of goods in his godown came to Rs 5,00,000. The following facts were established between 31st march and 15th April 2021.

(i) Sales ₹4,10,000 (including cash sales Rs 1,00,000)
(ii) Purchases ₹50,340 (including cash purchases ₹19,900).
(iii) 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 2021.

Answer : 7,69,660.

CHAPTER 3. Sale of Goods on Approval or Return Basis

Accounting treatment when:

a. **Sale on approval basis is made casually.**
b. **Sale on approval basis is made frequently:** **sales or return journal/day book is prepared.**
c. **Sale on approval basis is made numereously:**
   (a) sales or return day book, and (b) sales or return ledger are prepared. These books are called memorandum books.

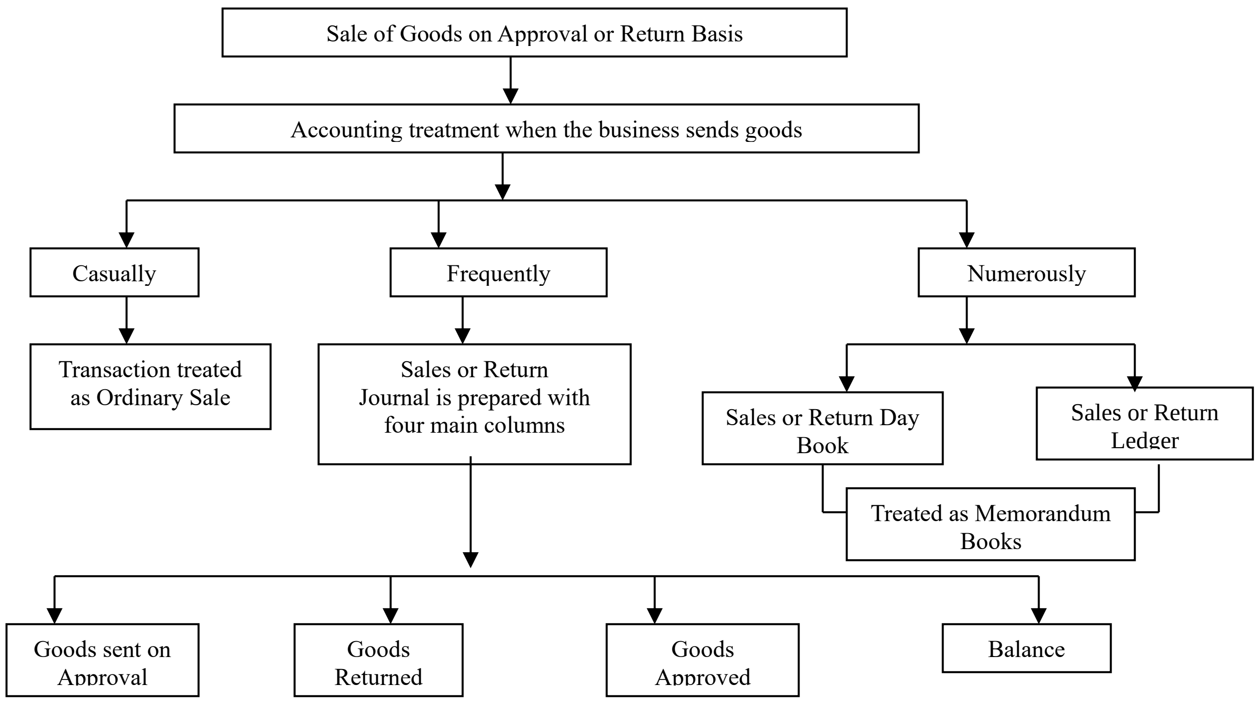
As per the definition given under the Sale of Goods Act, 1930, in respect of such goods, the sale will take place or the property in the goods pass to the buyer:

(i) When he signifies his approval or acceptance to the seller;

(ii) When he does some act adopting the transaction;

(iii) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time (if no time has been fixed).

2. **ACCOUNTING RECORDS:-**



2.1 WHEN THE BUSINESS SENDS GOODS CASUALLY ON SALES OR RETURN:--

Journal Entries:

1. When goods are sent on approval or on sale or return basis:
   Sundry Debtors Account Dr. [Invoice price]
   To Sales Account
2. When goods are rejected or returned within the specified time:
   Sales/Return Inwards Account Dr. [Invoice price]
   To Customers/Sundry Debtors Account

3 When goods are accepted at invoice price--- [No entry]

4 When goods are accepted at a higher price than invoice price:
   Sundry Debtors Account Dr.
   To Sales Account [Difference in price]

5 When goods are accepted at a lower price than the invoice price
Sales Account Dr.
To Sundry Debtors Account [Difference in price]

6 (i) At the year-end, when goods are lying with customers and the specified time limit is yet to expire
Sales Account Dr. [Invoice price]
To Sundry Debtors Account

(ii) These goods should be considered as stock with customers and in addition to the above, the following adjustment entry is to be passed
Stock with Customers on Sale or Return Account Dr.
To Trading Account [Cost price or market price whichever is less]

Note : No entry is to be passed for goods returned by the customers on a subsequent date.

Practice Question 1. COC sends goods to his customers on Sale or Return. The following transactions took place during 2021:

Sept. 15 Sent goods to customers on sale or return basis at cost plus 33 1/3 % Rs. 1,00,000

Oct. 20 Goods returned by customers 40,000

Nov. 25 Received letters of approval from customers 40,000

Dec .31 Goods with customers awaiting approval 20,000

COC records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of COC assuming that accounting year closes on 31st December, 2021.

2.2 WHEN THE BUSINESS SENDS GOODS FREQUENTLY ON SALE OR RETURN BASIS :- Under this method, record of goods sent is maintained in a specially ruled sales or return journal/ Day book instead of passing entry for sale of goods. The day book is divided into 4 main columns:

Goods sent on approval				Goods returned				Goods approved				balance
1	2	3	4	5	6	7	8	9	10	11	12	13
Date	particulars	Fol.	amount	date	particulars	Fol.	amount	Date	particulars	fol	amount	amount

2.3 WHEN THE BUSINESS SENDS GOODS NUMEROUSLY ON SALE OR RETURN:-- When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. Ledger contains the accounts of the customers and the 'Sale or Return' Total account. It is important to remember is that both are Memorandum Books.

Practice question 2. A firm sends goods on sale or return basis. Customers having the choice of returning the goods within a month. During may 2021, the following are details of goods sent:

Date (may)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs)	15,000	20,000	28,000	3,000	1,000	26,000

Within the stipulated time, P and Q returned the goods and B,D,E signified that they have accepted the goods. Show in the books of the firm, the sale or return account and customer-P for sale or return account on 15th June 2021.

Solution: sales or return account

Date (2021)	Particulars	Amount	Date (2021	Particulars	Amount
31 may 15 june 15 june	To sundries:sales To sundries: returned To balance c/d	24,000 43,000 26,000	31 may	By sundries: goods sent on sale o return basis	 93,000
		93,000			93,000

P' Account

Date	Particulars	Amount	Date	Particulars	Amount
31 may	To sales or return account	15,000	31 may	By sales or return account	15,000
		15,000			15,000

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

Date of dispatch	Party'name	Amount	Remarks
10-12-2021	M/s ABC	10,000	No information till 31-12-21
12-12-2021	M/s DEF	15,000	Returned on 16-12-2021
15-12-2021	M/s GHI	12,000	Goods worth 2000 returned on 20-12-21
20-12-2021	M/s DEF	16,000	Goods retained on 24-12-21
25-12-2021	M/s ABC	11,000	Goods retained on 28-12-21
30-12-2021	M/s GHI	13,000	No information till 31-12-21

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of X are closed on 31st December 2022. Prepare the following accounts in the book of X:

(a) Goods on sales or return (sold and returned) day books.

(b) Goods on sales or return total account.

Solution: **in the book of X**

Sales or return day book

Date 2021	Party to whom goods sent	L.F.	Amount	Date 2021	Sold	returned
Dec 10	M/s ABC		10,000	Dec 25	10,000	
Dec 12	M/s DEF		15,000	Dec 16	---	15,000
Dec 15	M/s GHI		12,000	Dec 20	10,000	2,000
Dec 20	M/s DEF		16,000	Dec 24	16,000	----
Dec 25	M/s ABC		11,000	Dec 28	11,000	----
Dec 30	M/s GHI		13,000			
					47,000	17,000

Sales or return ledger(goods on sales or return total) account

Date	Particulars	Amount	Date	Particulars	Amount
2021 Dec 31	To returns To sales To balance c/d	17,000 47,000 13,000	2021 Dec 31	By goods sent on sales or return	77,000
		77,000			77,000

SELF EXAMINATIONQUESTIONS:

1. When a large number of articles are sent on a sale or return basis, it is necessary to maintain

(a) Sale journal (b) Goods returned journal

(c) Sale or return journal (d) None of the above.

2. On 31st December, 2019 goods sold at a sale price of Rs. 30,000 were lying with customer, Mohan to whom these goods were sold on 'sale or return basis' and recorded as actual sales. Since no consent was received from Mohan, the adjustment entry was made presuming goods were sent on approval at a profit of cost plus 20%. in the balance sheet, the stock with customers account will be shown at Rs.

(a) 30,000. (b) 24,000. (c) 20,000. (d) 25,000.

3. A company sends its cars to dealers on 'sale or return' basis. All such transactions are however treated like actual sales and are passed through the sales day book. Just before the end of the financial year, two cars which had cost Rs. 55,000 each have been sent on 'sale or return' and have been debited to customers at Rs. 75,000 each, cost of goods lying with the customers will be

(a) Rs. 1, 10,000. (b) Rs. 55,000. (c) Rs. 75,000. (d) None of the above.

4. Under sales on return or approval basis, the ownership of goods is passed only

(a) when the retailer gives his approval

(b) if the goods are not returned within specified period.

(c) Both (a) and (b)

(d) None of the above

5. Under sales on return or approval basis, when transactions are few, the seller, while sending the goods, treats them as

a. An ordinary sale but no entry is passed in the books
b. An ordinary sale and entry for normal sale is passed in the books
c. Approval sale and no entry is passed
d. None of the above

6. Sale or Return Day Book and Sale or Return Ledger are known as

(a) principal books (b) subsidiary books (c) Memorandum books (d) none of the above

CHAPTER 4. CONSIGNMENT ACCOUNT

IMPORTANT POINTS FOR REVISION

i. computation of value of closing stock.
ii. concept of invoice price.
iii. computation of commission.
iv. computation and treatment of value of abnormal loss and claim from insurance company.

> **a. Abnormal loss in transit.**
> **b. Abnormal loss in consignee's godown.**

v. treatment of normal loss.
vi.Different cases of valuation of closing stock in case of fall in market price.
xii. Concept of advance by consignee and advance against consignment.

Important points for 1 mark questions or MCQ or theory based question

i. **Consignment Sale:- Where one person in firm sends goods to another person or firm on the basis that the goods will be sold on and at the risk of the former, it is called consignment sale.**

ii. **The party who sends the goods is called consignor or principal and the party to whom goods are sent is called consignee or agent.**

iii. **The relationship between the consignor and the consignee is that of principal and agent.**

iv. **Account Sales :- After sale of goods, consignee sends a statement to consignor. This statement is called account sales. In this statement gross value,expenses and commission of consignee, advance paid by consignee and net amount due by consignee are shown.**

v. **Performa invoice : it is prepared by consignor for the consignee stating details regarding goods sent on consignment i.e. quantity, rate, value etc.**

vi. Types of commission:

a. **Ordinary Commission : Ordinary commission is a commission which consignee gets as his remuneration from the consignor for the sales made on behalf of the consignor.**

b. **Over ridding commission. It is allowed to increase sales volume/ sales price. It is calculated as per instruction given in question.**

c. **Del – Credere Commission:- The additional commission for which the consignee guarantees debt is called del-credere commission. This commission save consignor from loss of bad debts only. The agent is responsible for bad debts but not for loss due to a dispute between the buyer and the seller. The del-credere commission is payable on total sales and not merely on credit sales.**

vii. Most important -- Discount paid on bills receivable discounted by Consignor
There are two alternative treatments for the aforesaid discount:
If discount is treated as "consignment expenses" it is debited to consignment account
If discount is treated as "financial charges', it is debited to profit and loss account.

viii. Accounting for consignment business in the Books of consignor:-To know the profit and the loss made on a consignment separately a consignment account is opened.
A consignment account is a nominal account and is in the nature of a special type of a trading and profit and loss account which show profit or loss made on the particular consignment.

xi. (imp) Distinction between Consignment and sale

Consignment	Sale
• Ownership of goods is not transferred to consignee. • Consignee is not liable for losses. • All expenses are born by consignor. • The document sent along with goods sent to consignee is called 'Performa invoice". • Consignee does not become debtor on receipt of goods. He becomes debtor on sale of goods. • Consignee receives commission on sale of goods.	• Ownership of goods is transferred to the buyer. • Buyer is liable for losses. • Buyer meets his own expenses. • The document sent on sale of goods is called 'Invoice'. • Buyer becomes debtor immediately on receipt of goods. • Buyer does not receive any commission. He earns profit on sale of goods.

xii. Distinction between Abnormal Loss And Normal Loss

Abnormal Loss	Normal Loss
• Abnormal loss occurs due to accident natural calamities or negligence. • This loss does not affect Gross Profit. • Accounting entry is made for such loss. • This loss can be insured against various contingencies. • This loss is not certain. This depends on the happening of certain event.	• Normal loss occurs due to inherent characteristic of goods, e.g. normal leakage, evaporation etc. • This loss effect Gross Profit. • No accounting entry is made for such loss. This is automatically absorbed in Gross profit. • This loss can not be insured. • This loss is almost certain. This occurs during transit or storage due to inherent characteristic of goods.

xiii. Journal entries in the book of consignor and consignee :

Situations	Consignor' book	Consignee's book
i. On sending goods	Consignment account Dr To goods sent on consignment a/c	No entry
ii. on expenses incurred by consignor on sending goods	Consignment account Dr To bank/cash/ creditors for exp a/c	No entry
iii. on expenses incurred by consignee	Consignment account Dr To consignee account	Consignor account Dr To cash/bank/creditor for expens
iv. on consignee reporting sales	Consignee account Dr To Consignment account	Cash/bank/consignment debtor D To consignor account
v. for commission due	Consignment account Dr To consignee account	Consignor account Dr To commission account
vi. for bad debts: a. if del-credere commission allowed. b. if del-credere commission is not allowed	 No entry Consignment account Dr To consignee account	 Commission account Dr To bad debts account No entry
vii. for closing the consignment account	For profit: Consignment account Dr To general profit and loss account Note: reverse entry in case of loss.	No entry
viii. for advances received from consignee.	Cash/bank/ B/R A/c Dr To consignee account	Consignor account Dr To Cash/bank/ B/P A/c
ix. for closing the goods sent on consignment account	Goods sent on consignment a/c To trading/purchases account	No entry

MCQ BASED QUESTIONS- PRACTICE SESSION 1

1. Which of these is/are recurring/Selling/indirect expenses?

(a) Transit insurance and freight
(b) Octroi
(c) Loading and unloading
(d) Godown rent and insurance

2. On receipt of goods, the consignee debits which of these accounts
(a) Purchase account
(b) Goods account
(c) Consignors account
(d) None of these

3. X sends out goods to Y, costing Rs.1,50,000. Goods are to be sold at cost plus 33 1/3%. The Consignor asked consignee to pay an advance for an amount equivalent to 60% of sales value. The amount of advance will be
(a) Rs.1,20,000
(b) Rs.1,00,000
(c) Rs.1,50,000
(d) None

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

5. Goods sent on consignment account is of the nature of
(a) Personal account (b) Nominal account
(c) Real account (d) Sales account

6. Out of the given option which cannot be treated as part of cost of purchase for valuing stock on hand
(a) Packing
(b) Octroi
(c) Delivery charges
(d) Freight

7. X sends out 100 bags to Y costing Rs 1000 each. 60 bags were sold at 10% above cost price. Sale value will be
(a) 66,000 (b) 65,000
(c) 60,000 (d) 65,500

8. The consignment accounting is made on the following basis
(a) Accrual Basis
(b) Realization basis
(c) Cash basis
(d) All of above

9. Which of the following term is true about consignment?
(a) Sale of goods
(b) Hypothecation of goods
(c) Shipment of goods
(d) Mortgage of goods

10. Which of these accounts are not opened in the books of consignor?
(a) Consignment account
(b) Commission account
(c) Goods send on consignment account
(d) Consignees personal account

11. For closing stock held by consignee, which account must be debited in the book of consignor
(a) Consignment stock account (b) Sales account
(c) Consignee account (d) Consignment account

12. X of Kanpur sends out 1000 boxes to Y Delhi costing Rs. 200 each at an invoice price of Rs. 220 each. Goods sent out on consignment to be credited in general trading will be
(a) Rs. 2,00,000
(b) Rs. 2,40,000
(c) Rs. 40,000
(d) None

13. A proforma invoice is sent by
(a) Consignee to consignor
(b) Consignor to consignee

(c) Debtor to consignee
(d) Debtor to consignor

14. Commission will be shared by
(a) Consignor and consignee
(b) Only consignee
(c) Only consignor
(d) Third party

15. X of Mumbai sends out certain goods at cost +25%. Invoice value of the goods is Rs.2,00,000. 4/5th of the goods were sold by consignee at Rs.1,76,000. Commission 2% upto invoice value and 10% of any surplus above invoice. The amount of commission will be.
(a) 4800
(b) 5200
(c) 3200
(d) 1600

16. When Del-credere commission is paid, bad debts will be borne by
(a) Consignee (b) Consignor
(c) Customer (d) None of the above

17. Mr. X consigned goods costing Rs. 3,00,000 to Mr. Y at cost + 33 1/3%. 1/10 of the goods were lost in transit . Mr. Y sold 3/5th of the remaining goods at 10% above the invoice price. Calculate the amount of sales:
(a) 2,00,000
(b) 2,37,600
(c) 3,50,000
(d) 4,00,000

18. X sends out goods costing 2,00,000 to Y at 50% above cost price. The goods are sold for 4,00,000. Commission is payable @ 10% on sales plus 20% of the excess of sales over invoice price. The amount of commission will be:
(a) 50,667
(b) 50,800
(c) 60,000
(d) 50,600

19. Goods sent on consignment for Rs.50,000. During transit 1/10th of goods were destroyed by fire. Again 1/9th of goods received by consignee were destroyed by fire in godown. Half of the original goods were sold for 30,000. Freight & insurance paid by consignor 2,500 and 1500 respectively. Calculate closing Stock.
(a) 30200 (b) 21,600
(c) 20,000 (d) 16200

20. Consignment account is
(a) Personal account
(b) Real account
(c) Nominal account
(d) Representative personal account

Answer:- 1.(d)	**2.(d)**	**3.(a)**	**4.(a)**	**5.(c)**	**6.(c)**	**7.(a)**	**8.(a)**	**9.(c)**	**10.(b)**
11.(a)	**12.(a)**	**13.(b)**	**14.(b)**	**15.(a)**	**16.(a)**	**17.(b)**	**18.(c)**	**19.(d)**	**20.(c)**

MULTIPLE CHOICE QUESTIONS- PRACTICE SESSION 2

1. State whether following statements are true or false.
(1) The relationship between the consignor and the consignee is that of Principal and Agent.
(2) In consignment the goods are dispatched on the basis that the goods will be sold on behalf of, at the expense of and at the risk of the consignee.
(3) Account Sales is the statement sent by the consignor to the consignee.
(4) Del credere commission is normally calculated on total sales.
(5) If the consignee is not authorized to get the Del credere commission, then he is liable for all losses on account of non-recovery of debts.
(6) Del credere commission is allowed to the consignee to bear the loss of account of bad debts.
(7) Consignee has no right in the profits on goods sent on consignment.
(8) In consignment Account, ownership of the goods remains with the consignor. .

[Ans : (1) True (2) False (3) False (4) True (5) False (6)" True (7) True (8) True}

2. **Consignment account is of the nature of**
   (a) Personal account (b) Nominal account
   (c) Real account *(d)* Profit and Loss A/c

3. **P of Delhi sends out 100 boxes of toothpaste costing Rs 200 each. Each box consists of 12 packets. 60 boxes were sold by consignee at Rs 20 per packet. Amount of sale value will be:**
   (a) Rs.14400 (b) Rs.12000 (c) Rs. l3200 (d)Rs. l4200

4. **X of Kolkata sends out 2000 boxes to Y of Delhi costing Rs 100 each. Consignor's expenses Rs 5000. 1/10th of the boxes were lost in consignee's godown and treated as normal loss.1200 boxes were sold by consignee. The value of consignment stock will be:**
   (a) Rs. 68333 (b) Rs.61500 (c) Rs.60000 (d)Rs.60250

5. **Goods costing Rs 2,00,000 sent out to consignee at Cost + 25%. Invoice value of the goods will be:**
   (a) Rs.250,000 (b) Rs.2,40,000 (c) Rs.300,000 (d) None

6. **Goods costing Rs 1,80,000 sent out to consignee to show a profit of 20% on Invoice Price. Invoice price of the goods will be:**
   (a) Rs.2,16,000 (b) Rs.2,25,000 (c) Rs.2,10,000 (d) None

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

8. **X sent out certain goods to Y of Delhi. 1 /10 of the goods were lost in transit. Invoice value of goods lost Rs 12,500. Invoice value of goods sent out on consignment will be:**
   (a) Rs.120,000 (b) Rs. 125,000 (c) Rs.140,000 (d)Rs.l00,000

9. **Rabin consigned goods for the value of Rs 8,250 to Raj of Kanpur paid freight etc. of Rs 650 and insurance Rs 400. Drew a bill on Raj at 3 months after date for Rs 3,000 as an advance against consignment, and discounted the bill for Rs 2960. Received Account Sales from-Raj showing that part of the goods had realized gross Rs 8,350 and that his expenses and commission amounted to Rs 870. The stock unsold was valued at Rs 2750. Consignee wants to remit a draft for the amount due. The amount of draft will be:**
   (a) Rs.2130 (b) Rs.4480 (c) Rs.5130 (d) Rs.5090

10. **X of Kolkata sends out goods costing Rs 1,00,000 to Y of Delhi. 3/5th of the goods were sold by consignee for Rs 70,000. Commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of Commission will be:**
    (a).2833 (b) Rs.2900 (c) Rs.3000 (d) Rs.2800

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

12. **X of Kolkata sends out 1000 bags to Y on Delhi costing Rs 2000 each. 600 bags were sold at 10% above cost price. Sale value will be:**
    (a) Rs.13,20,000 (b) Rs. 13,00,000 (c) Rs.12,00,000 (d) 13,50,000

13. **Which of the following statement is not true:**
    a) If del-creder's commission is allowed, bad debt will not be recorded in the books of consignor.
    b) if del-creder's commission is allowed, bad debt will be debited in consignment account
    c) Del-creder's commission is allowed by consignor to consignee
    d) Del-creder's commission is generally relevant for credit sales

14. **X of Kolkata sends out 400 bags to Y on Delhi costing Rs 200 each. Consignor expenses Rs 2000. Y expenses non selling Rs 2000, selling 1000. 300 bags were sold by Y. Value of consignment stock will be:**
    (a) Rs.20,400 (b) Rs.20,200 (c) Rs.20,000 (d) Rs.21000

15. **X of Kolkata sent out 2000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value.The amount of bill will be:**

(a) Rs.1,74,000 (b) Rs.2,00,000 (c) Rs.2,90,000 (d) Rs.1,20,000

16. Which of the following statement is wrong:

a) Consignor is the owner of the consignment stock
b) Del-credere commission is allowed by consignor to protect himself for bad debt
c) Proportionate consignor's expenses is added up with consignment stock
d) All proportionate Cconsignor and consignee's expenses will be added up for valuation of consignment stock.

17. X of Kolkata sends out 500 bags to Y costing Rs 400 each at an invoice price of Rs 500 each. Consignor's A/c expenses Rs 4000 consignee's expenses, non-selling Rs 1000, selling Rs. 2000. 400 bags were sold. The amount of consignment stock at Invoice Price will be:

(a) Rs.50,900 (b)Rs.50,800 (c) Rs.50,000 (d)Rs.51,000

18. X of Kolkata sends out 500 bags to Y costing Rs 400 each at an invoice price of Rs 500 each. Consignor's A/c expenses Rs 4,000 consignee's expenses, non-selling Rs 1000, selling Rs. 2000. 400 bags were sold. The amount of Stock Reserve will be

(a) Rs.10,000 (b)Nil (c) Rs.20,000 (d) Rs50,400

19. Commission will be shared between:

(a) Consignor & Consignee (b) Only Consignee
(c) Only Consignor (d) Third Party

***20. X of Kolkata sends out certain goods to Y of Mumbai at cost + 25%. 1/2 of the goods received by Y is sold at 1,76,000 at 10% above IP. Invoice value of goods send out is:**

(a) Rs.300,000 (b) Rs.3,20,000 (c) Rs.180,000 (d) Rs.340,000

21. X of Kolkata sends out goods costing 300,000 to Y of Mumbai at cost + 25%. Consignor's expenses Rs 5000. 1/10th of the goods were lost in transit. Insurance claim received Rs 3000. The net loss on account of abnormal loss is:

(a) Rs.27,500 (b) Rs.25,500 (c) Rs.30.500 (d) Rs.27,000

***22. Rahim of Kolkata sends out 1000 boxes to Ram of Delhi costing Rs 100 each at an IP of Rs 120 each. Goods send out on consignment to be credited in general trading will be:**

(a) Rs.100,000 (b) Rs.120,000 (c) Rs.20,000 (d) None

23. In the books of consignor, the profit of consignment will be transferred to:

(a) General Trading A/c (b)General P/L A/c (c) Drawings A/c (d) None of these

***24. Ram of Kolkata sends out 1000 boxes to Y of Delhi, costing Rs 200 each. 1/10th of the boxes were lost in transit. 2/3rd of the boxes received by consignee are sold at cost + 25%. The amount of sale value will be:**

(a) Rs.1,00,000 (b) Rs.1,50,000 (c) Rs.1,20,000 (d) Rs.1,40,000

25. X of Kolkata sends out goods costing Rs 80,000 to Y of Mumbai so as to show 20% profit on invoice value. 3/5th of the goods received by consignee is sold at 5% above invoice price. The amount of sale value will be:

(a) Rs.63,000 (b) Rs.60,000 (c) Rs.50,400 (d)Rs.40,000

***26. X of Kolkata sends out certain goods at cost + 25%. Invoice value of goods sends out Rs 400,000. 4/5th of the goods were sold by consignee at Rs.3,52,000. Commission 2% upto invoice value and 10% of any surplus above invoice value.The amount of commission will be:**

(a) Rs.9,600 (b) Rs.10,400 (c) Rs.6,400 (d)Rs. 3,200

***27. Ram of Kolkata sends out goods costing 100,000 to Y of Mumbai at 20% profit on invoice price. 1/10th of the goods were lost in transit. ½ of the balance goods were sold. The amount of stock reserve on consignment stock will be:**

(a) Rs.4500 (b) Rs.9000 (c) Rs.11250 (d)None

28. C of Bangalore consigned goods costing Rs 3,000 to his agent at Delhi. Freight and insurance paid by consignor Rs 100. Consignee's expenses Rs 200. 4/5th of the goods were sold for Rs 3,000. Commission 2% on sales. Consignee wants to settle the balance with the help of a bank draft. The amount of draft will be:

(a) Rs.2740 (b) Rs.2800 (c) Rs.3000 (d) Rs.1800

29 Out of the following at which point the treatment of "Sales" and "Consignment" is same:

(a) Ownership transfer, (b) Money receive, (c) Stock outflow. (d) Risk.

***30. Del-credere commission is allowed for bad debt, consignee will debit the bad debt amount to:**

(a) Commission Earned A/c (b) Consignor A/c
(c) Debtors A/c (d) General Trading A/c

***31. A Performa invoice is sent by:**

(a) Consignee to Consignor (b) Consignor to Consignee
(c) Debtors to Consignee (d) Debtors to Consignor

32. Which of the following statement is correct:

(a) Consignee will pass a journal entry in his books at the time of receiving goods from consignor.

(b) Consignee will not pass any journal entry in his books at the time of receiving goods from consignor.

(c) The ownership of goods will be transferred to consignee at the time of receiving the goods.

(d) Consignee will treat consignor as creditor at the time of receiving goods.

33. 1000 kg of apples are consigned to a wholesaler, the cost being Rs 3 per kg plus Rs 400 of freight, it is known that a loss of 15% is unavoidable. The cost per kg will be:

(a) Rs 5 (b) Rs 4 (c) Rs 3.40 (d) Rs 3

***34. A of Mumbai sold goods to B of Delhi, the goods are to be sold at 125% of cost which is invoice price. Commission 10% on sales at IP and 25% of any surplus realized above IP. 10% of the goods sent out on consignment, invoice value of which is Rs 12,500 were destroyed. 75% of the total consignment is sold by B at Rs 1,00,000. What will be the amount of commission payable to B?**

(a) Rs.10,937.5 (b) Rs. 10,000 (c) Rs.9000 (d)Rs.9700

35. Consignment A/c is prepared in the books of : .

(a) Consignor (b) Consignee (c) Third Party" (d)None

36. Goods sent on consignment Invoice value 2,00,000 at cost + 33$^{1/3}$ %. 1/5th of the goods were lost in transit. Insurance claim received Rs 10,000. The, amount of abnormal loss to be transferred to General P/L is:

(a) Rs.30,000 (b) Rs.20,000 (c) Rs35,000 (d)Rs.40,000

37. X of Kolkata sends out 100 boxes to Y of Delhi costing Rs 200 each. Consignor's expenses Rs 4000. Consignee's expenses non-selling 900, selling 500. 1/10th of the boxes were lost in transit. 2/3rd of the boxes received by consignee were sold. The amount of consignment stock, will be:

(a) Rs.-7200 (b) Rs.7500 (c) Rs.7000 (d) Rs.6,000

38. X of Kolkata sends out goods costing 100,000 to Y of Mumbai at cost + 25%. Consignor's expenses Rs 2000. 3/5th of the goods were sold by consignee at 85000. Commission 2% on sales + 20% of gross sales less all commission exceeds invoice value. Amount of commission

(a) Rs.3083 (b) Rs.3000 (c) Rs.2500 (d)Rs,2000

39. Consignment stock will be recorded-in the balance sheet of consignor on asset side at:

(a) Invoice Value (b) At Invoice value less stock reserve
(c) At lower than cost price (d) At 10% lower than invoice value

40. Which of the following expenses of consignee will be considered as non-selling expenses:

(a) Advertisement (b) Insurance of transit
(c) Selling Expenses (d) None of the above

***41. The consignment accounting is made on the following basis:**

(a) Accrual (b) Realization (c) Cash Basis (d)None

42. Goods sent on consignment Rs 7,60,000. Opening consignment stock Rs 48,000. Cash sales Rs 7,00,000. Consignor's expenses Rs 20,000. Consignee's expenses Rs 12,000. Commission Rs 20,000. Closing consignment stock Rs 3,00,000. The profit on consignment is:

(a) Rs.150,000 (b) Rs.140,000 (c) Rs.92,000 (d) None

***43. X of Kolkata sends out 100 boxes to Y of Delhi costing Rs 100 each. Consignor's expenses Rs 1000. Consignees expenses selling Rs 500. 3/5th of the goods sold by consignee, ½ of the balance goods were**

lost in consignee's godown due to fire. The value of abnormal loss will be:

(a) Rs.3000 (b) Rs.2200 (c) Rs.4000 (d) None

44. X of Kolkata sends out 1000 boxes costing Rs.200 each to Y of Delhi. l/10th of the boxes were lost in transit. 2/3rd of the remaining boxes sold by consignee at cost + 25%. The sale value will be:

(a) Rs.1,50,000 (b) Rs.1,40,000 (c) Rs.1,20,000 (d) Rs.1,00,000

45. Which of the following item is not credited to consignment account?

(a) Cash sales made by consignee

(b) Credit sales made by consignee

(c) Consignment Stock

(d) Stock Reserve

46. Goods sent out on consignment Rs 2,00,000. Consignor's expenses 5,000. Consignee's expenses 2000. Cash sales Rs 1,00,000, credit sales Rs 1,10,000. Consignment stock Rs 40,000. Ordinary commission payable to consignee Rs 3,000. Del-credere commission Rs 2000. The amount irrecoverable from customer Rs 2,000. What will be the profit on consignment?

(a) Rs.38,000 (b) Rs.40,000 (c) Rs.36,000 (d) Rs.43000

47. The commission received from consignor will be transferred to which account?

(a) General Trading (b) General P/L (c) Balance Sheet (d) None of these

48 X of Kolkata sends out 1000 boxes to Y of Delhi costing Rs 20 each. Consignor's expenses 2000. 4/5th of the boxes were sold at 25 each. The profit on consignment will be:

(a) Rs.2400 (b) Rs.2000 (c) Rs.3000 (d)Rs.3500

49. If del-credere commission is allowed by consignor to consignee, the bad debt treatment will be (In the books of Consignor:

(a) Will not be recorded in consignor's books
(b) Bad Debt will be debited in Consignor's A/c
(c) Bad Debt will be charged to General P/L A/c
(d) Bad Debt will be recoverable along with credit sales

50. The owner of the consignment stock is:

(a) Consignor (b) Consignee (c) Debtors (d)None

51. The nature of the consignment account is:

(a) Capital in nature (b) Revenue in nature
(c) Realisation A/c in nature (d) Bank A/c in nature

52. Goods sent out on consignment Rs 2,00,000. Consignor's expenses 5,000. Consignee's expenses 2000. Cash sales Rs 1,00,000, credit sales Rs 1,10,000. Consignment stock Rs 40,000. Commission payable to consignee Rs 3,000. The amount irrecoverable from customer Rs 2,000. What will be the profit on consignment?

(a) Rs.38,000 (b) Rs.40,000 - (c) Rs.43,000 (d) None

53. Rahim of Kolkata sends out goods of the invoice value Rs 2,00,000 to Ram of Delhi at cost + 25%. The amount of loading will be:

(a) Rs.50,000 (b) Rs.40,000 (c) Rs.30,000 (d) Rs.60,000

54. Goods sent to consignment at cost + 33$^{1'3}$ %. The percentage of loading on invoice price will be:

(a) 25% (b) 33$^{1/3}$ % (c) 20% (d) None

55. The balance of goods sent out on consignment will be transferred to:

(a) General P/L (b)General Trading (c) Balance Sheet (d) Capital A/c

56. X of Kolkata purchased 1000 boxes costing Rs 100 each. 200 boxes were sent out to Y of Delhi at cost + 25%. 600 boxes were sold at 120 each. The amount of gross profit to be recorded in general trading will be:

(a) Rs.12,000 (b) Rs.17,000 (c) Rs. (3,000) (d) None

57. In the books of consignor, the profit on consignment will be transferred to:

(a) General Trading A/c (b) General Profit and Loss A/c

(c) Drawings A/c (d) None of the above

58. P of Faridabad sent out goods costing Rs. 45,000 to Y of Delhi at cost + 33$^{1/3}$ %. 1/10th of goods were lost in transit. 2/3rd of the goods are sold at 20% above IP. The amount of sale value will be:

(a) Rs.54,000 (b) Rs.43,200 (c) Rs.60,000 (d)Rs.36,000

59. **M of Kolkata sent out goods costing Rs. 45,000 to N of Mumbai at cost + 33$^{1/3}$ %. 1/10th of goods were lost in transit. 2/3rd of the goods received are sold at 20% above IP. ½ of the sales are on credit. The amount of credit sales will be:**

(a) Rs.21,600 (b) Rs.18,000 (c) Rs.21,000 (d)Rs.22,500

60. A of Ahmedabad sent out certain goods so as to show a profit of 20% on IP. 1/10th of the goods were lost in transit. The cost price of goods lost is Rs.20,000. The invoice value of goods sent out is:

(a) Rs.250,000 (b) Rs.2,00,000 (c) Rs.225,000 (d) Rs.2,40,000

61. Ram of Delhi sends out goods costing Rs.2,00,000 to Krishna of Brindaban. Consignor's expenses Rs.5000. Consignee's expenses in relation to sales Rs 2000. 4/5th of the goods were sold at 20% above cost. The profit on consignment will be:

(a) Rs.26,000 (b) Rs.32,000 (c) Rs.26,200 (d) Rs.(6,000)

62. Over-ridding commission is a commission payable to consignee by consignor for:

(a) For protecting himself from bad debt

(b) For making sales above specific price

(c) As good friend

(d) As loyalty payment

63. A of Kolkata sends out 500 boxes to B of Delhi costing Rs 200 each. Consignor's expenses Rs 5000. 1/5th of the boxes were still in transit. 3/4th of the goods received by consignee were sold. The amount of goods still in transit will be:

(a) Rs.20,000 (b) Rs.21,000 (c) Rs.21,200 (d) Rs. None

64. Consignment account is

(a) Real account (b) Personal account

(c) Nominal account (d) None of the above

65. In the books of consignor, the loss on consignment business will be charged to:

(a) Consignee A/c (b) General Trading A/c

(c) General P/L A/c (d) Bank A/c

66. Dravid of Delhi sends out goods to Sourav of Kolkata, goods costing Rs 2,00,000 at cost +25%, with the instruction to sell it at cost + 50%. If 4/5th of the goods are sold at stipulated selling price and commission allowable 2% on sales. What will be the profit on consignment in the books of consignor?

(a) Rs.86,200 (b) Rs.70,000 (c) Rs. 75,200 (d) Rs. 76,800

67. X of Kolkata sends out goods costing Rs 3,00,000 to Y of Delhi. Goods are to be sold at cost + 33$^{1/3}$ %. The consignor asked consignee to pay an advance for an amount equivalent to 60% of sales value. The amount of advance will be:

(a) Rs.2,40,000 (b) Rs.2,00,000 (c) Rs.3,00,000 (d) None

68. If consignor draws a bill on consignee and discounted it with the banker. The discounting charges, if treated as financing charges, will be debited in:

(a) General P/L (b) Consignment A/c (c) Consignee (d)Debtors

69. X of Kolkata sends out goods costing Rs 3,00,000 to Y of Delhi. Commission agreement -2% on sales + 3% on sales as del-credere commission. The entire goods are sold by consignee for Rs 4 lacs. However, consignee is able to recover Rs 3,95,000 from the debtors. The amount of profit to be transferred to P/L as net commission by consignee will be:

(a) Rs.15,000 (b)Rs.22,000 (c) Rs.21,000 (d)Rs.20,000

70. When goods sent on consignment are sold by the consignee, the account to be debited in the book of consignor -

(a) Cash account *(b)* Consignee's personal account
(c) Consignment account *(d)* Purchases A/c

71. The abnormal loss on consignment is credited to

(a) Consignment account *(b)* Consignee's personal account
(c) Profit and loss account *(d)* Abnormal Loss A/c

72. Loss of stock is said to be normal when -

(a) It is because of bad packing *(b)* It is unavoidable and natural
(c) The stock is destroyed in fire *(d)* It is loss by theft

ANSWERS:

2.B, 3.A, 4.A, 5.A, 6.B, 7.A, 8.B, 9.B, 10.A, 11.A, 12.A, 13.B, 14.D, 15.A, 16.D, 17.D, 18.A, 19.B, 20.B, 21.A, 22.A, 23.B, 24.B, 25.A, 26.A, 27.C, 28.A, 29.C, 30.A, 31.B, 32.B, 33.B, 34.A, 35.A, 36.A, 37.B, 38.A, 39.B, 40.B, 41.A, 42.B, 43.B, 44.A, 45.D, 46.A, 47.B, 48.A, 49.A, 50.A, 51.B, 52.A, 53.B, 54.A, 55.C, 56.A, 57.B, 58.B, 59.A, 60.A, 61.A, 62.B, 63.B, 64.C, 65.C, 66.C, 67.A, 68.A, 69.A, 70.B, 71.A, 72.B

CHAPTER 5. RECTIFICATION OF ERRORS

IMPORTANT POINTS FOR EXAM:

i. **Opening entries** : the opening entry is an item which is passed in the **journal proper or general ledger.**
Journal entry:
All assets a/c Dr
To all liabilities a/c
To owners' capital a/c

ii. **Closing entries** : all expenses/losses and income/revenue related nominal accounts must be closed at the end of the year by transferring them either to trading account or profit & loss account. Journal entries required are called closing entry.

iii. **Rectification entries:** these entries are passed when errors or mistakes are discovered in accounting records. These entries are also passed **in journal proper/ general ledger.**

The term 'error' refers to **unintentional mistakes** in financial information, e.g. mathematical or clerical mistakes, oversight or misinterpretation of facts, or unintentional misapplication of accounting policies.
The agreement of trial balance do not show conclusively that no mistakes have remain undetected. Some errors will not be disclosed by the trial balance whereas some will be. **An agreed trial balance, therefore, is only a reasonable proof of arithmetic accuracy of books**

CLASSIFICATION OF ERRORS(most. imp)

a)	Error of principle	➢ Wrong classification of expenditure or receipt
b)	Error of commission	➢ Wrong posting either of amount or on the wrong side, or in the wrong account.
c)	Error of omission	➢ A transaction entirely omitted to record in original books or partially omitted while posting
d)	Compensating error	➢ One error compensated by the error i.e. an error which cancels themselves out.

Note : errors covered under point B,C and D are collectively called clerical errors.

Stages of errors:

i. at the stage of recording the transaction in journal.
ii. at the stage of totalling of subsidiary book.
ii. at the stage of posting the entries in ledger.
iii. at the stage of balancing the ledger accounts.
iv. at the stage of preparing the trial balance.

Stages of rectification of errors:

a. before preparing trial balance.
b. after preparing trial balance.
c. in next accounting year.

SUSPENSE ACCOUNT:-- If the difference in the trial balance is not quickly located, it is usual to put the difference to suspense account in order to make the trial balance balanced.
If the debit side is short, the suspense account will be debited saying "To differences in trial balance" and similarly, the suspense account will be credited if the credit side is short.

CORRECTION IN THE NEXT TRADING PERIOD:-- Since it is necessary to ascertain the profit or loss of each period separately, it would be necessary to rectify errors in such a way as not to affect the current year's expenses, losses or incomes.
For this purpose, a separate account, **profit and loss adjustment account**, should be opened and all debit and credit in respect of nominal accounts for errors committed in previous trading period should be passed through that account. **The balance of this account is finally transferred to the capital account.**

Distinction between Error of Principal and Error of Omission (most imp.)

Errors of Principal	Errors of Omission
• This error does not affect Trial Balance, • This error is due to wrong classification of Capital and Revenue expenditure or personal and nominal account • This is not a clerical error. • This error affects profit of the business. • This error will affect value of asset or liability	• This error may affect Trial Balance • This error is due to complete omission of a transaction or partial omission • This is a error may or may not affect profit of the business. • This error may or may not affect value of assets or liability

MCQ BASED QUESTIONS- PRACTICE SESSION 1

1. Whenever errors are noticed in the accounting records, they should be rectified _____
(a) At the time of preparation of trial balance
(b) Without waiting the accounting year to end
(c) After the preparation of final accounts
(d) In the next accounting year

2. A trial balance will not tally if ________
(a) Correct journal entry is posted twice
(b) Credit purchase debited to purchases and credited to cash
(c) 5000 cash paid to creditors is debited to creditors for 500 and credited to cash as 5000
(d) None of the above

3. Sales to shyam of 500 not recorded in the books would affect __
(a) Shyam’s account
(b) Sales account
(c) Sales account and shyam’s account
(d) Cash account

4. Errors of carry forward from one year to another affects __
(a) Personal account
(b) Real account
(c) Nominal account
(d) Both a and b

5. Goods worth Rs. 272 returned by Lala passed through the books as Rs. 722. The rectification entry is
(a) Lala will be debited by Rs.450
(b) Lala will be debited by Rs.272
(c) Lala will be credited by Rs.722
(d) Lala will be credited by Rs.272

6. If a receipt of Rs. 200 from rajesh (debtor) has not been recorded in the books, the profits would show
(a) An increase of Rs. 2,000
(b) A decrease of Rs. 200
(c) Neither an increase nor a decrease
(d) None of the above

7. A credit purchase of Rs. 950 from sudhir was recorded in purchases book as Rs. 590. The rectification entry is __
(a) Purchases account will be debited by Rs. 360
(b) Sudhir will be credited by Rs. 590
(c) Purchases account will be debited by Rs. 950
(d) Sudhir will be credited by Rs. 950

8. Which of these errors affect only one account
(a) Errors of casting (b) Errors of carry forward
(c) Errors of posting (d) All the three

9. If goods worth 1750 returned to supplier is wrongly entered in sales returns book as 1570, then ___.
(a) Net profit will decrease by 3140
(b) Gross profit will increase by 3320
(c) Gross profit will decrease by 3500
(d) Gross profit will decrease by 3320

10. Which of the following is one sided error
(a) Rs. 500 purchase of old equipment not recorded in the books of account at all
(b) Rs. 500 being expense on travelling expense credited to travelling expenses
(c) Both
(d) None

11. Which of the following errors affects the agreement of a trial balance?
(a) Mistake in balancing an account
(b) Omitting to record a transaction entirely in the subsidiary books
(c) Recording of a wrong entry in the subsidiary books
(d) Posting an entry on the correct side but in the wrong account

12. Which of the these errors affect only one account
(a) Errors of casting
(b) Errors of carry forward
(c) Errors of posting
(d) All the three
13. Which of these errors affect two or more accounts?
(a) Errors of complete omission
(b) Errors of principle
(c) Errors of posting to wrong account
(d) All the three

14. Which of the following error is an error of principle
(a) Rs. 5,000 received from sham credited to Ram A/c.
(b) Rs. 5,000 incurred on installation of new plant debited to travelling expenses A/c/ installation expenses.
(c) Rs. 500 paid for wages debited to salary A/c
(d) Rs. 500 being purchase of raw material debited to purchase A/c by50

15. Rs. 200 paid as wages for erecting a machine should be debited to
(a) Repair account
(b) Machine account
(c) Capital account
(d) Furniture account

16. Debiting overhauling expenses after purchase of a second hand car to Repairs A/c is an error of __.?
(a) Commission
(b) Omission
(c) Principle
(d) Not an error

17. In the course of locating the reason for the difference in the trial balance, it has been found that an amount received from a customer has been debited to his account. The error may be classified as _________________ .
(a) Errors of commission
(b) Errors of omission
(c) Errors of principle
(d) Both errors of commission and omission

18. Errors can be detected ____:
(a) Before the preparation of Trial Balance
(b) After the preparation of Trial Balance, but before the preparation of final accounts
(c) After the preparation of Final accounts (next accounting year)
(d) All of the above

19. Rent received from a tenant Rs. 10,000 was correctly entered in the cash book but posted to the debit of Rent a/c. The effect of this error on the trial balance will be
(a) Debit total will be Rs. 20,000 more than the credit total
(b) Debit total will be Rs. 10,000 more than the credit total
(c) Subject to other entries being correct, the total will agree
(d) None of these

20. The suspense A/c facilities the preparation of _____even if the ____has not been balanced
(a) Trial Balance and Financial Statements
(b) Ledger and Trial Balance
(c) Trial Balance and Ledger
(d) Financial Statements and Trial Balance

Answer:-	**1.(b)**	**2.(c)**	**3.(c)**	**4.(d)**	**5.(a)**	**6.(c)**	**7.(a)**	**8.(d)**	**9.(d)**	**10.(b)**
	11.(a)	**12.(d)**	**13.(d)**	**14.(b)**	**15.(b)**	**16.(c)**	**17.(a)**	**18.(d)**	**19.(a)**	**20.(d)**

CHAPTER 6. BILLS OF EXCHANGE

Important points for 1 mark questions and MCQ and theory based questions:

1. **Bill of exchange (Definition)--According to section 5 of Negotiable instrument Act 1881, A bill of exchange is an instrument in writing containing an unconditional order sighed by the maker directing a certain person to pay a certain some of money only to, or to the order of certain person to the bearer of instruments.**

2. **In other words, a bill of exchange is an unconditional order in writing given by the creditor to debtors in writing which is payable on demand at a fixed future time, a certain sum of money.**

   a. **Essential features of Bill of Exchange are as follows:-**

      (1) **It must be in writing and unconditional order.**
      (2) **It must be dated.**
      (3) **It must contain promise to pay certain sum of money.**
      (4) **Money will be payable to certain person or payable to bearer of Bill at exchange.**
      (5) **Amount payable accepted by creditor in writing on its face.**

Parties involved in bills of exchange :

- i. **Drawer: person who draws the bill. He is also called creditor or seller.**
- ii. **Drawee: person on whom bill is drawn. He is also called debtor or buyer.**
- iii. **Payee: the person to whom the amount is payable on due date. He may be drawer himself or the creditor of the drawer.**
- iv. **Endorsee: person in whose favour the bill is endorsed by the drawer.**
- v. **Drawee in case of need: sometimes the name of another person is mentioned as the person who will accept the bill if the original drawee does not accept it. Such a person is called "Drawee in case of need".**

Types of bills of exchange :

- a. **Trade bill**
- b. **Accommodation bill.**

Promissory Notes:- According to section 4 of Negotiable instrument Act 1881, A promissory note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instruments. Under section 31(2) of the reserve bank of India Act a promissory note cannot be made payable to bearer.

Negotiability: --Promissory Notes, Bill of Exchange and Cheque all are negotiable instrument.

Discounting of Bills:-- When the bill is taken to a bank and the necessary cash is received, the act is known as discounting. The bank will always deduct a small sum depending upon the rate of interest and the period of maturity.
Maturity of a promissory note or bill of exchange:

Date of maturity is also known as due date. The date on which the amount of bill becomes payable is called 'due date' or 'date of maturity'. A promissory note or a bill of exchange may be payable:-

a) **On demand; or**
b) **On a specified date, or**
c) **After a specified period.**

- **In the first case amount is payable on the instrument, when the demand is made.**
- **In the second case, payment can be claimed on a specified date.**
- **In the third case, date of maturity has to be calculated.**

Note: Every instrument, payable otherwise than 'on demand' is entitled to three days of grace.
The following instruments are not entitled to 'days of grace'.

(a) **A cheque**
(b) **A bill or note payable 'at sight' or on presentment' or 'on demand',**
(c) **A bill or note in which no time is mentioned.**

The following instruments are entitled to 'days of grace':

(a) **A bill or note payable on a specified day,**
(b) **A bill or note payable 'after sight,**
(c) **A bill or note payable at a certain period after date,**
(d) **A bill or note payable at a certain period after the happening of a certain event.**

➢ **(m.imp)Calculation of date of maturity :--**

If a promissory note or bill of exchange is made payable after stated number of months after date or after sight or after a certain event, it becomes payable three days after the corresponding date of the month after the stated number of months. If the month in which the period would terminate has nocorresponding day. The period shall be held to terminate on the last day of such month.

1. **In the above case, the day on which the instrument is drawn or presented for acceptance or sight or the day on which the event happens is to be excluded.**
2. **When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the preceding day. E.g. A bill falling due for payment on August 15 will have to be paid on August 14.**

Dishonour of bill:-- A bill may be dishonored either by non-acceptance or by non-payment. When an instrument is dishonored the holder must give notice of dishonour to the drawer or his previous holders if he wants to make them liable.

- **Dishonoured by non acceptance:-- A bill is said to be dishonored by non acceptance:-**

(1) when the drawee does not accept it within 48 hours from the time of presentation for acceptance.
(2) When presentation for acceptance is excused and the bill remained unaccepted.
(3) When the drawee is incompetent to contract.
(4) When the drawee is fictitious person or after reasonable search, can not be found.

- **Dishonored by non payment.**

Noting charges:- "Noting" must be recorded with Notary Public within a reasonable time after the dishonour and must contain the fact of dishonour, the date of dishonour, the reason if any given for such dishonour and the noting charges. For this service they charge a small fee. This fee is known as noting charges. Noting charges have to be born by the person responsible for dishonour. Hence, when a bill is dishonored, the amount due is the amount of the bill plus the noting charges. However, if the acceptor proves that the bill was not properly presented to him for payment, he may escape his liability.

Renewal of a bill --Sometime the accepter is unable to pay the amount and he himself moves that he should be given an extension of time. In such a case, a new bill will be drawn and the old bill will be cancelled. If this happens, entries should be passed for cancellation of the bill as in case of dishonour of bill. When the new bill is received, entries for receipt of bill will be repeated.

Accommodation of Bills -- Bills of exchange are usually drawn to facilitate trade transaction, finance actual purchase and sale of goods. But apart from, financing transaction in goods, bills may also be used for raising fund temporarily.

IMPORTANT POINT FOR REVISION:

i. **Grace period of 3 days are allowed for calculating due date of bill (except in case of 'at sight, on demand, on presentation of bill'.**
ii. **While calculating due date of bill, date of bill drawn is excluded.**
iii. **When date of bill drawn and date of acceptance of bill are different, then bill can be classified into 2 parts:**
   a. **After sight bill**
   b. **After date bilL**

iv. Short revision of journal entries in the book of drawer and drawee:

Transactions	In the book of drawer(x)	In the book of drawee (y)
1. Goods sold	Y account Dr To sales account	Purchase account Dr To X Account
2. Bill drawn	Bills receivable account Dr To y account	X Account Dr To B/P account
3a. Bill kept tii maturity	No entry	No entry
3b. Bill is discounted	Bank account Dr Discount account Dr To bills receivable account	No entry
3c. Bill endorsed	Creditor account Dr To bills receivable account	No entry
3d. Bill sent for collection	Bill sent for collection account Dr To bills receivable account	No entry
4a. bill kept till maturity and honoured	Cash/bank a/c Dr To bills receivable account	B/P A/c Dr To cash/bank account
4b. bill discounted/ endorsed and honoured on due date	No entry	B/P A/c Dr To cash/bank account
4c. bill sent for collection and honoured on due date	Bank a/c Dr To bill sent for collection account Bank charges a/c Dr To bank account	B/P A/c Dr To cash/bank account

5. if bill is dishonoured on due date:

	Kept till maturity	Discounted	Endorsed	Sent for collection
In the book of drawer(X)	Y account Dr To B/R account To cash account	Y account Dr To bank account	Y account Dr To creditor account	Y account Dr To bill sent for collection accont To bank account
In the book of drawee (Y)	Bills payable A/c Dr Noting charges Dr To X account	Bills payable A/c Dr Noting charges Dr To X account	Bills payable A/c Dr Noting charges Dr To X account	Bills payable A/c Dr Noting charges Dr To X account

6. after dishonoured

Transactions	In the book of drawer(X)	In the book of drawee (Y)
Interest accrued	Y account Dr To interest account	Interest account Dr To X account
Final settlement in case of dishonoured	Cash account Dr Bad debts account Dr To Y account	X account Dr To cash account To deficiency account

MCQ BASED QUESTIONS- PRACTICE SESSION 1

1. The person other than the original creditor to whom the amount in the bill is made payable to is known as the _____ of the bill.

(a) Holder (b) Payee (c) Drawer (d) Endorser

2. Payment of Bills of exchange is received

(a) By drawer (b) By holder in due course of due date (c) endorsee (d) bank

3. Retirement of bill means:

(a) Making payment before the due date
(b) Cancellation of the bill
(c) Sending the bill for collection
(d) Endorsing the bill in favour of third party.

4. At the time of retirement of a bill, the acceptor debits:

(a) Bills receivable account (b) Bill payable account (c) Discount (d) None of the above

5. The party who is ordered to pay the amount is known as

(a) Payee (b) Drawer (c) Drawee (d) Endorsee

6. In which of these ways a bill of exchange cannot be disposed of

(a) Discounting with bank (b) Retain till maturity (c) Endorsement to creditors (d) Destroyed

7. Bills receivable book is a part of the

(a) Ledger (b) Balance sheet
(c) Journal/Subsidiary (d) Profit and loss account

8. X Sold goods to Y for Rs. 3,00,000. ½ of the amount will be received in cash and the balance through a B/R. For what amount X should draw a bill Y

(a) 150000 (b) 300000 (c) 100000 (d) 120000

9. A person who endorses a bill is called

(a) Drawer (b) Drawee (c) Bank (d) Endorser

10. At the time of dishonour of an endorsed bill which one of these accounts would be credited by the drawee

(a) Bill payable account (b) Drawer (c) Bank (d) Bill dishonoured account

11. Date on which the payment of the bill is to be made

(a) Public holiday (b)Date of grace (c) Due date (d) Date of bill+ 3 days

12. Kuntal draws a bill on shyam for 3,000. Kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:

(a) Kuntal (b) Ram (c) Shyam (d) Rahim

13. If the due date is a public holiday what will be the due date of the bill

(a) Following day (b) Preceding day
(c) The same day only (d) One month later

14. On 1-8-15, X draws a bill on Y for 30 days after sight. The date of acceptance is 8-8-15. The due date of the bill will be…

(a) 8-9-15 (b) 10-9-15 (c) 11-9-15 (d) 9-9-15

15. If bill drawn on 3rd July 2015 for 40 days payment must be made on

(a) 16th August, 2006 (b) 15th August, 2006 (c) 12th August, 2006 (d) 14th August, 2006

16. A draws a bill on 1/04/19 for 60,000 for 3 months. B accepted it 8/04/19. The bill was discounted on 8/05/19 @ 12% p.a. The amount of discount will be------ in case bill is after sight.

(a) 1800 (b) 1200 (c) 600 (d) 1300

17. A bill drawn and accepted for mutual help is known as ____ bill:

(a) Accommodation (b) Trade (c) Ordinary (d) Retired

18. 'Bill at sight' means the instance at which_______________

a) No time for payment is mentioned in the bill
b) The payment is to be made on demand at any time
c) The payment is made after a particular time
d) Both a & b

19. X draws a bill for Rs. 40,000 on 'Y'. 'Y' accepts it for 2 months. After 1 month 'Y' paid the bill amount @ 9%. Journal entry in the Books of 'Y' will be

(a) Bank A/c Dr. 40,000 To Bills payable A/c 40,000
(b) Bank A/c Dr. 40,000 To Bills payable A/c 39,700 To Discount A/c 300
(c) Bills payable A/c Dr. 40,000 To Bank A/c 40,000
(d) Bills payable A/c Dr. 40,000 To Discount A/c 300 To Bank A/c 39700

20. For bills receivable endorsed earlier and then dishonoured, the journal entry in the books of drawer will be

(a) Debtors A/c is debited and Creditors A/c is credited
(b) Debtors A/c is credited and Creditors A/c is debited
(c) Drawer A/c is debited and Creditors A/c is credited
(d) Debtors A/c is debited and Drawer A/c is credited

Answer:- 1.(b) 2.(b) 3.(a) 4.(b) 5.(c) 6.(d) 7.(c) 8.(a) 9.(d) 10.(b)
11.(c) 12.(d) 13.(b) 14.(b) 15.(d) 16.(b) 17.(a) 18.(d) 19.(d) 20.(a)

MCQ QUESTIONS- PRACTICE SESSION 2:

Choose the most appropriate answer from the given options

***1.On 1.1.05 X draws a bill on Y for Rs 20,000 for 3 months. due date of the bill will be :**
(a) 1.4.05 (b) 3.4.05 (c) 4.4.05 (d) 4.05.05

***2. On 15.8.05 X draws a bill on Y for 3 months for Rs. 20,000. 18 Nov was a sudden holiday, due date of the bill will be:**
(a) 17th Nov (b) 18th Nov (c) 19th Nov (d) 15th Nov

***3. On 16.6.05 X draws a bill on Y for Rs 25,000 for 30 days. 19th July is a public holiday, due date of the bill will be:**
(a) 19th July (b) 18th July (c) 17th = July (d) 16th July

***4. X draws a bill on Y for Rs 30,000 on 1.1.05. X accepts the same on 4.1.05. Period of the bill 3 months after date. What will be the due date of the bill:**
(a) 4.4.05 (b) 3.4.05 (c) 7.4.05 (d) 8.4.05

5. **X draws a bill on Y. X endorsed the bill to Z. The payee of the bill will be**
(a) X (b) Y (c) Z (d) None

6. **A bill of 12,000 was discounted by A with the banker for 11,880. At maturity, the bill returned dishonored, noting charges Rs 20. How much amount will the bank deduct from A's bank balance at the time of such dishonour?**
(a) 12,000 (b) 11,880 (c) 12,020 (d) 11,900

7. **X draws a bill on Y for Rs 20,000 on 1.7.05 for 3 months after sight, date of acceptance is 6.7.05. Due date of the bill will be:**
(a) 8.10.05 (b) 9.10.05 (c) 10.10.05 (d) 11.10.05

8. **X sold goods to Y for Rs 1,00,000. Y paid cash Rs 30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:**
(a) 98,000 (b) 68,000 (c) 68,600 (d) 70,000

9. **On 1.4.05 X draws a bill on Y for Rs 50,000 for 3 months. X got the bill discounted 4.4.05 at 12% rate. The amount of discount on bill will be:**
(a) 1500 (b) 1600 (c) 1800 (d) 1450

10. **Mr. A draws a bill on Mr. Y for Rs 30,000 on 1.1.06 for 3 months. On 4.2.06. X got the bill discounted at 12% rate. The amount of discount will be:**
(a) 900 (b) 600 (c) 300 (d) 650

11. **X draws a bill on Y for Rs 20,000 for 3 months on 1.1.05. The bill is discounted with banker at a charge of Rs 100. At maturity the bill return dishonoured. In the books of X, for dishonour, the bank account will be credited by:**
(a) 19,900 (b) 20,000 (c) 20,100 (d) 19,800

***12. On 1.1.05 X draws a bill on Y for Rs 10,000. At maturity Y request X to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:**
(a) 200 (b) 150 (c) 180 (d) 190

13. **On 1.1.05 X draws a bill on Y for Rs 15000 for 3 months. At maturity Y request X to accept Rs 5000 in cash and for balance to draw a fresh bill for 2 months together with 12% p.a. interest, amount of interest will be:**
(a) 200 (b) 300 (c) 240 (d) 380

14. **On 1.8.05 X draw a bill on Y "for 30 days after sight". The date of acceptance is 8.8.05. The due date of the bill will be:**
(a) 8.9.05 (b) 10.9.05 (c) 11.9.05 (d) 9.9.05

15. **On 1.6.05 X draw a bill on Y for Rs 25,000. At maturity Y request X to accept Rs 5000 in cash and noting charges incurred Rs 100 and for the balance X draw a bill on Y for 2 months at 12% p.a. Interest amount will be:**
(a) 410 (b) 420 (c) 440 (d) 400

16. **On 1.1.05 X draw a bill on Y for Rs 50,000. At maturity, the bill returned dishonoured as Y become insolvent and 40 paise per rupee is recovered from his estate. The amount recovered is:**
(a) 20,000 (b) Nil (c) 30,000 (d) 40 paise

17. **X draws a bill on Y for Rs 3000. X endorsed to Z. Y will pay the amount of the bill to:**
(a) X (b)Z (c) To himself (d) None

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

***19. Ram draws on Aslam a bill for Rs 60,000 on 1.4.01 for 2 months. Aslam accepts the bill and sends it to Ram who gets it discounted for Rs 58,800. Ram immediately remits Rs 19,600 to Aslam. On due date, Ram being unable to remit the amount due accepts a bill for Rs 84,000 for 2 months which is discounted by Aslam for Rs 82,200. Aslam sends Rs 14,800 to Ram out of the same. How much discount will be borne by Ram at the time of 14,800 remittances?**
(a) 1200 (b) 1800 (c) 1100 (d) 800

***20. Mr Bobby sold goods worth Rs 25,000 to Mr Bonny. Bonny immediately accepted a bill on 1.11.01, payable after 2 months. Bobby discounted this bill @ 18% p.a. on 15.11.01. On the due date Bonny failed to discharge the bill. Later on Bonny became insolvent and 50 paise is recovered from Bonny' s estate. How much amount of bad debt will be recorded in the books of Bobby?**
(a) 12,500 (b) 9,437 (c) 11,687 (d) 13,650

21. **The purpose of accommodation of bill is:**
(a) To kill relatives
(b) To kill friends

(c) When both parties are in need of funds
(d) At will

22. M sold goods worth of Rs 50,000 to N. On 1.10.05, N immediately accepted a three month bill. On *due* date N requested that the bill be renewed for a fresh period of 3 months. N agrees to pay interest @ 18% p.a. in cash. How much interest to be paid in cash by N?
(a) 2250 (b) 1800 (c) 2000 (d) 1100

23. On 1.1.05 X draws a bill on Y for Rs 30,000. At maturity Y request X to draw a fresh bill for 2 months together with 12% pa. interest. Noting charges Rs 100. The amount of interest will be:
(a) 600 (b) 602 (c) 500 (d) 550

24. On 18.2.05 A draw a bill on B for Rs 10,000. B accepted the bill on 21.2.05. The bill is drawn for 30 days after sight. The due date of the bill will be:
(a) 24.3.05 (b) 22.3.05 (c) 26.3.05 (d) 21.3.05

25. X sold goods to Y for Rs 3,00,000. 1/2 of the amount will be received in cash and balance in B/R. For what amount X should draw the bill on Y.
(a) 1,50,000 (b) 3,00,000 (c) 1,00,000 (d) 1,20,000

26. A draws a bill on B for Rs 50,000 for 3 months. At maturity, the bill returned dishonored, noting charges Rs 500. 40 paise in a rupee is recovered from B's estate. The amount of deficiency to be recorded on insolvency in the books of B will be:
(a) Rs.20,200 (b) Rs.30,300 (c) Rs.19,800 (d) Rs.19000

27. A sold goods to B for Rs 20,000. A will grant 5% discount to B. B requested A to draw a bill. The amount of bills will be:
(a) 20,000 (b) 19000 (c) 19200 (d)Nil

28. Fees paid in cash to Notary Public is charged by:
(a) Drawer (b) drawee (c) Holder of bill of exchange (d) None

29. A draws a bill on B for Rs 50,000. A endorsed it to C in full settlement of Rs 50,500. Noting charges of Rs 200 as the bill returned dishonoured. A wants to pay the amount to C at 2 % discount. The amount to be paid by A to C will be:
(a) 49,000 (b) 49,490 (c) 49,686 (d) 50,500

30. A draws a bill on B for Rs 1,00,000. A endorsed the bill to C. The bill return dishonoured. Noting charges Rs 1000. B request A to accept the amount at 2% discount by a single cheque. The cheque amount will be:
(a) 98,000 (b) 98,980 (c) 99,000 (d) 99,980

31. S draws 2 bills of exchange on 1.1.06 for Rs 3,000 and Rs 5,000 respectively. The bill of exchange for Rs 3,000 is for 2 months, while the bill of exchange for Rs 5,000 is for 3 months. These bills are accepted by K. On 4.3.06 K requests S to renew the first bill with interest at 18% p.a. for a period of 2 months. S agrees to this proposal. On 20.3.06 K retires the acceptance for Rs 5,000 the interest rebate i.e., discount being Rs 50.

Before the due date of the renewed bill K becomes insolvent and only 60 paise in a rupee can be recovered from his estate. How much bad debt will be recorded in the books of S:
(a) 1236 (b)1854 (c) 3090 (d) 3000

32. The promissory note should be signed by:
(a) Drawer (b) Drawee (c) Payee (d) Promiser

33. Kuntal draws a bill on Shyam for Rs 3000. Kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:
(a) Kuntal (b) Ram (c)Shyam (d) Rahim

34. A bill is drawn on 29th Jan' 06 for one month after date; The date of acceptance is 2nd Feb'06. The bill is drawn on one month after date basis. The due date of the bill will be:
(a) 28th Feb (b) 1st Mar (c) 2nd Mar (d) 3rd Mar

35. Mr. Rex accepted a bill drawn by Mr. Rabin. Mr. Rabin endorsed the bill to Mr Shekar. On the due date, the bill is dishonoured as Mr Rex became insolvent. To record the dishonor of the bill in the books of Mr. Rabin, which of the following accounts should be credited?
(a) Mr. Rex's account (b) Bills Receivable account
(c) Mr Shekar's account (d) Bills payable account

36. Which of the following statements is true?
- (a) A bill cannot be endorsed more than two times
- (b) A bill is drawn by purchaser
- (c) A bill contains an unconditional promise to pay
- (d) Noting charges are borne by the drawee in the event of dishonour of bill.

37. For mutual accommodation of A and B, B accepted a bill drawn on him by A for 2 months Rs 6000. The said bill is discounted at 12% pa. and remitted l/3rd of the proceeds to B. The amount remitted by A to B will be:

(a) 2000 (b) 1960 (c) 1920 (d) 1900

38. Lara draws an accommodation bill on Sachin. The proceeds are to be borne between Sachin and Lara in the ratio of 3:1. The amount of bill Rs 6000, discounting charges Rs 120.Discount borne by Sachin will be:

(a) 90 (b) 120 (c) 100 (d) None

39. A draws a bill on B for Rs 4500 for mutual accommodation in the ratio 2:1. A got it discounted at 4230 and remitted l/3rci of the proceeds to B. At the time of maturity, how much amount .A should remit to B such that B can pay off the bill?

(a) 3000 (b) 2880 (c) 2920 (d) 3010

***40. Suman drew a bill on Sonu for Rs 4500 for mutual accommodation in the ratio 2:1. Sonu accepted the bill and returned to Suman. Suman discounted the bill for Rs 4230 and remitted l/3rd proceeds to Sonu. Before the due date, not having funds to meet the bill, Sonu drew a bill on Suman for Rs 6,300 on the same terms as to mutual accommodation. The second bill was discounted for Rs 6120. The first bill was honored on the due date and a net amount of Rs 1080 was remitted to Suman by Sonu. The proportionate discount charge on both the bills is to be borne by Suman is:**

(a) 180 (b) 150 (c) 300 (d) 120

41. Which of the following instrument is not a negotiable instrument:
(a) Bearer cheque (b) Promissory note (c) Bill of exchange (d) Crossed cheque

42. On 1.1.06 Vikas draws a bill of exchange for Rs 10,000 due for payment after 3 months on Ekta. Ekta accepts to this bill of exchange. On 4.3.06, Ekta retires the bill of exchange at a discount of 12% p.a. Which of the discount is correct for premature payment in the books of Ekta?
(a) 120 (b) 100 (c)140 (d) 160

43. Neelam sold goods to Dhiman for Rs 4,000 on 1.5.06. On the same day, he drew on Dhiman a bill for the amount for 3 months, which Dhiman duly accepted. Neelam got the bill discounted with her bank before the due date, Dhiman became insolvent. Later, her estate could pay only 40% of the amount due. What will be the amount of deficiency in the books of Dhiman.
(a) 3200 (b) 2200 (c) 2400 (d) 2000

44. deleted

45. Which of the following is correct for presenting bill to notary public:
(a) To pay fees to notary public
(b) For " bill for collection"
(c) If the acceptor can prove that the bill was not properly presented to him for payment, he can escape the liability, hence for dishonour it is produced.
(d) For drawing a fresh bill

46. A drew a bill on B for Rs 50,000 for 3 months. Proceeds are to be shared equally. A got the bill discounted at 12% p.a. and remits required proceeds to B. The amount of such remittance will be:
(a) 24250 (b) 25000 (c) 16167 (d) 33,333

47. From the following information, find out who can draws the bill if Mr A sold goods to B:
(a) A will draw a bill on B (b) B will draw a bill on A
(c) None (d) Third party will draw a bill on A

48. When the bill are to be produced to notary public:
(a) At the time of drawing the bill (b) At the time of acceptance of the bill
(c) At the time of dishonour of the bill (d) At the time of "bill for collection"

49. Which of the following statement is false:
(a) B/R is a negotiable instrument (b) B/R must be accepted by drawee.
(c) There can be three parties in respect of bills of exchange - drawer, drawee & payee
(d) Refill of exchange is also valid.

50. Under which circumstances drawer and payee is same person:
(a) When drawer discounted the bill with banker
(b) When drawer endorse the bill to the third party
(c) When drawer held the bill till maturity
(d) When drawee rejects to accept the bill

51. Which of the following statement is true:
(a) Noting charge is an expense to be borne by drawer
(b) Noting charge is an expense to be borne by drawee
(c) Noting charge is an expense to be borne by payee
(d) Noting charge is an expense to be borne by bank

52. Which of the following statement is true:
(a) Creditors can draw a bill on Debtors
(b) Debtors can draw a bill on Creditors.
(c) Bank will draw a bill on customer at the time of overdraft.
(d) One can draw the bill on another under any circumstances.

53. deleted

54. Gouri sold goods to Gupta on 1.6.06 for Rs 1600. Gupta immediately accepted a three month's bill. On due date Gupta requested that the bill be renewed for a fresh period of two months. Gouri agrees provided interest at 9% was paid immediately in cash. What will be the amount of interest in the books of Gouri?
(a) 20 (b) 25 (c) 24 (d) 28

55. X draws a bill on Y on 1.1.05 for Rs 20,000 for 30 days. What will be the maturity date of the bill:
(a)2.2.05 (b) 3.2.05 (c) 1.2.05 (d) 31.1.05

56.Ram's acceptance to Din for Rs 8,000 renewed at 3 months on the condition that Rs 4,000 be paid in cash immediately and the remaining amount will carry interest @ 12% p.a. The amount of interest will be:
(a) 120 (b) 80 (c) 90 (d) 160

57. A draws a bill on B for Rs 30,000. A wants to endorse *it* to C in settlement of Rs 35,000 at 2% discount with the help of B's acceptance and balance in cash. How much cash A will pay to B?

(a) 4300 (b) 4000 (c) 4100 (d) 5000

58. Ram gets Ghosh's acceptance for Rs 12,000 discounted at 2 months at 12% p.a. The amount of discount will be:

(a) 240 (b) 120 (c) 360 (d) nil

59. If the due date is a public holiday, what will be the due date of the bill:

(a) Following day (b) Preceding day
(c) The same day only (d) One month later

ANSWERS

1.(c)	2.(c)	3(b)	4.(a)	5.(c)	6.(c)	7.(b)	8.(c)	9.(a)	10.(b)	11.(b)	12.(a)	13.(a)
14.(b)	15.(d)	16.(a)	17.(b)	18.(a)	19.(a)	20.(a)	21.(c)	22.(a)	23.(b)	24.(c)	25.(a)	26.(b)
27.(b)	28.(c)	29.(c)	30.(b)	31.(a)	32.(d)	33.(d)	34.(d)	35.(a)	36.(d)	37.(b)	38.(a)	39.(a)
40.(c)	41.(d)	42.(b)	43.(c)	44.(d)	45.(c)	46.(a)	47.(a)	48.(c)	49.(d)	50.(c)	51.(b)	52.(a)
53.(b)	54.(c)	55.(b)	56.(a)	57.(a)	58.(a)	59.(b)						

CHAPTER 7: ACCOUNTING FOR DEPRECIATION

Important points for revision:

i. Depreciation is charged from the date of put to use (i.e. date of installation)

ii. Asset is always recorded in the book of purchaser at its cost price.

iii. Commission paid at the time of purchase of asset is added to the cost of asset and commission paid at the time of sale id deducted from the selling price.

iv. If rate of depreciation is given in question, we apply rate of cost of the asset to calculate depreciation. In that case we ignore residual value and life of the asset.

v. If rate of depreciation is not given, consider cost of asset, residual value and life of the asset for charging depreciation.

vi. Concept of change in estimated life of the asset.

vii.Concept of change in estimated residual value of the asset.

xiii. Total depreciation charged during the life of the asset can not exceed total depreciable value of the asset.

ix. While calculating profit or loss of the asset, book value on the date of sale is deducted from the sale price of the asset.
x. Entry for loss of asset due to fire/theft considering insurance claim.

xi. Journal entry for exchange of old asset with new asset.

xiii. CHANGE IN METHOD OF DEPRECIATION:
According to **Accounting Standard 10** issued by ICAI, the depreciation method selected should be applied consistently, to provide comparability of the results of operations of the enterprise from period to period.

- A change from one method of providing depreciation to another method should be **treated as change in accounting estimate.**
- When such a change in the method of depreciation should apply on all assets existing in the group with **prospective effect only.**

Some important theory for exam:

Concept of Depreciation:-

Depreciation means gradual decrease in the value of an asset due to normal wear and tear,obsolescence, efflux of time etc.

When a fixed asset is purchased, it is recorded in books of account at its original cost/acquisition cost. However fixed assets are used to earn revenues for a number of accounting periods in future with the same acquisition cost until the concerned fixed assets is sold or discarded. It is therefore necessary that a part of the acquisition cost of the fixed assets is allocated as an expense in each of the accounting period in which the asset is utilised. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation. **Value of such assets decreases with passage of time mainly due to following reasons/causes:**

- **a.** **Wear and Tear** – Due to actual use of assets.
- **b.** **Efflux Of time** – Due to passage of time, even if assets are not used.
- **c.** **Obsolescence-** Due to technological changes, improvement in production method, changes in market demand for product and service and legal and other restriction.
- **d.** Decrease in market value.
- **e.** **Depletion-** decrease in value of assets (natural resources) due to consumption i.e. coal mines,Oil wells, quarries, sandpits and similar assets of wasting nature.

Objective and necessity for providing Depreciation:- Prime objectives for providing Depreciation are:-

(1) **Correct income Measurement: -** Depreciation should be charged for proper estimation of periodic Profit or Loss.
(2) True position statement by correct disclosure of fixed assets at reasonable value.

(3) **Funds for replacement: -** Charging depreciation help to General adequate fund in the hand of business for replacement of asset at the end of its useful life.
(4) **Correct calculation of cost of production:-** For determining true Cost of production, it is necessary to charge depreciation since it's a item of cost.

Factors affecting the amount of depreciation Measurement:-

Following factors require to be considered for calculating depreciation.
(1) Cost of assets
(2) Estimated useful life of asset.
(3) Estimated scrap value (if any) at the end of useful life of asset.

(1) Cost of property plant and equipment (Fixed assets):-

(a) Purchase price of assets including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates.
(b) Any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.
(c) The initial estimate of the costs of dismantling, removing the item and restoring the site on which asset is located.

Examples of costs directly attributable to costs are:
(a) Cost of employees benefits arising directly from acquisition or construction of an item of property, plant and equipment.
(b) Cost of site preparation
(c) Initial delivery and handling costs
(d) Installation and assembly costs
(e) Cost of testing whether the asset is functioning properly.
(f) Professional fees e.g. engineers hired etc.

Following expenses should not become part of the cost of asset:
(a) Cost of opening new facility or business, such as inauguration costs,
(b) Cost of introducing new product or service(for eg cost of advertisement or promotional activities)
(c) Cost of conducting business in a new location or with new class of customers(including cost of staff training)
(d) Administration and other general overheads costs.

2. Useful life:-The period over which depreciable assets is expected to be used by enterprises. The total number of units expected to be produced or obtained from use of asset of enterprises.

3. Scrap value:- Determination of scrap value is matter of estimation based on many factors. If its value is not significant then it is not considered, if its value is significant its value is considered for charging depreciation at the time of acquisition/installation or at the time of subsequent revaluation of assets.

4. depreciation on components of an assets: it may be noted that AS 10 as well as the companies Act,2013 requires depreciation to be charged on **a component basis**. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset should be depreciated separately. An enterprise should allocate the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and should depreciate each such part separately.

7. **Revaluation of property, plant and equipment**: diagram presentation

Certain useful items:

Amortisation: The periodic write off of intangible assets are called amortisation. Amortisation is also used for writing off leasehold premises.
Depletion- decrease in value of assets (natural resources) due to consumption i.e. coal mines,Oil wells, quarries, sandpits and similar assets of wasting nature.

Obsolescence- it means loss of usefulness arising from such factors as technological changes, improvement in production method, changes in market demand for product and service and legal or medical and other restriction.

Methods of charging depreciation:

- **i. Straight line method/Fixed installment method/ original cost method.**
- **ii. Reducing balance method/diminishing value method/ written down value method.**
- **iii. Units of production method/sum of units method.**
- **iv. Sum of year'digit method.**
- **v. Machine hours method.**
- **vi. Depletion method**

MULTIPLE CHOICE QUESTIONS – PRACTICE SESSION 1

1. Depreciation refers to the process of ________________-
(a) Asset valuation
(b) Allocation of cost of the assets over the period of its life
(c) Verification of assets
(d) Increasing or decreasing the value of asset

2. In case the depreciable assets are revalued, the provision for depreciation is based on
(a) Market value of the assets
(b) Historical cost of assets
(c) Depreciated value of the assets
(d) The revalued amount over the estimate of the remaining useful life of such asset

3. Which of the following is the internal causes for depreciation?
(a) Wear and Tear
(b) Depletion or Exhaustion
(c) Both a & b
(d) None of the above

4. Which are the methods of depreciation prescribed by the income tax act __
(a) Straight line and annuity method
(b) Sinking fund and double declining method
(c)Equal installment and written down value method
(d) Production hour and sum of year's digit method

5. Depreciation is not provided for which of the following asset?
(a) Goodwill (b) Land
(c) Inventory of goods (d) Both b & c

6. Obsolescence means decline in the value due to
(a) Physical wear and tear
(b) Efflux of time
(c) Fall in market price
(d) Innovations and inventions

7. The depreciation account is closed at the end of the year by transfer to the
(a) General reserve a/c (b) Profit and loss a/c
(c) Provision for depreciation a/c (d) Fixed asset a/c

8. Which of the following is an external cause for depreciation?
(a) Obsolescence (b) Time element
(c) Abnormal occurrences (d) All of the above

9. Accumulated depreciation is an example of
(a) A liability/provision (b) An expense
(c) An income (d) An unrecorded revenue

NOTE: as per study material of ICMAI, it is a liability. But it is treated as reserve. As per CA study material it is a type of provision. In case of conflict, we should follow, ICAI study material.

10. Purchase price of machine 8,90,000, freight and cartage 7000, installation charges 30,000, Insurance charges 20,000, residual value is 40,000, estimated useful life 5 years. Calculate the amount of annual depreciation under straight line method?
(a) 177400
(b) 181400
(c) 197400
(d) 177900

11. Depreciation of a ten-year lease is best done on the method
(a) WDV (b) SLM
(c) Annuity method (d) Both a & b

12. Original cost is 1,50,000 residual value is 10.000, depreciation for 3rd year @ 10% p.a. under WDV method___
(a) 14,000 (b) 12,150
(c) 11,340 (d) 12,240

13. For charging depreciation, on which of the following assets, the depletion method is adopted?
(a) Plant & Machinery
(b) Land & Building
(c) Goodwill
(d) Wasting assets like mines and quarries

14. The value of an asset after deducting depreciation from the historical cost is known as
(a) Fair value (b) Market value
(c) Net realizable value (d) Book value

15. If the original cost of the machine = 1,00,000, life = 5 years residual value = 2,000. If the depreciation for 4th year as per SLM is 19,600, then the rate of depreciation p.a. is
(a) 10% (b) 15%
(c) 20% (Approx.) (d) 5%

16. Cost of an asset = Rs 1,00,000 Rate of Depreciation = 10% under WDV method Value of the asses at the end of 2nd year will be ` ________
(a) 90,000 (b) 81,000
(c) 74,000 (d) 75,000

17. A plant was purchased on 01-04-2015 for 7,00,000. The useful life was estimated to be 5 years and scrap value as 1,00,000. Calculate the rate of depreciation under Straight line method.
(a) 17.14%
(b) 20%
(c) 15%
(d) 17.5%

18. Which of the following statements is/are false?
I. The terms ‘depreciation’, ‘depletion’ and ‘amortization’ convey the same meaning.
II. Provision for depreciation A/c is debited when provision is created.
III. The purpose of depreciation is to distribute the cost of an asset over its useful life systematically.
(a) Only I) above
(b) Only II) above
(c) Only III) above
(d) All I) II) above

19. A machine was purchased on 01-01-2012 for 3,00,000. Depreciation is charged at 15% p.a. under SLM method. The machine was sold on 01-07-2015 for 1,60,000. Calculate the profit.
(a) 2,400
(b) 17,500
(c) 1,500
(d) 3,000

20. Calculate deprecation for the 4th year under sum of years digits method. Cost of the asset 1,00,000 Life time 5 years Salvage value 10%.
(a) 6,000
(b) 18,000
(c) 24,000
(d) 12,000

Answer:- 1.(b) 2.(d) 3.(c) 4.(c) 5.(d) 6.(d) 7.(b) 8.(a) 9.(a) 10.(a)
11.(b) 12.(b) 13.(d) 14.(d) 15.(c) 16.(b) 17.(a) 18.(d) 19.(b) 20.(d)

MULTIPLE CHOICE QUESTIONS - PRACTICE SESSION 2:

Pick up the correct answer from the given choices (only one correct answer)

1 **Amit Ltd. purchased a machine on 01.01.2012 for Rs 1,20,000. Installation expenses were Rs 10,000. Residual value after 5 years Rs 5,000. On 01.07.2012, expenses for repairs were incurred to the extent of Rs 2,000. Depreciation is provided @ 10% p.a. under written down value method. Depreciation for the 4th year = ...**
(a.) 25,000 (b). 13,000 (c). 10,530 (d). 9,477

2. **Original cost = Rs.1,26,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the first year under sum of year's digits method will be**
(a) Rs.6,000 (b) Rs. 12,000 (c) Rs. 18,000 (d) Rs. 36,000

3. **Obsolescence of a depreciable asset may be caused by**
I. Technological changes.
II. Improvement in production method.
III. Change in market demand for the product or service output.
IV. Legal or other restrictions.
(a) Only (I) above (b) Both (I) and (II) above
(c) All (I), (II), (III) and (IV) above (d) Only (IV) above

4. **Amit Ltd. purchased a machine on 01.01.2013 for Rs 1,20,000. Installation expenses were Rs 10,000. Residual value after 5 years Rs 5,000. On 01.07.2013, expenses for repairs were incurred to the extent of Rs 2,000. Depreciation is provided under straight line method.**
Depreciation rate = 10%. Annual Depreciation =
(a). 13,000 (b). 17,000 (c). 21,000 (d). 25,000

5. **Original cost = Rs.1,26,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the fourth year under sum of year's digits method will be**
(a) Rs.6,000 (c) Rs. 12,000 (c) Rs. 18,000 (d) Rs. 24,000

6. **Amit Ltd. purchased a machine on 01.01.2013 for Rs 1,20,000. Installation expenses were Rs 10,000. Residual value after 5 years Rs 5,000. On 01.07.2013, expenses for repairs were incurred to the extent of Rs 2,000. Depreciation is provided under straight line method. Annual Depreciation =**
(a). 13,000 (b). 17,000 (c.) 21,000 (d.) 25,000

7. **Which of the following statements is/are false?**
I. The term 'depreciation', 'depletion' and 'amortization' convey the same meaning.
II. Provision for depreciation a / c is debited when provision for depreciation a / c is created.
III. The main purpose of charging the profit and loss a/ c with the amount of depreciation is to spread the cost of an asset over its useful life for the purpose of income determination.
(a) Only (I) above (b) Only (II) above
(c) Only (III) above (d) All (I) (II) above

8. **Original cost = Rs 1,26,000. Salvage value = 6,000. Depreciation for 2nd year @ Units of Production Method, if units produced in 2nd year was 5,000 and total estimated production 50,000.**
(a). 10,800 (b). 11,340 (c). 12,600 (d). 12,000

9. **The number of production or similar units expected to be obtained from the use of an asset by an enterprise is called as**
(a) Unit life (b) Useful life
(c) Production life (d) Expected life

10. **Which of the following is not true with regard to fixed assets?**
(a) They are acquired for using them in the conduct of business operations
(b) They are not meant for resale to earn profit
(c) They can easily be converted into cash
(d) Depreciation at specified rates is to be charged on most of the fixed asset

11. **Original cost Rs 1,26,000. Salvage value 6,000. Useful Life 6 years. Annual depreciation under SLM =**
(a) 21,000 (b) 20,000 (c) 15,000 (d) 14,000

12. **Original cost = Rs 1,26,000. Salvage value = 6,000. Depreciation for 2nd year @ 10% p.a. under WDV method =**
a. 10,800 b. 11,340 c. 15,000 d, 14,000

13. **Which of the following expenses is not included in the acquisition cost of a plant and equipment?**
(a) Cost of site preparation
(b) Delivery and handling charges
(c) Installation costs
(d) Financing costs incurred subsequent to the period after plant and equipment is put to use.

14. For charging depreciation, on which of the following assets, the depletion method is adopted?
(a) Plant & machinery (b) Land & building
(c) Goodwill (d) Wasting assets like mines and quarries

15. If a concern proposes to discontinue its business from March 2012 and decides to dispose off all its assets within a period of 4 months, the Balance Sheet as on March 31, 2012 should indicate the assets at their
(a) Historical cost (b) Net realizable value
(c) Cost less depredation (d) Cost price or market value, whichever is lower

16. In the case of downward revaluation of an asset which is for the first time revalued, the account to be debited is
(a) Fixed Asset (b) Revaluation Reserve
(c) Profit & Loss account (d) General Reserve

17. In which of the following methods, is the cost of the asset written off in equal proportion, during its useful economic life?
(a) Straight line method (b) Written down value method
(c) Units-of-production method (d) Sum-of-the-years'-digits method

18. The portion of the acquisition cost of the asset, yet to be allocated is known as
(a) Written down value (b) Accumulated value
(c) Realisable value (d) Salvage value

19. Original Cost = Rs 1,00,000. Life = 5 years. Expected salvage value = Rs 2,000.
(i) Depreciation for 3rd year as per straight line method is
(a). Rs 12,800 (b). Rs 19,600 (c). Rs 20,000 (d). Rs 20,400

(ii). rate of depreciation p.a. =
(a). 20.0% (b). 19.8% (c). 19.6% (d). 19.4%

20. In the books of D Ltd. the machinery account shows a debit balance of Rs.60,000 as on April 1,2003.The machinery was sold on September 30,2004 for Rs.30,000. The company charges depreciation @20% p.a. on diminishing balance method.

(i) Depreciation for 2003-04 =
(a). 6,000 (b). 9,000 (c). 4,800 (d). 12,000
(ii) Depreciation for 2004-05 =
(a). 6,000 (b). 9,000 (c). 4,800 (d). 12,000
(iii) Profit / Loss on sale -
(a). 13,200 Profit (b). 13,200 loss (c). 6,800 profit (d). 6,800 loss

21. Consider the following data pertaining to M/s. E Ltd. who constructed a cinema house:

Particulars	**Rs.**
Cost of second hand furniture	90,000
Cost of repainting the furniture	10,000
Wages paid to employees for fixing the furniture	2,000
Fire insurance premium	1,000

The amount debited to furniture account is
(a) Rs.90,000 (b) Rs.91,000 (c) Rs.1,00,000 (d) Rs.1,02,000

22. H Ltd. purchased a machinery on April 01, 2000 for Rs.3,00,000. It is estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. If the company follows sum-of-the-years'-digits method of depreciation, the amount of depreciation charged during the year 2004-05 was

(a) Rs.1,00,000 (b) Rs.80,000 (c) Rs.60,000 (d) Rs.20,000.

23. Akhil Ltd. imported a machine on 01.07.2002 for Rs 1,28,000, paid customs duty and freight Rs 64,000 and incurred erection charges Rs 48,000. Another local machinery costing Rs 80,000 was purchased on 01.01.2003. On 01.07.2004, a portion of the imported machinery { value one-third } got out of order and was sold for Rs 27,840. Another machinery was purchased to replace the same for Rs 40,000. Depreciation is to be calculated at 20% p.a. by WDV Method

(i) Profit / Loss on sale =
(a). 20,160 (Profit) (b). 19,600 (Profit) (c). 23840 (Loss) (d). 20,160 (Loss)

(ii) Closing balance of Machinery on 31.3.05=
(a). 1,32,000 (b). 1,69,680 (c). 1,96,000 (d). 2,28,000

24. Glass, Cutlery *etc.* Balance on 01.01.2004 is Rs 28,000. Glass, Cutlery, etc. purchased during the year Rs 16,000. Depreciation is to be charged on the above assets as follows - l/5th of their values is to be written off in the year of purchase and 2/5th in each of the next 2 years. Of the stock of Glass, Cutlery, etc. as on 01.01.2004, 1/2 was one year old and *1/2* was 2 years old. Purchases are made on 1st January.
(i) Depreciation for the year =
(a). Rs 7,000 (b). Rs 17,500 (c.) Rs 20,200 (d). Rs 24,200
(ii) Closing Balance in Glass, Cutlery A/c =
(a). Rs 18,000 (b). Rs 18,500 (c). Rs 19,800 (d). Rs 20,400

25. Which of the following is correct? Depreciable assets are those assets which -
a. Are expected to be used for more than 1 accounting period
b. Have unlimited useful life
c. for the purpose of re-sale
d. None of the above

26. Which of the following is of a capital nature?
(a) Purchase of a truck (b) Cost of repair
(c) Wages (d) Road tax paid

27. In which of the following methods, the cost of the asset is spread over in equal proportion during its useful economic life?
(a) Straight line method (b) Written down value method
(c) Units-of-production method (d) All of the above

28. Which of the following statements is false?
(a) Depreciation provision is of the discretion of the management
(b) Depreciation is a charge against profit
(c) Depreciation is provided only when there is profit
(d) Depreciation is charged on depreciable value of assets.

29. Which of the following assets is usefully assumed to be not depreciating?
(a) Land (b) Building (c) Plant (d) furniture

ANSWERS

1.d 2.d 3.c 4.a 5.c 6.d 7.d 8.d 9.b 10.c 11.b 12.b 13.d 14.d 15.b,16.c,17.a 18.a 19.(i)-b, (ii)-c , 20.(i)d, (ii)c, (iii)b 21.d 22.d 23.(i)-c, (ii)-b, 24.(i)-d, (ii)-c 25.a, 26.a 27.a 28.c 29.a

Chapter 8. AVERAGE DUE DATE

If a person owes a number of sums to a person on different dates, he may like to pay the whole amount on such a day as will involve neither party in loss of interest. Such a day is known as Average Due Date.

Important points for revison:
1. while calculating due date of bills, date of bill drawn is excluded.
2. while calculating differences of due dates from base date, base date is excluded.
3. base date can be taken any date but it is preferable to take earliest date as base date for simple calculation.
4. concept of grace period while calculating due dates of bills:

a. 3 days of grace period is added to calculate due dates.
b. if calculated due date(after adding 3 days of grace period) is a planned holiday/Sunday/ gazatted holiday, then due date is taken one day before the planned holiday/Sunday/gazatted holiday.
c. if calculated due date(after adding 3 days of grace period) is a sudden holiday, then due date is taken on next normal day.
d. if date of bill drawn and date of bill accepted are different, then following two cases are possible:
i. after date bill: due date is counted from date of bill drawn.
ii. after sight bill: due date is counted from date of bill accepted.
Note : if not mentioned, always assume after sight bill.

5. If full payment is made on the average due date, no interest is payable.
6. If payment is made after the average due date, interest will be calculated for the number of days from the average due date to the actual date of payment/ settlement.
7. for claiming rebate, payment must be made before the average due date. Following method is applied for calculating rebate:

a. calculate interest amount per year--- then calculate interest amount per month---- then calculate interest amount per day(assuming 30 days in a month).
b. divide total rebate/ interest per day.
c. resultant figure will be number of days before average due date to claim given rebate.

Calculation of interest with the help of average Due Date
- The average due date determines the day on which various amounts can be settled without loss or gain of interest to either party.
- If full payment is made on the average due date, no interest is payable.
- If payment is made after the average due date, interest will be calculated for the number of days from the average due date to the actual date of payment/ settlement.

Days of Grace and date of Maturity:

practice Question 1.

Date of bill drawn	Period of bills	Due date of bills	Amount of bills	Difference of due dates from base date(13 nov)	product
August 10, 2012	3 months	13 november 2012	6,000	00	00
October 23, 2012	60 days	25 december 2012	5,000	42	2,10,000
December 4, 2012	2 months	7 february 2012	4,000	86	3,44,000
January 14, 2013	60 days	18 march 2013	2,000	125	2,50,000
March 8, 2013	2 months	11 may 2013	3,000	179	5,37,000
			20,000		13,41,000

Average due date =

$$\text{base date} + \left(\frac{\sum \text{product}}{\sum \text{amount}}\right) \text{days}$$

$$\text{13 november 2012} + \frac{13{,}41{,}000}{20{,}000}$$

Practice Question: 2. Green and Red had the following mutual dealings and desire to settle their account on the average due date:-

Purchases by Green from Red:		Sales by Green to Red:	
January *6,* 2013.	6,000	January 6, 2013	6,600
February 2, 2013	2,800	March 9, 2013	2,400
March 31,2013	2,000	March 20, 2013.	500

You are asked to ascertain the average due date**.**

Solution: computation of due date from Green point of view:

Due dates	**Due to Red (A)**	**Due from Red (B)**	**Difference of due dates from base date(Base date 6 Jan 2013) (C)**	**PRODUCT (A x C)**	**PRODUCT (B x C)**
January *6,* 2013	**6,000**		**00**	**00**	
January 6, 2013	-------	**6,600**	**00**	----	**00**
February 2, 2013	**2,800**		**27**	**75,600**	
March 9, 2013	-------	**2,400**	**62**	-------	**1,48,800**
March 20, 2013	-------	**500**	**73**	--------	**36,500**
March 31,2013	**2,000**	----	**84**	**1,68,000**	----
	10,800	**9,500**		**2,43,600**	**1,85,300**

Average due date =

Base date + $\left(\dfrac{\text{difference of } \sum AxC \text{ and } \sum BxC}{\text{difference of A and B}}\right)$ **days**

[Ans. Average due date February 20, 2013).

CHAPTER 9. FINANCIAL STATEMENTS OF PROFIT MAKING ORGANISATIONS
(NON-MANUFACTURING ENTITIES & MANUFACTURING ENTITIES)

FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES:-

Introduction:-

Non-Manufacturing entities are trading entities which are engaged in the purchase and sale of goods at profit without changing form of goods.These entities do not process the goods.

- Profit is obtained by preparing Income statement (i.e trading A/c and profit and loss).
- Financial position of enterprises can be known by preparing Position statement (Balance Sheet).

(a) INCOME STATEMENT:-This statement is prepared at the close of year. **Income statement is divided into two parts for non-manufacturing concerns.**

Trading Account and profit & loss account.

(b) POSITION STATEMENT:-Position statement mainly consist Balance sheet which shows assets, and liabilities and capital of business.

Items to be shown on the Assets side of a Balance Sheet:

- **Fixed Assets:-** Fixed assets are those assets that are not meant to be sold but are meant to be utilised in the firm's business. Examples are machinery, patents, buildings and goodwill. Fixed assets can be further classified in to tangible, intangible, wasting and fictitious assets.

Tangible Assets	• Those fixed assets which can be seen and touched.
Intangible Fixed Assets	• Those fixed assets which can nether seen nor been touched e.g.. Goodwill, Patents. Trade Mark.
Wasting assets	• Those fixed assets, which are consumed during the course of time. A mine, for example, will be useless when it has been fully exploited. Such assets are often called wasting assets.
Fictitious assets	• Those assets, which has no value. An example is preliminary expenses.

- **Investment:**— an expenditure incurred on assets to earn interest, dividend, income, rent or other benefit
- **Current Assets:**— Those assets which are held:—
  - ❖ In the form of cash
  - ❖ For their conversion into cash e.g. stock of finished goods, debtors, Bills Receivable, Accrued income.
  - ❖ For their consumption in the production of goods or rendering of services e.g. stock of raw materials, WIP.

Item to be shown on the Liabilities side of a Balance Sheet:- The credit balances of those ledger accounts which have not been closed till the preparation of the Trading and Profit and Loss account, are shown on the 'Liabilities side of the Balance Sheet.

(a) Liabilities: - It is the claim of outsiders on the assets of business. Usually the following items are included in liabilities:--

i) **Long-term liability:**-- Those that will be paid after one year.

ii) **Current Liability:** —— Those that must be settled within one year.

(b) Capital: - Capital is the excess of assets over liabilities. **It is the claim of owner in total assets of the business.** It refers to the amount invested in an enterprise by the proprietor or partners, which is increased by the amount of profit earned and is decreased by the losses incurred and the amount withdrawn whether in the form of cash or kind.

ARRANGEMENT / MARSHALLING OF ASSETS AND LIABILITIES :

The term **'Marshalling'** refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be **shown either in the order of liquidity or in the order of permanency.**

Assets: - Assets can be put down in a Balance Sheet, in two ways - either in the order of liquidity or in the order of permanence.

i) **Liquidity:** - It means the ease with which the assets may be converted into cash; those assets which are most difficult to convert them in cash are written last.

ii) **Permanence:** Assets that are to be used permanently in the business and are not meant to be sold are written first. Assets that are most liquid such as cash in hand are written last.

The various assets is grouped in the two order will appear as follows:-

In order of Liquidity	In order of Permanence
Cash in hand	Goodwill
Cash at Hand	Patents
Investments	Furniture
Sundry debtors	Machinery
Stock of finished goods	Land & building
Stock of raw material	Prepaid exp,
Stock of WIP	Stock of finished goods
Prepaid Exp.	Stock of raw material
Land & Buildings	Sundry debtors
Machinery	Investment
Furniture	Cash in hand
Patents	Cash at bank

Some assets cannot be easily classified. For example, investment can be easily sold but desire may be to keep them. Investment may, therefore, be both liquid and semi-permanent according to the intention of the firm.

Liabilities:- Liabilities can also be grouped in two ways — either in order to **urgency of permanent or in reverse** order. One way is to first show the capital, then long term liabilities and last of all short term liabilities like amounts due to supplier 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.

Floating Assets:—Floating assets are those assets which are meant to be converted in cash at earliest opportunity. Examples are cash, sundry debtors, stock of goods etc. The term floating is derived from the fact that **such assets constantly change in value through transactions that are entered into**. The figure total debtors for instance changes from day to day. **Those assets are also known as circulating assets**.

FINAL ACCOUNT OF MANUFACTURING ENTITIES

MANUFACTURING ACCOUNT:- In a case where the cost of manufacturing goods is to be ascertained, the Manufacturing Account is prepared. The main feature of a Manufacturing Account are the following :—

- It is debited with all expenses that are incurred in manufacturing of goods. In this account, besides such expenses as freight on purchases of raw materials, customs duty, wages, rent and lighting of factory building, we must also debit the manufacturing account with repairs to plant and machinery. depreciation on machinery, loose tools, etc.
- In this account, we have to show the value of materials consumed instead of showing figures of opening stock, purchases and closing stock separately.
  - **Raw Material consumed:**

Opening Stock of Raw material	*****	
Add: Purchases of Raw Material	*****	
Less: Closing Stock of Raw Material	*****	*****

Note:- Opening and Closing Stocks of finished goods are not entered in Manufacturing Account,

- The opening stock of work-in- progress is debited and closing stock of work-in-progress is credited.
- In the course of manufacturing some waste material always emerges. when they are sold, the amount realized credited to Manufacturing Account.
- The Balance in Manufacturing Account (i.e. the difference between the debit and credit sides) is the cost of the goods produced during the period. This is transferred to the debit side of the Trading Account.

IMPORTANT POINTS FOR REVISION:

i. **Treatment of prepaid expenses, advance income, outstanding expenses, accrued income.**
ii. **Treatment of normal and abnormal losses.**
iii. **Manager's commission.**
iv. **Goods used for free sample, advertisement, personal use etc**
v. **Goods sent on approval basis.**
vi. **Provision for doubtful debts and provision for discount – (personal account in nature)**
vii. **Under/over valuation of stock of last year.**
viii. **Treatment of salary/ interest to owner.**
ix. **Concept of Adjusted purchase.**

Example 1. Prepare bad debts account, provision for bad debts account, profit & loss account and balance sheet.

01.01.2012	Provision for bad debts	5,000
31-12-2012	Bad debts written off	3,000
	Sundry debtors	1,25,000
31-12-2013	Bad debts written off	2,500
	Sundry debtors	1,00,000

Provision for doubtful debts to be provided for @ 5% for 2012 and 2.5% for 2013.

Multiple choice questions: practice session 1:

1. The purpose of preparing final accounts is to ascertain ____.
(a) Profit or loss (b) Capital (c) The value of assets (d) Profit or loss and financial position

2. If the manager is entitled to a commission of 5% on profits before deduction this commission, he will get a commission of ___ on a profit of 8400 before commission..
(a) 400 (b) 442.11 (c) 420 (d) None of these

3. The balance of the petty cash is
(a)An expense (b) An income (c) An asset (d) A liability

4. Fixed assets are
(a) Kept in the business for use over a long time for earning income
(b) Meant for resale
(c) Meant for conversion into cash as quickly as possible
(d) All of the above

5. The manufacturing account is prepared
(a) To ascertain the profit or loss on the goods produced
(b) To ascertain the cost of the manufactured goods
(c) To show the sale proceeds from the goods produced during the year
(d) Both (b) and (c)

6. A company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?
(a)33% (b) 25% (c) 20% (d) None of the above

7. At the time of preparation of financial accounts, bad debts recovered account will be transferred to
(a) Debtors A/c (b) Profit & Loss A/c
(c) Profit & loss Adjustment A/c (d) Profit & loss Appropriation A/c

8. Depreciation appearing in the Trial Balance should be
(a) Debited to P & L A/c (b) Shown as liability in balance sheet
(c) Reduced from related asset in balance sheet (d) Both (a) and (c) above

9. Gross profit is equal to
(a) Sales – Cost of goods sold (b) Sales – Closing stock + purchase
(c) Opening stock + Purchases – Closing stock (d) None of the above

10. The profit and loss Account shows the
(a) Financial results of the concern for a period
(b) Financial position of the concern on particular date
(c) Financial results of the concern on a particular date
(d) Cost of goods sold during the period

11. Which of the following is not a financial statement?

(a) Profit and loss account (b) Balance sheet (c) cash flow statement (d) Trial balance

12. Based on which of the following concepts, share capital is shown on the liabilities side of a balance sheet?
(a) Business entity concept (b) Money measurement concept
(c) Going concern concept (d) Matching concept

13. Closing stock appearing in the trial balance is shown in –
(a) Trading A/c and Balance sheet (b) Profit and Loss a/c
(c) Balance Sheet only (d) Trading A/c only

14. Consider the following data and identify the amount which will be deducted from sundry debtors in Balance sheet: Bad debts (from trial balance)= 1,600, Provision for doubtful debts (old) 1200 Current year's provision (new) 800.
(a) 400 (b) 800 (c) 2,000 (d) 2,400

15. Inventory is ______________________ (a) Included in the category of fixed assets (c) A part of current assets

(d) An intangible fixed asset.
(b) An investment

16. For goods distributed as free samples in the market, the journal entry will be _________
(a) Drawing Dr. To Purchase A/c
(b) Sales A/c Dr. To Cash A/c
(c) Advertisement A/c Dr. To Purchase A/c
(d) No entry

17. At the time of finalization of Financial statements, Bad debts written off are to be transferred to
(a) Provisions (b) Reserves (c) Capital A/c (d) Profit and Loss A/c

18. General Manager gets 6% commission on net profit after charging such commission. Gross profit Rs. 1,20,000 and other indirect expenses other than manager's commission are Rs. 14,000. Commission amount will be:
(a) Rs. 6,000 (b) Rs. 8000 (c) Rs. 7,500 (d) None of the above

19. Discount received Rs.2,000 Provision for discount on creditors(old) = Rs. 3200. It is desired to make a provision of Rs.2200 on creditors. Find out the amount to be transferred to Profit & Loss A/c:
a) Rs. 1000 b) Rs. 7000 c) Rs. 2,000 d) Rs. 1600

20. Amount recovered from debtor, which was earlier written off as bad debt is debited to Cash A/c and credited to _________ A/c:
(a) Bad Debts (b) Bad debts recovered (c) Debtors (d) Sales

Answer:-1.(d) 2.(c) 3.(c) 4.(a) 5.(b) 6.(b) 7.(b) 8.(a) 9.(a) 10.(a)

11.(d) 12.(a) 13.(c) 14.(b) 15.(c) 16.(c) 17.(d) 18.(a) 19.(a) 20.(b)

MCQ BASED QUESTION- PRACTICE SESSION 2

1. (i) The balance of the petty cash is
(a) an expense, (b) income, (c) an asset. (d) liability

(ii) Fixed assets are
(a) kept in the business for use over a long time for earning income
(b) meant for resale
(c) meant for conversion into cash as quickly as possible
(d) All of the above

(iii) Goodwill is
(a) a current asset (b) an intangible fixed asset
(c) a tangible fixed asset (d) an investment,

(iv) Stock is
(a) included in the category of fixed assets
(b) an investment.
(c) a part of current assets
(d) an intangible fixed asset

(v) The manufacturing account is prepared:
(a) to ascertain the profit or loss on the goods produced
(b) to ascertain the cost of the manufactured goods
(c) to show the sale proceeds from the goods produced during the year
(d) both (b) and (c).

2. (i) A new firm commenced business on 1st January, 2006 and purchased goods costing Rs. 90,000 during the year. A sum of Rs. 6,000 was spent on freight inwards. At the end of the year the cost of goods still unsold was Rs. 12,000. Sales during the year Rs. 1,20,000. What is the gross profit earned by the firm?
(a) Rs. 36,000 (b) Rs. 30,000 (c) Rs. 42,000 (d) Rs. 38,000

(ii) From the following figures ascertain the gross profit:

	Rs.
Opening Stock (1.1.2012)	25,000

Goods Purchased during 2012	1,30,000
Freight and packing on above	5,000
Closing Stock (31.12.2012)	15,000
Sales	1,90,000
Selling expenses on sales	9,000

(a) Rs.36,000 (b) Rs. 45,000 (c) Rs. 50,000 (d) Rs.59,000

(iii) A prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:

(a) a liability and a debit balance. (b) an asset and a debit balance.
(c) an asset and a credit balance. (d) None of the above

(iv) Under-statement of closing work in progress in the period will

(a) Understate cost of goods manufactured in that period.
(b) Overstate current assets.
(c) Overstate gross profit from sales in that period.
(d) Understate net income in that period.

[Ans : 2 : (i)-(a), (ii)-(b), (iii)-(c), (iv)-(d)

3. (i) If sales revenues are Rs. 4,00,000; cost of goods sold is Rs. 3,10,000 and operating expenses are Rs.60,000, the gross profit is

(a) Rs. 30,000. (b) Rs. 90,000. (c) Rs. 3,40,000. (d) Rs. 60,000

(ii) Sales are equal to

(a) Cost of goods sold - Gross profit. (b) Cost of goods sold + Gross profit.
(c) Gross profit - Cost of goods sold. (d) Cost of goods sold + Net profit.

(iii) A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?

(a) 33%. (b) 25%. (c) 20%. (d) None of the above.

(iv) If sales are Rs. 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be

(a) Rs. 2,000. (b) Rs. 1,500. (c) Rs. 1,600. (d) None of the above.

(v) Sales for the year ended 31st March, 2005 amounted to Rs. 10,00,000. Sales included goods sold to Mr. A for Rs. 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk. Therefore, such goods should be treated as part of

(a) Sales. (b) Closing stock, (c) Goods in transit, (d) Sales return.

4. (i) The capital of a sole trader would change as a result of:

(a) a creditor being paid his account by cheque.
(b) raw materials being purchased on credit.
(c) fixed assets being purchased on credit.
(d) wages being paid in cash.

(ii) Rent paid on 1 October, 2020 for the year to 30 September, 2021 was Rs. 1,200 and rent paid on 1 October, 2021 for the year to 30 September, 2022 was Rs. 1,600. Rent payable, as shown in the profit and loss account for the year ended 31 December 2021, would be:

(a) Rs. 1,200. (b) Rs. 1,600. (c) Rs. 1,300. (d) Rs. 1,500.

(iii) A decrease in the provision for doubtful debts would result in:

(a) an increase in liabilities. (b) a decrease in working capital.
(c) a decrease in net profit. (d) an increase in net profit.

5.

	Rs.		Rs.
Opening Stock	20,000	Carriage on sales	3,000
Closing Stock	18,000	Rent of Office	5,000
Purchases	85,800	Sales	1,40,700
Carriage on purchases	2,300		

(i) Gross profit will be

(a) Rs. 50,000 (b) Rs. 47,600 (c) Rs. 42,600 (d) Rs. 50,600

(ii) Net profit will be

(a) Rs. 42,600 (b)Rs. 50,600 (c) Rs. 45,600 (d) Rs. 47,600

6. The Zed Company, a whole seller estimates the following sales for the indicated months:

	June 2021 Rs.	July 2021 Rs.	August 2021 Rs.
Opening stock	4,08,000	4,34,400	4,60,800
Credit Sales	15,00,000	16,00,000	17,00,000
Cash Sales	2,00,000	2,10,000	2,20,000
Total Sales	17,00,000	18,10,000	19,20,000

Selling price is 125% of the purchase price.

(i) The cost of goods sold for the month of June, 2021 is:
(a) Rs. 15,20,000 (b) Rs. 14,02,500 (c) Rs. 12,75,000 (d) Rs. 13,60,000

(ii) Stock purchased in July, 2021 is :
(a) Rs. 16,05,000 (b) Rs. 14,74,400 (c) Rs. 14,40,000 (d) Rs. 13,82,500

7. Considering the following information, answer the question given below:

	1st January	31st December
Stock of raw materials	17,400	18,100
Work-in-progress	11,200	11,400
Stock of finished goods	41,500	40,700

During the year manufacturing overhead expenses amounted to Rs. 61,100, manufacturing wages to Rs. 40,400 and purchase of raw materials to Rs. 91,900. There were no other direct expenses.

(i) The cost of raw materials consumed, issued and used were:
(a) Rs. 1,09,300 (b) Rs. 91,200 (c) Rs. 91,900 (d) Rs. 92,600.

(ii) The manufacturing cost of finished goods produced were:
(a) Rs. 1,31,600 (b) Rs. 1,93,300 (c) Rs. 1,91,900 (d) Rs. 1,92,500.

(iii) The manufacturing cost of finished goods sold was:
(a) Rs. 1,91,700 (b) Rs. 1,92,500 (c) Rs. 1,94,000 (d) Rs. 1,93,300.

8. Match the following items from column A with column B

S. No.	**Column A**	**Column B**
1.	Capital is the difference between	(a) cost of good sold from sales
2.	Gross profit is ascertained by deducting	(b) cost of goods produced.
3.	Wages paid for erecting machines are	(c) Assets and liabilities
4.	The manufacturing account is prepared:	(d) debited to machinery account

ANSWERS

1. (i)c, (ii)a, (iii)b, (iv)c, (v)b 2. (i)a, (ii)b, (iii)c, (iv)d 3. (i)b, (ii)b, (iii)b, (iv)c, (v)a
4. (i)d, (ii)c, (iii)d 5.(i)-d, (ii)-a 6.(i)-d, (ii)-b 7.(i)-b, (ii)-d (iii)-d 8. 1-c; 2-a; 3-d; 4-b

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