Capital and Revenue Expenditures

Q. No.		R1	R2	R3	Special Point
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TEST IN TIME PASS IN TIME					
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Let's Get Started... With Class Work

1. ICAI Illustration 1

State with reasons whether the following statements are 'True' or 'False'.

(1) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.

(2) Money spent to reduce working expenses is Revenue Expenditure.

(3) Legal fees to acquire property is Capital Expenditure.

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

(5) Amount spent for replacement of worn out part of machine is Capital Expenditure.

(6) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.

(7) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.

(8) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the cinema house was ready, is Capital Expenditure.

Solution:

(1) False: Overhaul expenses are incurred to put second-hand machinery in working condition to derive endurable long-term advantage. So it should be capitalised.

(2) False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. It becomes part of intangible fixed assets if it is in the form of technical know-how and tangible fixed assets if it is in the form of additional replacement of any of the existing tangible fixed assets. So this is capital expenditure.

(3) True: Legal fee paid to acquire any property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

(4) False: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.

(5) False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.

(6) False: Repairing and white washing expenses for the first time of an old building are incurred to put the building in usable condition. These are the part of the cost of building. Accordingly, these are capital expenditure.

(7) True: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalised. Such expenses are amortised over a period of time.

(8) True: Cost of temporary huts constructed which were necessary for the construction of the cinema house is part of the construction cost of the cinema house. Therefore such costs are to be capitalised.

2. ICAI Illustration 2

State with reasons whether the following are Capital or Revenue Expenditure:

(1) Expenses incurred in connection with obtaining a license for starting the factory for ₹ 10,000.

(2) ₹ 1,000 paid for removal of Inventory to a new site.

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

(4) Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) ₹ 8,000 for installing telephone in the office.

(5) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred in the construction of temporary huts for storing building material.

Solution:

(1) Money paid ₹ 10,000 for obtaining license to start a factory is a capital expenditure. This is an item of expenditure incurred to acquire the right to carry on business.

(2) ₹ 1,000 paid for removal of Inventory to a new site is revenue expenditure. This is neither bringing enduring benefit nor enhancing the value of the asset.

(3) ₹ 5,000 spent in changing Rings and Pistons of an engine to get fuel efficiency is capital expenditure. This is an expenditure on improvement of a fixed asset. It results in increasing profit-earning capacity of the business by cost reduction.

(4) Money deposited with MTNL for installation of telephone in office is not expenditure. This is treated as an asset and the same is adjusted over a period of time against actual telephone bills.

(5) Cost of construction of building including cost of temporary huts is capital expenditure. Building is fixed asset which will generate enduring benefit to the business over more than

one accounting period. Construction of temporary huts is incidental to the main construction. Such cost is also capitalised with the cost of building.

3. ICAI Illustration 3

Best Tech Solutions buys and sells computers as a part of its business. It purchased 20 computers for resale to its customers. Cost of each computer is ₹ 20,000. It also purchased a computer costing ₹ 24,000 for its accountant to be able to maintain the accounting records and printing of invoices. Suggest whether above transactions qualify as capital expenditure or revenue expenditure transactions?

Solution

Best Tech Solutions is in the business of buying and selling of computers. Any computers purchased for resale to its customers will qualify as revenue expenditure. Hence, a purchase of 20,000 x 20 = ₹ 4,00,000 will be a part of revenue expenditure.

At the same time, the computer purchased for maintaining the records and invoicing is to be able to operate the business for a longer period of time. Therefore, the purchase of ₹ 24,000 qualifies as a capital expenditure. This amount will be a part of assets in the Balance Sheet.

4. ICAI Illustration 4

State with reasons whether the below items relating to the business of AB td are capital or revenue receipts?

(a) A machine with a book value of ₹ 10 lakh is sold for ₹ 12 lakh.

(b) Premium amounting to ₹ 1 Lakh received on issue of shares

(c) An amount of ₹ 20,000 received from goods sold in cash.

(d) An amount of ₹ 5 lac received on the maturity of fixed deposit from bank. Also, an interest of ₹ 40,000 was received in addition to the maturity amount of the fixed deposits.

Solution

a) The amount of ₹ 12 lac is a capital receipt. There is a profit on sale of the machine to the extent of ₹ 2 lac (12 – 10)
b) Premium received on issue of shares is an example of capital receipt.
c) Amount received from cash sale is a revenue receipt.
d) Amount received on the maturity of fixed deposit is the recovery of the deposit amount, and is a capital receipt. Interest income is an example of revenue receipt.

5. ICAI Illustration 5

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2022.

(i) Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹ 1,000. The furniture was installed by own workmen, wages for this being ₹ 200.

(ii) Expenses in connection with obtaining a license for running the cinema worth ₹ 20,000. During the course of the year the cinema company was fined ₹ 1,000, for contravening rules. Renewal fee ₹ 2,000 for next year also paid.

(iii) Fire insurance, ₹ 1,000 was paid on 1st October, 2021 for one year.

(iv) Temporary huts were constructed costing ₹ 1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.

Point out how you would classify the above items.

Solution:

(1) The total cost of the furniture should be treated as ₹ 10,200 i.e., all the amounts mentioned should be capitalised since without such expenditure the furniture would not be available for use. If ₹ 1,000 and ₹ 200 have been respectively debited to the Repairs Account and the Wages Account, these accounts will be credited to the Furniture Account.

(2) License for running the cinema house is necessary, hence its cost should be capitalised. But the fine of ₹ 1,000 is revenue expenditure. The renewal fee for the next year is also revenue expenditure but pertains to the next year; hence, it is a prepaid expense.

(3) Half of the insurance premium pertains to the year beginning on 1st April, 2021. Hence such amount should be treated as prepaid expense. The remaining amount is revenue expense for the current year.

(4) Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

6. ICAI Illustration 6

State with reasons, how you would classify the following items of expenditure:

1. Overhauling expenses of ₹ 25,000 for the engine of a motor car to get better fuel efficiency.
2. Inauguration expenses of ₹ 25 lacs incurred on the opening of a new manufacturing unit in an existing business.
3. Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Solution:

(1) Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long-term advantage. So this expenditure should be capitalised.

(2) Inauguration expenses incurred on the opening of a new unit may help to explore more customers This expenditure is in the nature of revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.

(3) The amount paid to workers on voluntary retirement is in the nature of revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to defer it over future years.

7. ICAI Illustration 7

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.

(ii) Amount received from Trade receivables during the year.

(iii) Amount spent on demolition of building to construct a bigger building on the same site.

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

Solution:

(i) Capital expenditure.

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

8. ICAI Illustration 8

Are the following expenditures capital in nature?

(i) M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was ₹ 20,000.

(ii) M/s New Delhi Financing Co. sold certain goods on installment payment basis. Five customers did not pay installments. To recover such outstanding installments, the firm spent ₹ 10,000 on account of legal expenses.

(iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent 40,000 for transportation of such machinery. The year ending is 31st Dec, 2022.

Solution:

(i) Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, the renovation expense is capital expenditure in nature.

(ii) Expense incurred to recover installments due from customer do not increase the revenue generating capability in future. It is a normal recurring expense of the business. Thus, the legal expenses incurred in this case is revenue expenditure in nature.

(iii) Expenses incurred on account of transportation of fixed asset is capital expenditure in nature.

9. RTP May 20

Classify the following expenditures as capital or revenue expenditure:

i. Money spent to reduce working expenses.

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

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

iv. Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Solution:

(i) Capital expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

10. RTP Nov 20

Classify the following expenditures as capital or revenue expenditure:

i. Travelling expenses of the directors for trips abroad for purchase of capital assets.

ii. Amount spent to reduce working expenses.

iii. Amount paid for removal of stock to a new site.

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

Solution:

(i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

11. RTP May 21

Classify each of the following transactions into capital or revenue transactions:

-- Inauguration expenses of a new manufacturing unit in an existing Business.
-- Installation of a new central heating system.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.
-- Legal fees on the acquisition of land.
-- Carriage costs on a replacement part for a piece of machinery.

Solution:

-- Inauguration expenses of new unit of existing business: revenue.
-- Installation of new heating system: capital.
-- Repainting van: revenue.
-- Drainage for new equipment: capital.
-- Legal fees on acquisition of land: capital
-- Carriage costs on replacement part: revenue.

12. RTP NOV 21

Classify each of the following transactions into capital or revenue transactions:

-- Legal fees on the acquisition of land.
-- Complete repaint of existing building.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.
-- Carriage costs on a replacement part for a piece of machinery.

Solution:

-- Legal fees on acquisition of land: capital
-- Complete repaint: revenue
-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Carriage costs on replacement part: revenue.

13. RTP May 22

Classify the following expenditures as capital or revenue expenditure:

a. An extension of railway tracks in the factory area.
b. Amount spent on painting the factory.
c. Payment of wages for building a new office extension.
d. Amount paid for removal of stock to a new site.
e. Rings and Pistons of an engine were changed to get full efficiency

Solution

a. Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
b. Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.
c. Payment of wages for building a new office extension should be treated as a Capital Expenditure.
d. Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.
e. Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

14. RTP Nov 22

Classify the following expenditures as capital or revenue expenditure:

(i) Expenses incurred to keep the machine in working condition.
(ii) Registration fees paid at the time of purchase of a building.
(iii) Expenses incurred for advertisement in newspaper.
(iv) Amount spent on renewal fee of patent rights.
(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution

(i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

15. MTP Nov 22 Series I

Classify the following expenditures as capital or revenue expenditure:

i. Amount spent for replacement of a petrol driven engine by CNG kits .
ii. Travelling expenses of the directors for trips abroad for purchase of capital assets.
iii. Amount spent to reduce working expenses.
iv. Insurance claim received on account of inventory damaged by fire .
v. Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

Solution

(i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Capital Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure..

16. RTP May 23

Classify the following expenditures as capital or revenue expenditure:

(i) Insurance claim received on account of inventory damaged by fire.

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

(iii) Travelling expenses of the chief financial officer on trips abroad for purchaseof special machinery.

(iv) Dividend received from XYZ limited during the year.

Solution

(i) Revenue expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

17. RTP Dec 23

Classify the following expenditures as capital or revenue receipt or capital orrevenue expenditure:

(i) Traveling expenses of the chief executive officer for trips abroad for purchaseof capital assets.

(ii) Amount spent on making a few more exists in a Cinema Hall to comply withGovernment orders.

(iii) Insurance claim received on account of inventory damaged by fire.

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

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

Solution

(i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Receipt.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

Capital and Revenue Expenditures

True & false

1. The nature of business is not an important criteria in separating an expenditure between capital and revenue.

   Ans:- False: The nature of business is a very important criteria in separating an expenditure between capital and revenue. For example- For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. .

2. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.

   Ans;- False: Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

3. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.

   Ans:- False: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.

4. Amount spent for replacement of worn-out part of machine is Capital Expenditure.

   Ans:- False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.

5. Legal fees to acquire property is Capital Expenditure.

   Ans:- True: Legal fee paid to acquire any property is a part of cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

6. Amount spent for the construction of temporary huts, which were necessary for construction of the cinema house and were demolished when the cinema house was ready, is Capital Expenditure.

   Ans:- True: Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Capital and Revenue Expenditures

Multiple choice Questions

1. Money spent ₹ 10,000 as traveling expenses of the directors on trips abroad for purchase of capital assets is
   a) Capital expenditures
   b) Revenue expenditures
   c) Prepaid revenue expenditure

   Ans:- a

2. Amount of ₹ 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is
   a) Capital expenditures
   b) Revenue expenditures
   c) Prepaid revenue expenditures

   Ans:- b

3. Entrance fee of ₹ 2,000 received by Ram and Shyam Social Club is
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

   Ans:- a

4. Subsidy of ₹ 40,000 received from the government for working capital by a manufacturing concern is
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

   Ans:- b

5. Insurance claim received on account of
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

   Ans:- a

6. Interest on investments received from
   a) Capital receipt
   b) Revenue receipt
   c) Capital expenditures

Ans:- b

7. Amount received from IDBI as a medium term loan for augmenting working capital is
   a) Capital expenditures
   b) Revenue expenditures
   c) Capital receipt

   Ans:- c

8. Revenue from sale of products, ordinarily, is reported as part of the earning in the period in which
   a) The sale is made.
   b) The cash is collected.
   c) The products are manufactured.

   Ans:- a

9. If repair cost is ₹ 25,000, whitewash expenses are ₹ 5,000, (both these expenses relate to presently used building) cost of extension of building is ₹ 2,50,000 and cost of improvement in electrical wiring system is ₹19,000; the amount to be expensed is
   a) ₹ 2,99,000.
   b) ₹ 44,000.
   c) ₹ 30,000.

   Ans:- c

Capital and Revenue Expenditures

Theory questions

1. What are the basic considerations in distinguishing between capital and revenue expenditures?

Ans:- The basic considerations in distinction between capital and revenue expenditures are:

(a) Nature of business.

(b) Recurring nature of expenditure.

(c) Purpose of expenses.

(d) Effect on revenue generating capacity of business.

(e) Materiality of the amount involved.

2. Define revenue receipts and give examples. How are these receipts treated?

Ans:- Receipts which are obtained in course of normal business activities are revenue receipts (e.g,. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

ACCOUNTING PROCESS

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1 (Journal Entry)				
2	ICAI Illustration 2 (Journal Entry)				
3	ICAI Illustration 3 (Journal Entry)				
4	ICAI Illustration 4 (Journal Entry)				
5	ICAI Illustration 5 (Journal Entry)				
6	ICAI Illustration 6 (Journal Entry)				
7	ICAI Illustration 7 (Journal Entry)				
8	ICAI Illustration 8 (Journal Entry)				
9	ICAI Illustration 9 (Journal Entry)				
10	ICAI Illustration 10 (Journal Entry)				
11	ICAI Illustration 1 (Legers)				
12	ICAI Illustration 2 (Legers)				
13	ICAI Illustration 3 (Legers)				
14	ICAI Illustration 1 (Trial balance)				
15	ICAI Illustration 2 (Trial balance)				
16	ICAI Illustration 2 (Trial balance)				
17	ICAI Illustration 3 (Trial balance)				
18	ICAI Illustration 4 (Trial balance)				
19	ICAI Illustration 5 (Trial balance)				
20	ICAI Illustration 1 (Subsidiary book)				
21	ICAI Illustration 2 (Subsidiary book)				
22	ICAI Illustration 3 (Subsidiary book)				
23	ICAI Illustration 4 (Subsidiary book)				
24	ICAI Illustration 5 (Subsidiary book)				
25	RTP May 20				

26	RTP Nov 20				
27	RTP Nov 20				
28	QP Nov 20				
29	QP July 21				
30	QP Dec 21				
31	Mock Test oct 21 (series 1)				
32	ICAI PQ 1 (Journal Entry)				
33	ICAI PQ 2 (Journal Entry)				
34	ICAI PQ 3 (Journal Entry)				
35	ICAI PQ 4 (Journal Entry)				
36	ICAI PQ 5 (Journal Entry)				
37	ICAI PQ 1 (Legers)				
38	ICAI PQ 1(Trial balance)				
39	ICAI PQ 1 (Subsidiary book)				
40	ICAI PQ 2 (Subsidiary book)				
41	ICAI RTP May 22				
42	ICAI RTP Nov 22				
43	ICAI RTP Nov 22				
44	ICAI Exam May 22				
45	MTP Nov 22 Series 2				
46	RTP May 23				
47	QP June 23				
48	RTP Dec 23				
TEST IN TIME PASS IN TIME					
1	Additional Question 1				
2	Additional Question 2				
3	Additional Question 3				
4	Additional Question 4				

Let's Get Started… With Class Work

1. ICAI Illustration 1 (Journal Entry)

Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

April 2022	Particulars	(₹ in 000)
1.	R started business with	5,000
2.	He purchased furniture for	1,200
3.	Paid salary to his clerk	1,100
4.	Paid rent	1,150
5.	Received interest	2,000

Solution:

2022 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (₹ in 000)	Credit (₹ in 000)
1.	₹ 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	5,000
2.	Purchased furniture for ₹ 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	1,200
3.	Paid ₹ 1,100 to employee for salary	Salary & Bank	Expense Asset	Increased Decreased	1,100	1,100
4.	Paid Rent ₹ 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	1,150
5.	Received interest ₹ 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	2,000

2. ICAI Illustration 2 (Journal Entry)

Develop the accounting equation from following information available at the beginning of accounting period:

Particulars	(₹ in 000)
Capital	51,000
Loan	11,500
Trade payables	5,700
Fixed Assets	12,800
Inventory	22,600
Trade receivables	17,500
Cash and Bank	15,300

At the end of the accounting period the balances appear as follows:

Particulars	Rs in 000
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720
Inventory	22,900
Trade receivables	17,500
Cash at Bank	15,600

(a) Reset the equation and find out profit.

(b) Prepare Balance Sheet at the end of the accounting period.

(All The Figures in solution are in ₹ 000)

Solution:

(All the figures in solution are in '000)

(a) Accounting equation is given by

Equity + Liabilities = Assets

Let us use E0, L0 and A0 to mean equity, liabilities and assets respectively at the beginning of the accounting period.

E0 = ₹ 51,000

L0 = Loan + Trade payables

=₹ 11,500 + ₹ 5,700

= ₹ 17,200

A0 =Fixed Assets + Inventories + Trade receivables + Cash at Bank

=₹ 12,800 + ₹ 22,600 + ₹ 17,500 + ₹ 15,300

=₹ 68,200

So, at the beginning of accounting period

E0 + L0 = A0

i.e., ₹ 51,000 + ₹ 17,200 = ₹ 68,200

Let us use E1, L1, A1 to mean equity, liabilities and assets respectively at the end of the accounting period.

L1 = Loan + Trade payables

=₹ 11,500 + ₹ 5,800

=₹ 17,300

A1 =Fixed Assets + Inventories + Trade receivables + Cash at Bank

= ₹ 12,720 + ₹ 22,900 + ₹ 17,500 + ₹ 15,600

= ₹ 68,720

E1 = A1 - L1 = ₹ 68,720 - ₹ 17,300 = ₹ 51,420

Profit = E1 - E0 = ₹ 51,420 - ₹ 51,000 = ₹ 420

(b) **Balance Sheet**

Liabilities	₹	₹	Assets	₹
Capital			Fixed Assets	12,720
Balance	51,000		Inventories	22,900
Add: Profit	420	51,420	Trade receivables	17,500
Loan		11,500	Cash at Bank	15,600
Trade payables		5,800		
		68,720		68,720

3. ICAI Illustration 3 (Journal Entry)

Mr. Dravid. has provided following details related to his financials. Find out the missing figures:

Particulars	(₹ in'000)
Profits carved during the year	5,000
Assets at the beginning of year	A
Liabilities at the beginning of year	12,000
Assets at the end of the year	B
Liabilities at the end of the year	C
Closing capital	35,000
Total liabilities including capital at the end of the year	50,000

Solution:

Computing opening capital: (All figure in ₹' 000)

Closing capital - profits earned during the year

= 35,000 - 5,000

= 30,000

We also know:

Assets = liabilities + capital

Therefore, opening assets (A)	=	12,000 + 30,000
	=	42,000

Computation of liabilities at the end of the year:

Total liabilities including capital	=	50,000
Less: closing capital	=	(35,000)
Liabilities at the end of the year (C)	=	15,000
Also assets at the end of the year (B)	=	closing capital + liabilities at the end of the year
	=	35,000 + 15,000
	=	50,000

4. ICAI Illustration 4 (Journal Entry)

Analyse transactions of M/s Sahil & Co. for the month of March, 2022 on the basis of double entry system by adopting the following approaches:

(A) Accounting Equation Approach.

(B) Traditional Approach.

Transactions for the month of March, 2022 were as follows (figures are in '000):

1. Sahil introduced capital through bank of ₹ 4,000.
2. Cash withdrawn from the City Bank ₹ 200.
3. Loan of ₹ 500 taken from Mr. Y.
4. Salaries paid for the month of March, 2022, ₹ 300 and ₹ 100 is still payable for the month of March, 2022.
5. Furniture purchased ₹ 500.

Required

What conclusion one can draw from the above analysis?

Solution:

(A) Analysis of Business Transaction: Accounting Equation Approach

The accounting equation is

Assets = Liabilities + Capital

(₹ in '000)

			ASSETS			=	CAPITAL	+	LIABILITIES
	CASH	+	BANK	+	FURNITURE	=	CAPITAL	+	LIABILITIES
(a)	-	+	4,000	+	-	=	4,000	+	-
(b)	+200	+	-200	+	-	=	-	+	-
(c)	-	+	500	+	-	=	-	+	500
(d)	-	+	-300	+	-	=	-400	+	100
(e)	-	+	-500	+	500	=	-	+	-
Balance	**200**	+	**3,500**	+	**500**	=	**3,600**	+	**600**
			4,200				**4,200**		

(B) Analysis of Business Transactions: Traditional Approach

Transaction	**Analysis**	**Account Affected and Nature of Account**	**Rule**	**Entry**
Introduction of ₹ 4,000 through bank by the proprietor	Bank has received the money; Owner has given Bank balance	Bank–Personal Capital–Personal	Debit the receiver Credit the giver	Debit Bank Credit Capital
Cash Withdrawn from Bank Rs. 200	Cash comes into business; Bank gives out cash	Cash–Real Bank–Personal	Debit what comes in Credit the giver	Debit Cash Credit Bank
Loan from Y ₹ 500	Bank receives the amount :Y pays through bank	Bank–Personal Y's Loan–Personal	Debit the receiver Credit the giver	Debit Bank Credit Y's Loan
Salary paid ₹ 300 and still payable ₹ 100	Cost of services used ₹ 400; Bank gives out ₹300; Still payable or	Salary Nominal Bank–Personal Salary Outstanding	Debit all expenses Credit the giver Credit the giver	Debit Salary (₹ 400) Credit Bank (₹3,00) Credit Salary

	outstanding for services received ₹ 100	Personal		outstanding (₹ 100)
Furniture purchased ₹ 500	Furniture is purchased; Bank gives out money	Furniture Real Bank–Personal	Debit what comes in Credit the giver	Debit Furniture Credit Bank

Conclusion:

It is evident from above analysis that procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries in affected accounts remain same under both approaches. Thus, the recording of transactions in affected accounts on the basis of double entry system is independent of the method of analysis followed by a business enterprise. In other words, accounts to be debited and credited to record the dual aspect remain same under both the approaches.

5. ICAI Illustration 5 (Journal Entry)

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

Following figures are given in ('00)

1. December 1, 2022, Ajit started business with capital ₹ 4,00,000
2. December 3, he withdrew cash for business from the Bank ₹ 2,000.
3. December 5, he purchased goods making payment through bank₹ 15,000.
4. December 8, he sold goods₹ 16,000 and received payment through bank.
5. December 10, he purchased furniture and paid by cheque ₹ 2,500.
6. December 12, he sold goods to Arvind ₹ 2,400.
7. December 14, he purchased goods from Amrit ₹ 10,000.
8. December 15, he returned goods to Amrit ₹ 500.
9. December 16, he received from Arvind ₹ 2,300 in full settlement.
10. December 18, he withdrew goods for personal use ₹ 1,000.
11. December 20, he withdrew cash from business for personal use ₹ 2,000.
12. December 24, he paid telephone charges ₹ 110.
13. December 26, amount paid to Amrit in full settlement ₹ 9,450.
14. December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000.
15. December 31, goods distributed by way of free samples ₹ 2,000.

Solution:

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(₹ in '00)

Dr. **Cr.**

Sl. No	Date	Particulars		Nature of Account	L.F.	Debit (₹)	Credit (₹)
1.	Dec. 1	Bank Account	Dr.	Personal A/c		4,00,000	
		To Capital Account		Personal A/c			4,00,000
		(Being commencement of business)					
2.	Dec. 3	Cash Account	Dr.	Real A/c		2,000	
		To Bank Account		Personal A/c			2,000
		(Being cash withdrawn from the Bank)					
3.	Dec. 5	Purchases Account	Dr.	Real A/c		15,000	
		To Bank Account		Personal A/c			15,000
		(Being purchase of goods for cash)					
4.	Dec. 8	Bank Account	Dr.	Personal A/c		16,000	
		To Sales Account		Real A/c			16,000
		(Being goods sold for cash)					
5.	Dec. 10	Furniture Account	Dr.	Real A/c		2,500	
		To Bank Account		Personal A/c			2,500
		(Being purchase of furniture, paid by cheque)					
6.	Dec. 12	Arvind	Dr.	Personal A/c		2,400	
		To Sales Account		Real A/c			2,400
		(Being sale of goods)					
7.	Dec. 14	Purchases Account	Dr.	Real A/c		10,000	
		To Amrit		Personal A/c			10,000
		(Being purchase of goods from Amrit)					

8.	Dec. 15	Amrit	Dr.	Personal A/c		500	
		To Purchases Returns Account		Real A/c			500
		(Being goods returned to Amrit)					
9.	Dec. 16	Bank Account	Dr.	Personal A/c		2,300	
		Discount Account	Dr.	Nominal A/c		100	
		To Arvind		Personal A/c			2,400
		(Being cash received from Arvind in full settlement and allowed him ₹ 100 as discount)					
10.	Dec. 18	Drawings Account	Dr.	Personal A/c		1,000	
		To Purchases Account		Real A/c			1,000
		(Being withdrawal of goods for personal use)					
11.	Dec. 20	Drawings Account	Dr.	Personal A/c		2,000	
		To Cash Account		Real A/c			2,000
		(Being cash withdrawal from the business for personal use)					
12.	Dec. 24	Telephone Expenses Account	Dr.	Nominal A/c		110	
		To Bank Account		Personal A/c			110
		(Being telephone expenses paid)					
13.	Dec 26	Amrit	Dr.	Personal A/c		9,500	
		To Bank Account		Personal A/c			9,450
		To Discount Account		Nominal A/c			50
		(Being cash paid to Amrit and he allowed ₹ 50 as discount)					
14.	Dec. 31	Stationery Expenses	Dr.	Nominal A/c		200	
		Rent Account Salaries	Dr.	Nominal A/c		5,000	
		Account	Dr.	Nominal A/c		2,000	
		To Bank Account		Personal A/c			7,200
		(Being expenses paid)					
15.	Dec. 31	Advertisement Expenses Account	Dr.	Nominal A/c		2,000	
		To Purchases Account		Real A/c			2,000
		(Being distribution of goods by way of free samples)					

6. ICAI Illustration 6 (Journal Entry)

Show the classification of the following Accounts under traditional and accounting equation approach:

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

Solution:

Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
(a)	Building	Real	Asset
(b)	Purchases	Real*	Asset
(c)	Sales	Real*	Revenue
(d)	Bank Fixed Deposit	Personal	Asset
(e)	Rent	Nominal (Expense)	Expense
(f)	Rent Outstanding	Personal	Liability
(g)	Cash	Real	Asset
(h)	Adjusted Purchases	Nominal (Expense)	Expense
(i)	Closing Inventory	Real	Asset
(j)	Investment	Real	Asset
(k)	Trade receivables	Personal	Asset
(l)	Sales Tax Payable	Personal	Liability
(m)	Discount Allowed	Nominal (Expense)	Temporary Capital (Expense)
(n)	Bad Debts	Nominal (Expense)	Temporary Capital (Expense)
(o)	Capital	Personal	Capital
(p)	Drawings	Personal	Temporary Capital (Drawings)
(q)	Interest receivable	Personal	Asset
(r)	Rent received in advance	Personal	Liability

(s)	Prepaid salary	Personal	Asset
(t)	Bad debts recovered	Nominal (Gain)	Temporary Capital (Gain)
(u)	Depreciation	Nominal (Expense)	Temporary Capital (Expense)
(v)	Personal Income Tax	Personal (Drawing)	Temporary Capital (Drawings)

*** In present senerio, purchases and sales are considered as nominal accounts.**

7. ICAI Illustration 7 (Journal Entry)

Transactions of Ramesh for April are given below. Journalise them.

2022		Particulars	₹
April	1	Ramesh started business with	1000000
April	3	Bought goods for cash	50000
April	5	Drew cash from bank	10000
April	13	Sold to Krishna-goods on credit	150000
April	20	Bought from shyam goods on credit	225000
April	24	Received from Krishna	145000
April		Allowed him discount	5000
April	28	Paid shyam cash	215000
April		Discount allowed	10000
April	30	Cash sales for the month	800000
April		Paid Rent	50000
April		Paid Salary	100000

Solution:

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Date 2022	Particulars		L.F.	Amount (Dr.)	Amount (Cr.)
April 1	Bank Account	Dr.	1	10,00,000	
	To Capital Account (Being the amount invested by Ramesh inthe business as capital)		4		10,00,000
" 3	Purchases Account To	Dr.	7	50,000	
	Bank Account (Being goods purchased for cash)		1		50,000
" 5	Cash Account	Dr.	5	10,000	

	To Bank Account (Being cash withdrawn from bank)		1		10,000
" 13	Krishna	Dr.	9	1,50,000	
	To Sales Account (Being goods sold to Krishna on credit)		11		1,50,000
" 20	Purchases AccountTo	Dr.	7	2,25,000	
	Shyam (Being goods bought from Shyam on credit)		10		2,25,000
" 24	Bank Account Discount	Dr.	1	1,45,000	
	Account	Dr.	12	5,000	
	To Krishna (Being cash received from Krishna anddiscount allowed to him)		9		1,50,000
" 28	Shyam	Dr.	10	2,25,000	
	To Bank Account		1		2,15,000
	To Discount Account (Being cash paid to Shyam and discountallowed by him)		12		10,000
" 30	Bank Account	Dr.	1	8,00,000	
	To Sales Account (Being goods sold for cash)		11		8,00,000
" 30	Rent Account	Dr.	15	50,000	
	Salaries Account	Dr.	14	1,00,000	
	To Bank Account		1		1,50,000
	(Being the amount paid for rent and salary)				
	Total			27,60,000	27,60,000
	(Ledger Folio imaginary)				

8. ICAI Illustration 8 (Journal Entry)

Journalise the following transactions in the books of Mr. Rohit:

(i) Purchased goods from Sahil for ₹ 50,000 plus CGST and SGST @ 9% each.

(ii) Purchased goods from Sam for ₹ 40,000 at a trade discount of 10% plus CGST and SGST @ 9% each. ₹ 20,000 was paid immediately and balance payable after 3 months.

(iii) Goods costing ₹ 20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.

(iv) Paid rent to Gagandeep for ₹ 20,000 plus CGST and SGST @ 6% each.

(v) Goods costing ₹ 5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.

(vi) Purchased furniture for ₹ 44,800 including IGST @ 12%.

(vii) Purchased machinery from M/s Symphony industries for ₹ 1,40,000 plus CGST and SGST

@ 9% each. Paid ₹ 1,00,000 immediately and balance to be paid after two months.

Ans:-

Date	Particulars		L.F	Dr. Balance (₹)	Cr. Balance (₹)
(i)	Purchased A/c	Dr.		50,000	
	Input CGST A/c (50,000 x 9%)	Dr.		4,500	
	Input SGST A/c (50,000 x 9%)	D.r		4,500	
	To Sahil's A/c				59,000
	(Being goods purchased from Sahil, CGST andSGST paid @ 9% each)				
(ii)	Purchases A/c (40,000 x 90%)	Dr.		36,000	
	Input CGST A/c (36,000 x 9%)	Dr.		3,240	
	Input SGST A/c (36,000 x 9%)	Dr.		3,240	
	To Sam's A/c				22,480
	To Bank A/c				20,000
	(Being goods purchased from Sam, CGST andSGST payable @ 9% each)				
(iii)	Drawings A/c*	Dr.		23,600	
	To Purchase A/c				20,000
	To Input CGST A/c (20,000 x 9%)				1,800
	To Input SGST A/c (20,000 x 9%)				1,800
	(Being goods withdrawn for personal use and input GST and input SGST debited at the time of purchase reversed)				
(iv)	Rent A/c	Dr.		30,000	
	Input CGST A/c (30,000 x 6%)	Dr.		1,800	
	Input SGST A/c (30,000 x 6%)	Dr		1,800	
	To Gagandeep A/c				33,600
	(Being rent paid to Gagandeep)				

(v)	Sam's A/c Dr. To Purchases Return A/c ** (5,000 – 10% trade Discount) To Input CGST A/c (4,500 x 9%) To Input SGST A/c (4,500 x 9%) (Being goods returned to Sam and input IGST debited at the time of purchases reversed)		5,310	 4,500 405 405
(vi)	Furniture A/c (WN 1) Dr. Input IGST A/c Dr. To Bank A/c (Being furniture purchased paid IGST @ 12%)		40,000 4,800	 44,800
(vii)	Machinery A/c Dr. Input CGST A/c (1,40,000 x 9%) Dr. Input SGST A/c (1,40,000 x 9%) Dr. To Bank A/c To Symphony Industries (Being machinery purchased and paid ` 1,00,000 immediately, CGST and SGST @ 9% each)		1,40,000 12,600 12,600	 1,00,000 65,200

* The input tax availed earlier is reversed, because these goods are 'consumed' by Mr. Rohit himself. Since he cannot 'sell' goods to himself and charged output tax, the input tax thereon is reversed, since in this case Mr. Rohit himself is the ultimate consumer of those goods.

** Since goods are returned to the supplier, the input tax credit availed earlier on those goods is to be reversed, since these goods are no longer available to be sold.

Working Note.

1. Furniture purchased is including IGST @ 12%. So, value of furniture excluding IGST = ₹ 44,800 × 100/112 = ₹ 40,000. IGST = ₹ 40,000 × 12% = ₹ 4,800.

9. ICAI Illustration 9 (Journal Entry)

Journalise the following transactions in the books of Ms. Nidhi traders July, 2022

3	Sold Goods for ₹ 50,000, charged CGST and SGST @ 6% each.
4	Sold goods to Surjeet for ₹ 28,000 including CGST and SGST @ 6% each.
5	Received ₹ 25,200 from Surjeet in full settlement of his account of ₹ 28,000.
6	Sold goods to Kapil for ₹ 30,000 charged IGST @ 12%. Received ₹ 12,000 immediately and balance to be received after one month.
10	Kapil was allowed rebate of ₹ 5,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.
12	Sold goods to Manpreet for ₹ 1,00,000 at trade discount of 20% and charged IGST @ 12%

13 Goods of list price ₹ 20,000 returned by Manpreet.

17 Received commission of ₹ 15,000, charged CGST and SGST @ 6% each.

Ans:-

Date	Particulars	L.F	Dr. Balance (₹)	Cr. Balance (₹)
(3)	Bank A/c Dr.		56,000	
	To sale Account			50,000
	To Output CGST A/c			3,000
	To Output SGST A/c			3,000
	(Being goods sold for cash, charged CGST andSGST @ 6% each)			
(4)	Surjeet's A/c Dr.		28,000	
	To Sales A/c			25,000
	To Output CGST A/c			1,500
	To Output SGST A/c			1,500
	(Being Goods sold to Surjeet, Charged CGST And SGST @ 6% each)(refer W.N.)			
(5)	Bank A/c Dr.		25,000	
	Discount Allowed A/c Dr.		28,000	
	To Surjeet A/c			28,000
	((Being amount received from Surjeet in full settlement of ` 14,000 after allowing him discount of`1,400))			
(6)	Bank A/c Dr.		12,000	
	Kapil's A/c Dr.		21,600	
	To Sales A/c			30,000
	To Output IGST A/c			3,600
	(Being goods sold to Kapil, charged IGST @ 12% and received` 12,000 in cash and balance receivable after one month)			

(10)	Rebate A/c * Dr. Output IGST A/c Dr. To Kapil's A/c (Being rebate allowed on goods sold to Kapil, Output IGST charged at the time of sales, now reversed)		5,000 600	 5,600
12	Manpreet's A/c Dr. To Sales A/c (1,00,000 x 80%) To Output IGST A/c (80,000 x 12%) (Being goods sold to Manpreet at trade discount of 20% and charged IGST @ 12%)		89,600	 80,000 9,600
13	Sales Return A/c Dr. Output IGST A/c Dr. To Manpreet A/c (Being goods returned by Manpreet and Output IGST charged at the time of sales now reversed)		16,000 1,920	 17,920
17	Cash A/c Dr. To Commission A/c To Output CGST A/c (15,000 x 6%) To Output SGST A/c (15,000 x 6%) (Being commission received charged CGST andSGST @ 6% each)		16,800	 15,000 900 900

*Since rebate is on account of defective goods which cannot be sold/utilized further by Kapil, the output GST charged thereon is also reversed. This treatment is like that of Sales Return. If rebate was on account of other reasons (such as prompt payment), Output IGST would not be reversed.

Working Note:

Goods sold to Surjeet is including CGST and SGST @ 6% each. So, sales excluding CGST and SGST = ₹ 28,000 × 100/112 = ₹ 25,000. CGST and SGST = ₹ 25,000 × 6% = ₹ 1,500 each.

10. ICAI Illustration 10 (Journal Entry)

Record the following transactions in a Journal, assuming CGST and SGST @ 6% each.

(i) Sold goods to Mukesh at the list price of ₹ 50,000 less 20% trade discount.

(ii) Sold goods to Mukesh at the list price of ₹ 1,00,000 less 20% trade discount and 5% cash discount.

(iii) Sold goods to Mukesh at the list price of ₹ 1,50,000 less 20% trade discount and 5% cash discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

Journal

Date	Particulars	L.F	Dr. Balance (₹)	Cr. Balance (₹)
(i)	Mukesh A/c Dr.		44,000	
	To sale Account			40,000
	To Output CGST A/c			2,400
	To Output SGST A/c			2,400
	(Being goods sold to Mukesh at a trade discount of 20% charged CGST and SGST @ 6% each)			
(ii)	Discount Allowed A/c Dr.		4,000	
	Bank A/c		85,600	
	To Sales A/c			80,000
	To Output SGST A/c			4,800
	To Output SGST A/c			4,800
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount, charged CGST and SGST @ 6% each)			
(iii)	Discount Allowed A/c (1,20,000 x 5%) Dr.		6,000	
	Bank A/c Dr.		57,780	
	Cash A/c Dr.		19,260	
	Mukesh's A/c (Refer W.N) Dr.		51,360	
	To Sales A/c (1,50,000 x 80%)			1,20,000
	To output CGST A/c (1,20,000 x 6%)			7,200
	To Output SGST A/c (1,20,000 x6%)			7,200
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount and received 60%, charged CGST and SGST @ 6% each)			

Note : After allowing cash discount of ₹ 4,000 (₹ 80,000 × 5%), the balance of ₹ 85,600 is received. Since discount is on account of prompt payment, output CGST and SGST is computed on value determine after deducting trade discount

Working Note : After allowing cash discount of ₹ 6,000 on ₹ 1,20,000, 60% of the balance amount i.e. ₹ 1,28,400 (1,20,000 + 12% GST ₹ 14,400 – discount ₹ 6,000) is paid in cash and by cheque. Hence, the amount paid in cash and cheque = ₹ 1,28,400 × 60% = 77,040. Amount paid by cheque = ₹ 77,040 × 3/4 = ₹ 57,780 Amount paid in cash = ₹ 77,040 x ¼ = 19,260 Mukesh's A/c = (₹ 1,20,000 + ₹ 14,400 – ₹ 6,000 – ₹ 57,780 – ₹ 19,260) = ₹ 51,360

11. ICAI Illustration 1 (ledgers)

Prepare the Stationery Account of a firm for the year ended 31.12.2022 duly balanced off, from the following details:

2022	Particulars	₹₹
Jan. 1	Inventory of stationery	480
April 5	Purchase of stationery by cheque	800
Nov. 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

Solution:

Dr **Stationery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.2022	To Balance b/d	480	31.12.2022	By Balance c/d	2,560
5.4.2022	To Bank A/c	800			
15.11.2022	To Five Star Stationery Mart A/c	1,280			
		2,560			2,560
1.1.2022	To Balance b/d	2,560			

12. ICAI Illustration 2 (ledgers)

Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 2022:

Cash in Hand ₹ 8,000, Cash at Bank ₹ 25,000, inventory of Goods ₹ 20,000, Building ₹ 10,000.

Trade receivables: Vijay ₹ 2,000 and Madhu ₹ 2,000.

Credit Balances on January 1, 2022:

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

Following were further transactions in the month of January, 2022:

Jan. 1 Purchased goods worth ₹ 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.

Jan. 4 Received ₹ 1,980 from Vijay and allowed him ₹ 20 as discount.

Jan. 8 Purchased plant from Mukesh for ₹5,000 and paid ₹100 as cartage for bringing the plant to the factory and another ₹200 as installation charges.

Jan. 12 Sold goods to Rahim on credit ₹600.

Jan. 15 Rahim became insolvent and could pay only 50 paise in a rupee.

Jan. 18 Sold goods to Ram for cash ₹1,000.

Solution:

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

Date 2020	Particulars	L.F.	₹	Date 2020	Particulars	L.F.	₹
Jan. 1	To Balance b/d		8,000	Jan. 1	By Purchases A/c		3,800
Jan. 4	To Vijay		1,980	Jan. 8	By Plant A/c		300
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280
Feb. 1	To Balance b/d		7,180				

Dr. **Bank Account** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		25,000	Jan. 31	By Balance c/d		25,000
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Dr. **Inventory Account** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		20,000	Jan. 31	By Balance c/d		20,000
			20,000				20,000
Feb. 1	To Balance b/d		20,000				

Dr. **Building Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		10,000	Jan. 31	By Balance c/d		10,000
			10,000				10,000
			10,000				
Feb. 1	To Balance b/d						

Dr. **Vijay** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 4	By Cash A/c		1,980
					By Discount A/c		20
			2,000				2,000

Dr. **Madhu** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Dr. **Anand** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 1	By Balance b/d		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Capital Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		55,000	Jan. 1	By Balance b/d		55,000
			55,000				55,000
				Feb. 1	By Balance b/d		55,000

Dr. **Purchases Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Cash		3,800	Jan. 31	By Balance c/d		4,000
Jan. 1	To Cash Discount		200				

			4,000				4,000
Feb. 1	To Balance b/d		4,000				

Dr. **Discount Account** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 4	To Vijay		20	Jan. 1	By Purchases A/c		200
Jan.31	To Balance c/d		180				
			200				200
				Feb. 1	By Balance b/d		180

Dr. **Plant Account** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 8	To Mukesh		5,000	Jan. 31	By Balance c/d		5,300
Jan. 8	To Cash A/c		300				
			5,300				5,300
Feb. 1	To Balance b/d		5,300				

Dr. **Mukesh** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 8	By Plant A/c		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Sales Account** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		1,600	Jan. 12	By Rahim		600
				Jan. 18	By Cash A/c		1,000
			1,600				1,600
				Feb. 1	By Balance b/d		1,600

Dr. **Rahim** **Cr.**

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
				Jan. 15	By Bad Debts A/c		300
			600				600

Dr. **Bad Debts Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

13. ICAI Illustration 3 (ledgers)

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2022.

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

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

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

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

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

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

22. Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received,20,000 was by cheque).

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

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

30. Balance R's Account.

Solution:

In the books of Mr. S

Dr. **Mr. H Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.2022	To Balance b/d	20,000	22.4.2022	By Bank A/c	20,000
5.4.2022	To Sales A/c	30,000	22.4.2022	By Cash A/c (Note 2)	24,775
17.4.2022	To Sales A/c	40,000	29.4.2022	By Discount Allowed A/c	225

			29.4.2022	By Bank A/c	40,000
			29.4.2022	By Bad Debts A/c	5,000
		90,000			90,000

Dr. **Mr. R Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
18.4.2022	To Purchase	5,400	1.4.2022	By Balance b/d	15,000
	To Returns A/c		4.4.2022	By Purchases A/c	54,000
26.4.2022	To Bank A/c	77,600	17.4.2022	By Purchases A/c	25,000
26.4.2022	To Discount				
	Received A/c	1,000			
30.4.2022	To Balance c/d	10,000			
		94,000			94,000
			1.5.2022	By Balance b/d	10,000

14. ICAI Illustration 1 (Trial Balance)

Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2022. You are required to prepare the Trial Balance by the Total Amount Method.

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

Particulars	₹	Particulars	₹
To Capital A/c	10,000	By Furniture A/c	3,000
To Ram's A/c	25,000	By Salaries A/c	2,500
To Cash Sales	500	By Shyam's A/c	21,000
		By Cash Purchases	1,000
		By Capital A/c	500
		By Balance c/d	7,500
	35,500		35,500

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

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

Dr. **Salaries Account** **Cr.**

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

Dr. **Shyam's Account** Cr.

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

Dr. **Purchases Account** Cr.

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

Dr. **Purchases Returns Account** Cr.

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

Dr. **Ram's Account** Cr.

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

Dr. **Sales Account** Cr.

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

Dr. **Sales Returns Account** Cr.

Particulars	₹	Particulars	₹
To Sundries as per Sales Returns Book	100	By Balance c/d	100
	100		100

Dr. **Capital Account** Cr.

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

To Balance c/d	9,500		
	10,000		10,000

Solution:

Trial Balance of X and Co. as at 31.03.2022

Sl. No.	Name of Account	Total Debit Items ₹	Total Credit Items ₹
1.	Cash A/c	35,500	28,000
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c	21,500	25,000
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	30,000	25,100
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c	500	10,000
		1,19,100	1,19,100

15. ICAI Illustration 2 (Trial Balance)

Taking the same information as given in Illustration 11, prepare the Trial Balance by Balance Method.

Solution:

Trial Balance of X and Co. as at 31.03.2022

Sl. No.	Name of Account	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c	7,500	
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c		3,500
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	4,900	
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c		9,500
		44,000	44,000

16. ICAI Illustration 2 (Trial Balance)

Taking the same information as given in Illustration 11, prepare the Trial Balance by Total and Balance Method.

Solution:

Trial Balance of X as at 31.03.2022

Sl. No.	Heads of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)	Debit Total (₹)	Credit Total (₹)
1.	Cash Account		7,500		35,500	28,000
2.	Furniture Account		3,000		3,000	
3.	Salaries Account		2,500		2,500	
4.	Shyam's Account			3,500	21,500	25,000
5.	Purchases Account		26,000		26,000	

6.	Purchase Returns Account			500		500
7.	Ram's Account		4,900		30,000	25,100
8.	Sales Account			30,500		30,500
9.	Sale Returns Account		100		100	
10.	Capital Account			9,500	500	10,000
	Total		44,000	44,000	1,19,100	1,19,100

17. ICAI Illustration 3 (Trial Balance)

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2022:

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

Solution:

Trial Balance of Anuradha Traders as on 31.03.2022

Dr. balance	₹	**Cr. balance**	₹
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500

Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

18.ICAI Illustration 4 (Trial Balance)

One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2022. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

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

The closing inventory on 31st March, 2022 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

Solution:

Corrected Trial Balance of Mr. Singhania as on 31st March, 2022

Particulars	**Dr. Amount ₹**	**Cr.Amount ₹**
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers	530	
Purchases	1,259	
Purchases returns		264
Loan from Bank		256
Creditor/Suppliers		528
Trade expenses	700	
Cash at Bank	226	
Bills payable		100
Salaries and Wages	600	
Inventory (1.4.2019)	264	
Rent and rates	463	
Sales return	98	
	5,454	5,454

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets go out.
3. Balance in Creditors Account is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come.

19. ICAI Illustration 5 (Trial Balance)

The following trail balance as on 31st March, 2022 was drawn from the books of fintech traders

	L.F	Dr. Balance (₹)	Cr. Balance (₹)
Building		60,000	-
Machinery		17,000	-
Return Outward		2,600	-
Bad Debts		2,800	-

Cash		400	-
Discount Received		3,000	-
Bank Overdraft		10,000	-
Creditors		50,000	-
Purchases		1,00,000	-
Capital		-	73,600
Fixtures		-	5,600
Sales		-	1,04,000
Debtors		--	60,000
Interest Received		-	2,600
Input CGST A/c		-	3,000
Input SGST A/c		-	3,000
Input IGST A/c		-	4,800
Output CGST A/c		5,400	-
Output SGST A/c		5,400	-
Total		2,56,600	2,56,600

Even though the debit and credit sides agree, the trial Balance contains certain errors. Check the accuracy of trial balance.

Ans:-

Corrected Trial Balance of Fintech traders as on 31st March, 2022

	L.F	Dr. Balance (₹)	Cr. Balance (₹)
Building		60,000	-
Machinery		17,000	-
Return Outward		-	2,600
Bad Debts		2,800	-
Cash		400	-
Discount Received		-	3,000
Bank Overdraft		-	10,000
Creditors		-	50,000

Purchases		1,00,000	-
Capital		-	73,600
Fixtures		5,600	-
Sales		-	1,04,000
Debtors		60,000	-
Interest Received		-	2,600
Input CGST A/c		3,000	-
Input SGST A/c		3,000	-
Input IGST A/c		4,800	-
Output CGST A/c		-	5,400
Output SGST A/c		-	5,400
		2,56,600	2,56,600

20.ICAI Illustration I (Subsidiary Book)

The Rough Book of M/s. Narain & Co. contains the following :

2022 Feb.

1. Purchased from Brown & Co. on credit :

   5 gross pencils @ ₹100 per gross,

   1 gross registers @ ₹ 240 per doz.

   Less : Trade Discount @ 10%
2. Purchased for cash from the Stationery Mart;
   10 gross exercise books @ ₹ 300 per doz.
3. Purchased computer for office use from M/s. office Goods Co. on credit for ₹ 30,000.
4. Purchased on credit from The Paper Co.

   5 reams of white paper @ ₹100 per ream.

   10 reams of ruled paper @ ₹150 per ream.

   Less : Trade Discount @ 10%
5. Purchased one dozen gel pens @ ₹15 each from M/s. Verma Bros. on credit.

Make out the Purchase Book of M/s. Narain & Co.

Solution:

Purchases Book

Date	Particulars		L.F.	Amount
2022		₹		₹
Feb. 1	M/s. Brown & Co.			
	5 gross pencils @ ₹ 100 per gross	500.00		
	1 gross register @ ₹ 240 per doz.	2880.00		
		3380.00		
	Less : 10% trade discount	(338)		3,042
"4	The Paper Co.			
	5 reams white paper @ ₹ 100 per ream	500.00		
	10 reams ruled paper @ ₹ 150 per ream	1500.00		
		2,000.00		
	Less : 10% trade discount	(200.00)		1,800
5	M/s. Verma Bros.			
	1 doz. gel pens @ ₹ 15 each	180		180
		Total		5022

Note: Purchases of cash and purchase of computer cannot be entered in the Purchase Book.

21. ICAI Illustration 2 (Subsidiary Book)

Enter the following transactions in Purchase Book and post them into ledger.

2022

April 4 Purchased from Ajay Enterprises, Delhi

100 Doz. Rexona Hawai Chappal @ ₹120 per doz.

200 Doz. Palki Leather Chappal @ ₹300 per Doz.

Less : Trade discount @ 10%

Freight charged ₹150.

April 15 Purchased from Balaji Traders, Delhi

50 doz. Max Shoes @ ₹400 per doz.

100 pair Sports Shoes. @ ₹140 per paid.

Less: Trade discount @ 10%.

Freight charged ₹200.

April 28 Purchased from Tripti Industries, Bahadurgarh

40 pair leather shoes @ ₹400 per pair

100 doz. Rosy Hawai Chappal @ ₹180 per doz.

Less: Trade discount @ 10%.

Freight charged ₹100.

Solution:

Purchase Book

Date 2022	Particulars	Gross Amount	Trade Discount	Net Price	Freight	Total Amount
April 4	Ajay Enterprises					
	100 doz chappal @ ₹120 per doz - ₹12,000					
	200 doz Palki Leather Chappal @ ₹300 per doz - ₹ 60,000					
	Less: trade discount @ 10%	72,000	7,200	64,800	150	64,950
April 15	Balaji Traders, Delhi					
	50 doz max Shoes @ ₹400 per doz - ₹20,000					
	100 pair Sports shoes @ ₹140 per pair - ₹14,000					
	Less: Trade discount @ 10%	34,000	3,400	30,600	200	30,800
April 28	Tripti Industries, Bahadurgarh					
	40 pair Leather shoes @ ₹400 per pair - ₹16,000					
	100 doz Rosy Hawai Chappal: @ ₹180 per doz - ₹ 18,000					
	Less: Trade discount @ 10%	34,000	3,400	30,600	100	30,700
		1,40,000	14,000	1,26,000	450	1,26,450

Ledgers

Dr. **Purchases A/c** **Cr.**

2022		₹	2022		₹
April 30	To amount as per purchase book	1,26,000			

Dr **Freight A/c** **Cr.**

2022		₹	2022		₹
April 30	To amount as per purchase book	450			

Dr. **Ajay Enterprises** **Cr.**

2022		₹	2022		₹
			April 4	By Purchase A/c	64,800
				By Freight A/c	150

Dr. **Balaji Traders** **Cr.**

2022		₹	2022		₹
			April 15	By Purchase A/c	30,600
				By Freight A/c	200

Dr. **Tripati Industries** **Cr.**

2022		₹	2022		₹
			April 28	By Purchase A/c	30,600
				By Freight A/c	100

22. ICAI Illustration 3 (Subsidiary Book)

The following are some of the transaction of M/s Kishore & Sons of the year 2022 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Verma on credit:

30 shirts @ ₹ 800 per shirt.

20 trousers @ ₹1,000 per trouser.

Less : Trade Discount @ 10%

Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.

Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.

Sold 13 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Mathur & Jain.

100 shirts @ ₹750 per shirt

10 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

Solution:

Sales Book

Date	Particulars	Details ₹	L.F.	Amount ₹
2022	M/s. Gupta & Verma			
	30 shirts @ ₹800	24,000		
	20 Trousers @ ₹1,000	20,000		
		44,000		
	Less : 10%	(4,400)		
	Sales as per invoice no. dated			39,600
	M/s. Jain & Sons 50 shirts @ ₹800			40,000
	Sale as per invoice no. dated			
	M/s Mathur & Jain			
	100 shirts @ ₹750	75,000		
	10 overcoats @ ₹5,000	50,000		
		1,25,000		
	Less : 10%	(12,500)		
	Sales as per invoice no. dated......			1,12,500
		Total		1,92,100

Note: Cash sale and sale of furniture are not entered in Sales Book.

23. ICAI Illustration 4 (Subsidiary Book)

Post the following into the ledger

Returns Outward Book

Date 2022	Particulars	L.F.	Details ₹	Amount ₹
Nov. 20	Rajindra Prakash & Sons			
	One 36" Usha Ceiling Fan		200.00	
	Less : Trade Discount @ 10%		(20.00)	180.00

“ 30	Modern Electric Company			100.00
	Total			280.00

Solution:

Ledger

Dr. **Rajindra Parkash & Sons** **Cr.**

Date 2020	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 20	To Returns Outward A/c		180.00				

Dr. **Modern Electric Co.** **Cr.**

Date 2020	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 30	To Returns Outward A/c		100.00				

Dr. **Returns Outward Account** **Cr.**

Date 2020	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				Nov.30	By Sundries as per Returns Outward A/c		280.00

24.ICAI Illustration 5 (Subsidiary Book)

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer:

Date	Debit Note No.	Particulars
04.01.2022	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹ 1,000.
09.01.2022		Garg Mills, Kota- accepted there turn of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹ 400.
16.01.2022	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹2,600. Returned one computer (being defective) @ ₹35,000 to B & Co.

30.01.2022		

Solution:

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2020				
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		13,000
Jan. 31		Purchases Returns Account (Cr.)		18,000

25. RTP MAY 20

Give journal entries (narrations not required) to rectify the following:

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

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

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

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

Solution:

Journal Entries

	Particulars	L.F.	Dr.(₹)	Cr.(₹)
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	

	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
(iv)	To Investments A/c			60,000
	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

26. RTP NOV 20

Pass a journal entry in each of the following cases:

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

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

ii. Goods distributed by way of free samples, ₹ 1,000.

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

Solution:

(i)

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

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

(ii)

Advertisement Expenses A/c Dr. 1,000

To Purchases A/c 1,000

(iii)

Cash A/c	Dr.	300
Bad Debts A/c	Dr.	300
To Rahim		

27. RTP NOV 20

b. Classify the following expenditures as capital or revenue expenditure:

i. Travelling expenses of the directors for trips abroad for purchase of capital assets.

ii. Amount spent to reduce working expenses.

iii. Amount paid for removal of stock to a new site.

iv. Cost of repairs on second-hand car purchased to bring it into working

Solution:

(i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

28.QP NOV 20

The following are some of the transaction of M/s. Kamal & sons for the year ended 31st March,2020. You are required to make out their sales Book.

i. Sold to M/s. Ashok & Mukesh on credit :

40 Shirts @ ₹ 900 per shirt & 30 trousers @ ₹ 1,000 per trouser

Less : Trade discount @ 10%

ii. Sold furniture to M/s. XYZ & Co.on credit ₹ 8,0000

iii. 1Sold 15 shirts to Aman @ ₹ 750 each for cash.

Solution:

SALES BOOK

Date	Particulars	Details ₹	L.F.	Amount ₹
31.03.2020	M/s. Ashok & Mukesh			
	40 shirts @ ₹ 900 per shirt	36,000		
	30 Trousers @ ₹1,000 per trouser	30,000		
		66,000		
	Less : 10% Trade Discount	(6,600)		
	(Sales as per invoice no. dated..)			59,400

29. QP July 21

From the following information prepare the Purchase. Book of Mis. Shyam & Company:

i. Purchased from Red & Company on credit:

10 pairs of black shoes. @ ₹ 800 per Pair.

5 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

ii. Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 40,000

iii. Purchased from Blue & Company in cash:

5 pairs of black shoes @ ₹ 700 per pair

15 pairs of brown shoes @ ₹ 100 per pair

Less: Trade Discount @ 15%

Solution:

PURCHASES BOOK

Date	Particulars	L.F.	Amount ₹
(i)	Red & Co.		
	10 pair of black shoes @ ₹ 800		8,000
	5 pair of Brown shoes @ ₹ 900		4,500
			12,500
	Less: 10% trade discount		(1,250)

			11,250

Note:

1. Purchases made in cash are entered in cash book not in purchase book.
2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

30. QP Dec 21

From the following information, draw up a trial Balance in the books of shri M as on 31st March, 2021

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return outwards	700
Rent And Taxes	1,200	Plant and machinery	80,700
Stock on 1st April 2020	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in hand	100
Cash at Bank	10,100	Motor Cycle	34,600
Stock on 31st March 2021	20,500		

Solution:

Trial Balance of Shri. M as on 31st March, 2021

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		1,40,000
Purchases	36,000	
Discount Allowed	1,200	
Carriage Inward Carriage Outwards	8,700 2,300	
Sales		60,000
Return Inward	300	
Return Outwards		700

Rent and taxes Plant and Machinery	1,200 80,700	
Stock on 1st April,2020	15,500	
Sundry Debtors	20,200	
Sundry Creditors		12,000
Investments	3,600	
Commission Received		1,800
Cash in Hand	100	
Cash at Bank	10,100	
Motor Cycle	34,600	
	2,14,500	2,14,500

Note : Stock as on 31st March,2021 will not appear in trail balance.

31. Mock Test Oct 21 (Series I)

Following information is provided for M/s. Rishi traders for the year ended 31st March, 2021:

	₹
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Rishi traders.

Solution:

Journal Proper in the Books of M/s. Rishi Traders

Date	Particulars		Amount	Amount
2021			₹	₹

Mar. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c			2,16,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c			3,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	30,00,000	
	To Trading A/c			30,00,000
	(Being the transfer of balance of sales account totrading account)			
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c			3,00,000
	To Purchases A/c			18,00,000
	To Wages A/c			1,50,000
	To Carriage Inwards A/c			90,000
	(Being the transfer of balances of openinginventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	6,00,000	
	To Trading A/c			6,00,000
	(Being the incorporation of value of closingInventory)			
	Trading A/c	Dr.	12,60,000	
	To Gross Profit			12,60,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	12,60,000	
	To Profit and Loss A/c			12,60,000
	(Being the transfer of gross profit to Profit and LossAccount)			

32. ICAI practical Question 1 (Journal Entry)

Show the classification of the following Accounts under traditional and accounting equation approach:

a	Rent Outstanding	g	Capital
b	Closing Inventory	h	Sales Tax Payable
c	Sales	i	Trade receivable
d	Bank Fixed Deposit	j	Depreciation
e	Cash	k	Drawings
f	Bad Debts		

Solution:

Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
a	Rent Outstanding	Personal	Liability
b	Closing Inventory	Real	Asset
c	Sales	Nominal	Revenue
d	Bank Fixed Deposit	Personal	Asset
e	Cash	Real	Asset
f	Bad Debts	Nominal (Expense)	Temporary Capital (Expense)
g	Capital	Personal	Capital
h	Sales Tax Payable	Personal	Liability
i	Trade receivables	Personal	Asset
j	Depreciation	Nominal (Expense)	Temporary Capital (Expense)
k	Drawings	Personal	Temporary Capital (Drawings)

33. ICAI practical Question 2 (Journal Entry)

Pass Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken inventory worth ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery ₹ 18,000.

(iii) Income tax liability of proprietor ₹ 1,17000 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,00,000. He allowed 10% trade discount, 5,000 cash discount was also allowed for quick payment.

Solution:

Journal Entries in the books of Gamma Bros.

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Salaries A/c	Dr.	75,000	
	To Purchase A/c			75,000
	(Being entry made for inventory taken by employees)			
(ii)	Machinery A/c	Dr.	18,000	
	To Bank/Cash A/c			18,000
	(Being wages paid for erection of machinery)			
(iii)	Drawings A/c	Dr.	1,17,000	
	To Petty Cash A/c			1,17,000
	(Being the income tax of proprietor paid out of			
	business money)			
(iv)	Purchase A/c	Dr.	1,80,000	
	To Naveen A/c			1,80,000
	(Being goods purchased from Naveen)			
	Naveen A/cTo Cash To Discount Received A/c	Dr.	1,80,000	1,75,000 5,000
	(Being cash received from the goods purchased from Naveen for ₹ 2,00,000. 10% trade discount and cash discount of ₹ 5,000 allowed to him)			

Note:

i. Here wages paid on erection of machinery have been capitalised therefore machinery account has been debited directly instead of wages being recorded as an expenditure.

ii. The students may also note that trade discount is allowed on the list price of goods. It is deducted to find out the invoice amount of the goods to be recorded in the books. Cash discount is a discount allowed in case of early payments to the seller. The entry is made in the books of accounts for cash discount.

34. ICAI Practical Question 3 (Journal Entry)

Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	15,00,000	2,50,000	?
(b)	?	1,50,000	75,000
(c)	14,50,000	?	13,75,000
(d)	57,00,000	- 2,80,000	?

Solution:

a) 12,50,000

b) 2,25,000

c) 75,000

d) 59,80,000

These have been solved using the Accounting Equation:

Assets = Capital + Liabilities

35. ICAI Practical Question 4 (Journal Entry)

Show the effect of increase = (+), decrease = (-) and no change=(0) on the assets of the following transactions:

a. Purchased office furniture, payment to be made next month.
b. Collected cash for repair services
c. Goods sold on credit.
d. Withdrawal of cash by the owner for personal use.
e. Hired an employee as sales manager of the north wing.
f. Returned goods worth ₹ 50,000.
g. One of our debtor agreed to pay his dues to Mr. C who is a creditor of the company with the same amount being due to him.
h. Entered into an agreement with Mehta & Co. to purchase all raw materials from their company from next year.

Also give reasons for your answers.

Solution:

S.No.	Increase (+) / Decrease (-) / No Change (0) in Assets	Reasons
(a)	+	Furniture has been purchased making it an increase in assets and also it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.
(b)	+	Cash has flowed in for services provided making it an increase in assets.
(c)	+	Here with goods sold there is a decrease in inventory (assets) but given thereis an increase in debtors there will be a net increase in assets.
		Though if goods are sold at cost it will result in no change whereas sale at below cost will result in decrease in assets.
(d)	-	Here cash has been withdrawn from business resulting in decrease in assetsand capital.
(e)	0	Only hiring of employee has been done resulting in no change in assets.
(f)	-	Outflow of goods has resulted in decrease in assets while money owed to creditors reduce on the liability side.
(g)	-	Here both assets and liabilities reduce by same amounts meaning a decrease in assets.
(h)	0	Only a purchase agreement has been entered into with no transaction taking place yet.

36. ICAI Practical Question 5 (Journal Entry)

Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2019. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000

Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during the year	1,00,000

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

Solution:

Trade Receivable Balance (B) = Sales- Amount received during the year

₹ (15,55,000 - 15,00,000)

₹ 55,000.

Since, we know Assets = Capital + Liabilities

Therefore, balance of assets is also ₹ 14,15,000

So, total assets:

Particulars		₹
Total Assets		14,15,000
Less:	Machinery	(12,00,000)
Less:	Inventory	(60,000)
Less:	Bank	(80,000)
Less:	Receivables	(55,000)
Cash (A)		20,000

Computation of Closing Capital (D):

Particulars		₹
Opening Capital		10,00,000
Add:	Introduced during the year	1,00,000
Less:	Loss incurred during the year	(35,000)
Closing Capital		10,65,000

So, Loan amount (C) = Total Liabilities and capital - Closing Capital - Trade Payables

= ₹ (14,15,000 - 10,65,000 - 1,00,000)

= ₹ 2,50,000

37. ICAI Practical Question 1 (Ledgers)

Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.

1. X started business with a capital of ₹ 20,000
2. He purchased goods from Y on credit ₹ 4,000
3. He paid cash to Y ₹ 2,000
4. He sold goods to Z ₹ 4,000
5. He received cash from Z ₹ 6,000
6. He further purchased goods from Y ₹ 4,000
7. He paid cash to Y ₹ 2,000
8. He further sold goods to Z ₹ 4,000
9. He received cash form Z ₹ 2,000

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
Cash Account To Capital Account (Being commencement of business)	Dr.		20,000	 20,000
Purchase AccountTo Y (Being purchase of goods on credit)	Dr.		4,000	 4,000
Y To Cash (Being payment of cash to Y)	Dr.		2,000	 2,000
Z To Sales (Being goods sold to Z)	Dr.		4,000	 4,000
Cash AccountTo Z (Being cash received form Z)	Dr.		6,000	 6,000
Purchase AccountTo Y (Being payment of goods from Y)	Dr.		4,000	 4,000

Y To Cash Account (Being payment of cash to Y)	Dr.		2,000	2,000
Z To Sales Account (Being goods sold to Z)	Dr.		4,000	4,000
Cash AccountTo Z (Being cash received from Z)	Dr.		2,000	2,000
TOTAL			48,000	48,000

Dr. **Cash Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2,000		By Balance c/d	24,000
		28,000			28,000
Feb. 1	To Balance b/d	24,000			

Dr. **Capital Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	20,000		By Cash A/c	20,000
		20,000			20,000
			Feb. 1	By Balance b/d	20,000

Dr. **Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8,000			8,000
Feb.1	To Balance b/d	8,000			

Dr. **Y's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Cash	2,000		By Purchases	4,000

Jan. 31	To Cash	2,000		By Purchases	4,000
	To Balance c/d	4,000			
		8,000			8,000
				By Balance b/d	4,000

Dr. **Z's Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			8,000

Dr. **Sales Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	8,000		By Z	4,000
				By Z	4,000
		8,000			8,000
			Feb. 1	By Balance b/d	8,000

38. ICAI Practical Question 1 (Trial Balance)

An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2020.

	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	200	-
Bank Overdraft	1,654	-
Capital	-	4,591
Trade payables	-	1,637
Trade receivables	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-
Office Furniture	2,155	-
General Expenses	-	829
Purchases	10,923	-
Returns Inward	-	330
Rent & Rates	314	-

Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

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

Solution:

Trial Balance as on 30th June, 2020

Heads of Accounts	Debit ₹	Credit ₹
Provision for Doubtful Debts	–	200
Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

39. ICAI Practical Question 1 (Subsidiary Book)

Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi. 2020

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

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

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

Solution:

Sales Book

Date	Particulars	Gross Amount (₹)	Trade Discount (₹)	Net Price (₹)
2020				
Jan. 2	Ajanta Electricals 5 pieces of			
	Ovens @ ₹ 6,000 each			
	Less: 10% discount	30,000	3,000	27,000
8	Electronics Plaza 10 pieces of			
	Tablets @ ₹ 8,000 each,			
	less 5% trade discount	80,000	4,000	76,000
15	Haryana Traders 5 pieces of			
	Juicers @ ₹ 3,500 each,			
	less 10% trade discount	17,500	1,750	15,750
		1,27,500	8,750	1,18,750

40. ICAI Practical Question 2 (Subsidiary Book)

Post into the ledger the entries of Sales Book prepared in Question 35.

Solution:

Ledger

Ajanta Electricals

Date 2020	Particulars	L.F.	Amount (₹)	Date 2020	Particulars	L.F.	Amount (₹)
Jan. 2	To Sales A/c		27,000				

Electronics Plaza

Date 2020	Particulars	L.F.	Amount (₹)	Date 2020	Particulars	L.F.	Amount (₹)
Jan. 8	To Sales A/c		76,000				

Haryana Traders

Date 2020	Particulars	L.F.	Amount (₹)	Date 2020	Particulars	L.F.	Amount (₹)
Jan. 15	To Sales A/c		15,750				

Sales Account

Date 2020	Particulars	L.F.	Amount (₹)	Date 2020	Particulars	L.F.	Amount (₹)
				Jan. 31	By Sundries (As per Sales Book)		1,18,750

41. ICAI RTP May 22

You are required to pass necessary journal entries in the books of Kewal:

a) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

b) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000

c) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

d) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

e) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

Solutions

In the books of Kewal Journal entries

	Particulars		Dr.	Cr.
			Amount	Amount
(i)	Bank A/c	Dr.	9,000	
	Discount allowed A/c	Dr.	1,000	
	To Hari Krishan A/c			10,000
	(Amount received from Hari Krishan after allowing discount of 1,000).			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			
(iv)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Commission received).			
	Commission A/c	Dr.	5,000	
	To Commission received in Advance A/c			5,000
	(Commission received in advance adjusted).			
(v)	Machinery A/c	Dr.	30,000	

	To Bank A/c		30,000
	(Machinery purchased from Jawahar)		
	Machinery A/c Dr.	9,000	
	To Purchases A/c		9,000
	(Goods used in repairs of Machinery).		

42. ICAI RTP Nov 22

Prepare Journal Entries for the following transactions in the books of Honey Singh

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

(ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.

(iii) Goods costing ₹10,000 distributed as free samples (Sale Price ₹ 1,2000)

(iv) Purchase of goods from Sunny of the list price of ₹ 15,000. He allowed 10% trade discount, ₹ 200 cash discount was also allowed for quick payment.

Solutions

Journal Entries in the books of Honey Singh

	Particulars	Dr.	Cr.
		Amount (₹)	Amount (₹)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken byemployees)		
(ii)	Drawings A/c	8,500	
	To Petty Cash A/c		8,500
	(Being the income tax of proprietor paid out ofbusiness money)		
(iii)	Sales Promotion A/c To Purchases A/c (Being the goods costing ₹ 10,000 distributedas free Samples)	10,000	10,000
(iv)	Purchase A/c	13,500	
	To Bank A/c		13,300
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for		

	₹ 15,000 @ 10% trade discount and cash discount of ₹ 200)		

43. ICAI RTP Nov 22

From the following transactions, prepare the Purchases Returns Book of Sulpher & Co. and post them to ledger :

Date	Debit Note No.	Particulars
04.06.22	101	Returned to Samuel Mills, Surat – 5 Calculator @ ₹ 100.
09.06.22		James Mills, Kota – accepted the return of calculator (which were purchased for cash) – 5 Kota Calculator @ ₹ 40.
16.06.22	102	Returned to David Mills, Bangalore –5 Calculator @ ₹ 260.
30.06.22		Returned one printer (being defective) @ ₹ 3,500 to Lucas & co.

Solutions

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2022				
Jun. 4	101	Samuel Mills, Surat		500
Jun. 16	102	David Mills, Bangalore		1,300
Jun. 30		Purchases Returns Account (Cr.)		1,800

44. ICAI Exam May 22

One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement:

	Dr.	Cr.
X's Capital		4,668
X's Drawings	1,692	
Leasehold Premises	2,250	
Sales		8,250
Due from customers		1,590
Purchases	3,777	
Purchase Return	792	

Loan from Bank		768
Trade Expense	2,100	
Trade Payable	1,584	
Bills Payable	300	
Salaries and Wages	1,800	
Cash at Bank	678	
Opening Inventory		792
Rent and Rates	1,389	
Sales Return		294
	16,362	16,362

The closing inventory was ₹1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

Solution

Corrected Trial Balance of Mr. X as on 31st March, 2022

Particulars	Dr. Amount ₹	Cr. Amount ₹
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	
Purchases	3,777	
Purchases returns		792
Loan from Bank		768
Trade expenses	2,100	
Trade Payable		1,584
Bills payable		300
Salaries and Wages	1,800	
Cash at Bank	678	
Inventory (1.4.2021)	792	
Rent and rates	1,389	
Sales return	294	
	16,362	16,362

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

45. MTP Nov 22 Series 2

Which subsidiary books are normally used in a business?

Solution

Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

46. RTP May 23

Pass a journal entries in the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:
Cash ₹ 12,000, Land ₹ 24,000, Furniture ₹ 6,000, Stock ₹ 12,000, Creditors ₹ 6,000, Bank Overdraft ₹ 12,000.

(ii) Goods distributed by way of free samples, ₹ 6,000.

(iii) Purchase of goods from Naveen of the list price of ₹ 12,000. He allowed 10% trade discount, ₹ 300 cash discount was also allowed for quick payment.

(iv) Income tax liability of proprietor ₹ 10,200 was paid out of petty cash.

(v) Sumit became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 3,600.

Solution

S No.	Particulars		Amount (Dr)	Amount (Cr)
(i)	Cash A/c	Dr.	12,000	
	Land A/c	Dr.	24,000	
	Furniture A/c	Dr.	6,000	
	Stock A/c	Dr.	12,000	
	To Creditors			6,000
	To Bank overdraft			12,000
	To Capital A/c			36,000
	(Being commencement of business bymohan by taking over a running business.)			
(ii)	Advertisement Expenses A/c	Dr.	6,000	
	To Purchases A/c			6,000
	(Being goods distributed as free samples)			
(iii)	Purchase A/c	Dr.	10,800	
	To Cash A/c			10,500
	To Discount Received A/c			300
	(Being the goods purchased from Naveen for ₹ 12,000 @ 10% trade discount and cash discount of ₹ 300)			
(iv)	Drawings A/c	Dr.	10,200	
	To Petty Cash A/c			10,200
	(Being the income tax of proprietor paidout of business money)			
(v)	Cash A/c	Dr.	1,800	
	Bad Debts A/c	Dr.	1,800	
	To Sumit			3,600
	(Being Sumit became insolvent 50 paisein a rupee could be recovered)			

47. QP June 23

Enter the following transactions in Sale Book of Gurgaon Engineers, Gurgaon for January 2022:

2022 January	
5	Sold to Praneet Electrical 10 pieces of microwaves @ ₹8,500/- Each less trade discount 15%
10	Sold to Ajanta Plaza 8 pieces of mixer grinders @ ₹12,500/- Each less trade discount 10%
20	Sold to Naveen traders, 15 pieces of juicers @ ₹5,500/- Each less trade discount 5%

Solution

In the Books of Gurgaon Engineers Sales Book

Date	Particulars	Gross Amount (`)	Trade Discount(`)	Net Price (`)
2022				
Jan. 5	Praneet Electricals 10 pieces of Microwaves			
	@ `8,500 each			
	Less: 15% discount	85,000	12,750	72,250
10	Ajanta Plaza 8 pieces of			
	Mixer Grinders @ ` 12,500each,			
	Less: 10% trade discount	1,00,000	10,000	90,000
20	Naveen Traders 15 pieces of			
	Juicers @ `5,500 each,			
	Less: 5% trade discount	82,500	4,125	78,375
		2,67,500	26,875	2,40,625

48.RTP Dec 23

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

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

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

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

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Solution

Journal Proper of Puneet & Co.Rectification Entries

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

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

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

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

   Following figures are given in ('00)

   1. December 1, 2016, Ajit started business with capital ₹ 4,00,000
   2. December 3, he withdrew cash for business from the Bank ₹ 2,000.
   3. December 5, he purchased goods making payment through bank₹ 15,000.
   4. December 8, he sold goods₹ 16,000 and received payment through bank.
   5. December 10, he purchased furniture and paid by cheque ₹ 2,500.
   6. December 12, he sold goods to Arvind ₹ 2,400.
   7. December 14, he purchased goods from Amrit ₹ 10,000.
   8. December 15, he returned goods to Amrit ₹ 500.
   9. December 16, he received from Arvind ₹ 2,300 in full settlement.
   10. December 18, he withdrew goods for personal use ₹ 1,000.
   11. December 20, he withdrew cash from business for personal use ₹ 2,000.
   12. December 24, he paid telephone charges ₹ 110.
   13. December 26, amount paid to Amrit in full settlement ₹ 9,450.
   14. December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000.
   15. December 31, goods distributed by way of free samples ₹ 2,000.

Solution:

JOURNAL

(₹ in '00)

Dr. Cr.

Sl. No	Date	Particulars		Nature of Account	L.F.	Debit (₹)	Credit (₹)
1.	Dec. 1	Bank Account	Dr.	Personal A/c		4,00,000	
		To Capital Account		Personal A/c			4,00,000
		(Being commencement of business)					
2.	Dec. 3	Cash Account	Dr.	Real A/c		2,000	
		To Bank Account		Personal A/c			2,000

3.	Dec. 5	(Being cash withdrawn from the Bank) Purchases Account	Dr.	Real A/c		15,000	
		To Bank Account		Personal A/c			15,000
		(Being purchase of goods for cash)					
4.	Dec. 8	Bank Account	Dr.	Personal A/c		16,000	
		To Sales Account		Real A/c			16,000
		(Being goods sold for cash)					
5.	Dec. 10	Furniture Account	Dr.	Real A/c		2,500	
		To Bank Account		Personal A/c			2,500
		(Being purchase of furniture, paid by cheque)					
6.	Dec. 12	Arvind	Dr.	Personal A/c		2,400	
		To Sales Account		Real A/c			2,400
		(Being sale of goods)					
7.	Dec. 14	Purchases Account	Dr.	Real A/c		10,000	
		To Amrit		Personal A/c			10,000
		(Being purchase of goods from Amrit)					
8.	Dec. 15	Amrit	Dr.	Personal A/c		500	
		To Purchases Returns Account		Real A/c			500
		(Being goods returned to Amrit)					
9.	Dec. 16	Bank Account	Dr.	Personal A/c		2,300	
		Discount Account	Dr.	Nominal A/c		100	
		To Arvind		Personal A/c			2,400
		(Being cash received from Arvind in full settlement and allowed him ₹ 100 as discount)					
10.	Dec. 18	Drawings Account	Dr.	Personal A/c		1,000	
		To Purchases Account		Real A/c			1,000
		(Being withdrawal of goods for personal use)					
11.	Dec. 20	Drawings Account	Dr.	Personal A/c		2,000	
		To Cash Account		Real A/c			2,000

		(Being cash withdrawal from the business for personal use)					
12.	Dec. 24	Telephone Expenses Account To Bank Account (Being telephone expenses paid)	Dr.	Nominal A/c Personal A/c		110	 110
13.	Dec 26	Amrit To Bank Account To Discount Account (Being cash paid to Amrit and he allowed ₹ 50 as discount)	Dr.	Personal A/c Personal A/c Nominal A/c		9,500	 9,450 50
14.	Dec. 31	Stationery Expenses Rent Account Salaries Account To Bank Account (Being expenses paid)	Dr. Dr. Dr.	Nominal A/c Nominal A/c Nominal A/c Personal A/c		200 5,000 2,000	 7,200
15.	Dec. 31	Advertisement Expenses Account To Purchases Account (Being distribution of goods by way of free samples)	Dr.	Nominal A/c Real A/c		2,000	 2,000

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

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

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

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

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

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

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

22. Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment

received,20,000 was by cheque).

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

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

30. Balance R's Account.

Solution:

In the books of Mr. S

Dr. Mr. H Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.2015	To Balance b/d	20,000	22.4.2015	By Bank A/c	20,000
5.4.2015	To Sales A/c	30,000	22.4.2015	By Cash A/c (Note 2)	24,775
17.4.2015	To Sales A/c	40,000	29.4.2015	By Discount Allowed A/c	225
			29.4.2015	By Bank A/c	40,000
			29.4.2015	By Bad Debts A/c	5,000
		90,000			90,000

Dr. Mr. R Account Cr.

Date	Particulars	₹	Date	Particulars	₹
18.4.2015	To Purchase	5,400	1.4.2015	By Balance b/d	15,000
	To Returns A/c		4.4.2015	By Purchases A/c	54,000
26.4.2015	To Bank A/c	77,600	17.4.2015	By Purchases A/c	25,000
26.4.2015	To Discount				
	Received A/c	1,000			
30.4.2015	To Balance c/d	10,000			
		94,000			94,000
			1.5.2015	By Balance b/d	10,000

3. From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2016:

Account Head	₹
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000

Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

Solution:

Trial Balance of Anuradha Traders as on 31.03.2016

Dr. balance	₹	Cr. balance	₹
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

4. The following are some of the transaction of M/s Kishore & Sons of the year 2017 as per their Waste Book. Make out their Sales Book.

   Sold to M/s. Gupta & Verma on credit:

   30 shirts @ ₹ 800 per shirt.

   20 trousers @ ₹1,000 per trouser.

   Less : Trade Discount @ 10%

   Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.

   Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.

   Sold 13 shirts to Cheap Stores @ ₹750 each for cash.

   Sold on credit to M/s. Mathur & Jain.

   100 shirts @ ₹750 per shirt

   10 overcoats @ ₹5,000 per overcoat.

   Less: Trade Discount @ 10%

Solution:

Sales Book

Date	Particulars	Details ₹	L.F.	Amount ₹
2017	M/s. Gupta & Verma			
	30 shirts @ ₹800	24,000		
	20 Trousers @ ₹1,000	20,000		
		44,000		
	Less: 10%	(4,400)		
	Sales as per invoice no. dated			39,600
	M/s. Jain & Sons 50 shirts @ ₹800			40,000
	Sale as per invoice no. dated			
	M/s Mathur & Jain			
	100 shirts @ ₹750	75,000		
	10 overcoats @ ₹5,000	50,000		
		1,25,000		
	Less: 10%	(12,500)		
	Sales as per invoice no. dated......			1,12,500
		Total		1,92,100

Note: Cash sale and sale of furniture are not entered in Sales Book.

I. Basic Accounting Procedure

True & False

1. In accounting equation approach, equity + Long-term liabilities = fixed asset + current assets – current liabilities.

   Ans: True: As per the modern accounting equation approach- it is the basic formula in the accounting process

2. In the traditional approach a debtor becomes receiver.

   Ans:- False: In the traditional approach a debtor becomes giver.

3. The rule of nominal account states that all expenses & losses are recorded on credit side.

   Ans:- False: The rule of nominal account states that all expenses & losses are recorded ondebit side.

4. Journal proper is also called a subsidiary book.

   Ans:- True: It is one of the book where in the transactions not entered in the other books areentered in this book.

5. Capital account has a debit balance.

   Ans:- False: Capital account has a credit balance.

6. Purchase account is a nominal account.

   Ans:- True: As it is considered as an expense.

7. All the personal & real account are recorded in P&L A/c.

   Ans:- False: All the personal & real account are recorded in balance sheet.

8. Asset side of balance sheet contains all the personal & nominal accounts.

   Ans:- False: Asset side of balance sheet contains all the personal & real accounts.

9. Capital account is a personal account.

   Ans:- True: As it is in the name of the proprietor who is bringing in the capital to the business.

10. Journal is also known as the book of original entry.

    Ans:- True: As the transactions are entered first in this book as a first hand record.

Multiple Choice

1. The rent paid to landlord is credited to
   (a) Landlord's account.
   (b) Rent account.
   (c) Cash account.

   Ans:- c

2. In case of a debt becoming bad, the amount should be credited to
   (a) Trade receivables account.
   (b) Bad debts account.
   (c) Cash account.

   Ans:- a

3. A Ltd. has a ` 35,000 account receivable from Mohan. On January, 22, Mohan makes a partial payment of ` 21,000 to A Ltd. The journal entry made on January, 22 by A Ltd. to record this transaction includes:
   (a) A credit to the cash received account of ` 21,000.
   (b) A credit to the Accounts receivable account of ` 21,000.
   (c) A debit to the cash account of ` 14,000.

   Ans:- b

4. Which financial statement represents the accounting equation - Assets = Liabilities + Owner's equity:
   (a) Income Statement
   (b) Statement of Cash flows
   (c) Balance Sheet.

   Ans:- c

5. Which account is the odd one out?
   (a) Office furniture & Equipment.
   (b) Freehold land and Buildings.
   (c) Inventory of materials.

   Ans:- c

6. The debts written off as bad, if recovered subsequently are

(a) Credited to Bad Debts Recovered Account

(b) Credited to Trade Receivables Account.

(c) Debited to Profit and Loss Account.

Ans:- a

7. In Double Entry System of Book-keeping every business transaction affects:

(a) Two accounts

(b) Two sides of the same account.

(c) The same account on two different dates.

Ans:- a

8. A sale of goods to Ram for cash should be debited to:

(a) Ram

(b) Cash

(c) Sales

Ans:- b

Theory Questions

1. Write short note on classification of accounts.

Ans:- **a.** Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

(i) **Assets:** These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.

(ii) **Liabilities:** These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.

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

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

However, traditionally accounts are classified as follows:

(i) **Personal Accounts:** These accounts relate to persons, institutions, debtors or creditors.

(ii) **Impersonal Accounts:** These represent accounts which are not personal. These can be further sub-divided as follows:

- Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc.
- Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

2. Distinguish between Real account and nominal account.

Ans:- A real account is an account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, incomes and gains. Examples are: wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

2.Ledgers

True and False

1. A ledger is also known as the principal book of accounts.

   Ans:- True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance, a ledger is also known as principal books of accounts

2. Cash account has a debit balance.

   Ans:- True: Being an asset under the modern equation approach, cash account has a debit balance

3. Posting is the process of transferring the accounts from ledger to journal.

   Ans:- False: Posting is the process of transferring the balances from journal to ledger.

4. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

   Ans:- False: At the end of the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.

5. Ledger records the transactions in a chronological order

   Ans:- False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order

6. If the total debit side is greater than the total of credit side, we get a credit balance as opening balance.

   Ans: False: If the total of debit side is greater than the total of credit side, we get a debit balance as the opening balance.

7. Ledger accounts of assets will always be debited when they are increase

   Ans:- True: The increase to an asset shall be debited since the original balance is also debit

Multiple Choice

1. The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as

   (a) Posting

   (b) Purchase

   (c) Balancing of an account

   Ans: a

2. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as

(a) Posting

(b) Purchase

(c) Balancing of an account

Ans:- c

3. Journal and ledger records transactions in

(a) A chronological order and analytical order respectively.

(b) An analytical order and chronological order respectively.

(c) A chronological order only

Ans:- a

4. Ledger book is popularly known as

(a) Secondary book of accounts

(b) Principal book of accounts

(c) Subsidiary book of accounts

Ans:- b

5. At the end of the accounting year all the nominal accounts of the ledger book are

(a) Balanced but not transferred to profit and loss account

(b) Not balanced and also the balance is not transferred to the profit and loss account

(c) Not balanced and their balance is transferred to the profit and loss account.

Ans:- c

Theory Questions

1 What do you mean by principal books of accounts?

Ans:- Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).

2 What are the rules of posting of journal entries into the Ledger?

Ans:- Rules regarding posting of entries in the ledger:

a. Separate account is opened in ledger book for each account and entries from the Journal are posted to respective accounts accordingly.

b. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.

c. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

UNIT 3 : TRIAL BALANCE

True & False

1. Preparing trial balance is the third phase of accounting process.
   Ans:- True: Preparing trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.

2. Trial balance forms a base for the preparation of Financial statement.
   Ans:- True: Based on trial balance only, we can prepare financial statement

3. Agreement of trial balance is a conclusive proof of accuracy.
   Ans:- False: Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance.

4. A trial balance will tally in case of compensating errors.
   Ans:- True: Since compensating errors cancel out due to their compensating nature of the amounts, hence the Trial balance tallies.

5. A trial balance can find the missing entry from the journal.
   Ans:- False: A trial balance cannot find the missing entry from the journal.

6. Suspense account opened in a trial balance is a permanent account.
   Ans:- False: Suspense account opened in a trial balance is a temporary account

7. The balance of purchase returns account has a credit balance.
   Ans:- True: As purchases is debited, any returns shall be credited (treated in opposite way)

Multiple choice Questions

1. A trial balance will not balance if ________________________________

(a) Correct journal entry is posted twice.

(b) The purchase on credit basis is debited to purchases and credited to cash.

(c) ` 500 cash payment to creditor is debited to Trade payables for ` 50 and credited to cash as ` 500.

Ans:- c

2. ` 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance ________________________________

(a) The debit total will be greater by ` 3,000 than the credit total.

(b) The debit total will be greater by ` 1,500 than the credit total.

(c) Subject to other entries being correct the total will agree.

Ans:- a

3. After the preparation of ledgers, the next step is the preparation of ________________

(a) Trading accounts

(b) Trial balance

(c) Profit and loss account

Ans:- b

4. After preparing the trial balance the accountant finds that the total of debit side is short by` 1,500. This difference will be _____________________________

(a) Credited to suspense account

(b) Debited to suspense account

(c) Adjusted to any of the debit balance account

Ans:-b

5.

S.No.	Account heads	Debit ()	Credit ()
1	Sales		15,000
2	Purchases	10,000	
3	Miscellaneous expenses	2,500	
4	Salaries		2,500
	Total	12,500	17,500

The difference in trial balance is due to _____________________________

(a) Wrong placing of sales account

(b) Wrong placing of salaries account

(c) Wrong placing of miscellaneous expenses account

Ans:- b

Theory Questions

1. What is the trial balance? And how it is prepared?

Ans:- Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance. Trial balance contains various ledger balances on a particular date. It forms the basis for preparing the financial statements i.e. profit and loss account and balance sheet. If is tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected. Therefore, it is very important to carefully journalise and post the entries, following are rules of accounting.

2. Explain objectives of preparation of trial balance.

Ans:- The preparation of trial balance has the following objectives:

(i) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books of accounts.

(ii) Financial statements are normally prepared on the basis of agreed trial balance.

(iii) The trial balance serves as a summary of what is contained in the ledgers.

3. Even if the trial balance agrees, some errors may remain. Do you agree? Explain

Ans:- In spite of the agreement of the trial balance some errors may remain. These may be of the following types:

(i) Transaction has not been entered at all in the journal.

(ii) A wrong amount has been written in both columns of the journal.

(iii) A wrong account has been mentioned in the journal.

(iv) An entry has not at all been posted in the ledger.

(v) Entry is posted twice in the ledger.

4. Subsidiary Books

True & False

1. Transactions recorded in the purchase book include only purchases of goods on credit transactions.

   Ans:- True: Since cash purchases are taken to the cash book , it is only credit transactions that are recorded in the purchases book.

2. Transactions regarding the purchase of fixed asset are recorded in the purchase book.

   Ans:- False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.

3. Cash sales are recorded in the sales book.

   Ans:- False: Credit sales are recorded in the sales book.

4. Subsidiary books are also known as the books of original entry.

   Ans:- True: Subsidiary books are maintained as an alternate to the journal.

5. Bills receivable book is a subsidiary book.

   Ans:- True: Bills receivable is one of the subsidiary book.

6. Return inward book is also known as purchase return book.

   Ans:- False: Return inward book is also known as sales return book.

7. Purchase of a second hand machinery will be recorded in purchase book.

   Ans:- False: Purchase of a second hand machinery will not be recorded in purchase book.

8. Total of sales return book may be posted to the debit side of sales account.

   Ans:- True: Since sales return is reduction from the total sales value, it is debited in the salesaccount.

9. If the sales are on a frequent basis, the transactions are recorded in the sales book.

   Ans:- True: When there are numerous transactions then there are subsidiary books like thesales book where there are recorded instead of regular journal entries.

Multiple Choice

1. In Purchases Book, the record is in respect of ______________________________

   (a) Cash purchase of goods.

   (b) Credit purchase of goods dealt in.

   (c) All purchases of goods.

   Ans:- b

2. The Sales Returns Book records ______________________________

   (a) The return of goods purchased.

   (b) Return of anything purchased.

   (c) Return of goods sold.

   Ans:- c

3. The Sales Book ______________________________

   (a) Is a part of journal.

   (b) Is a part of the ledger.

   (c) Is a part of the balance sheet.

   Ans:- a

4. The weekly or monthly total of the Purchase Book is ______________________________

   (a) Posted to the debit of the Purchases Account.

   (b) Posted to the debit of the Sales Account.

   (c) Posted to the credit of the Purchases Account.

   Ans:- a

5. The total of the Sales Book is posted to ______________________________

   (a) Credit of the Sales Account.

   (b) Credit of the Purchases Account.

   (c) Credit of the Capital Account.

   Ans:- a

6. In which book of original entry, will you record an allowance of `50 which was offered for an early payment of cash of `1,050 ______________ _.

   (a) Sales Book

   (b) Cash Book

   (c) Journal Proper (General Journal)

Ans:- b

7. A second hand motor car was purchased on credit from B Brothers for `10,000 will be recorded in _______________ _.

(a) Journal Proper (General Journal)

(b) Sales Book

(c) Cash Book

(d) Purchase Book

Ans:- a

8. In which book of original entry, will you record a bills receivable of `1,000, which was received from a debtor in full settlement for a claim of `1,100, is dishonoured ____________________.

(a) Purchases Return Book

(b) Bills Receivable Book

(c) Journal Proper (General Journal)

Ans:- c

Theory Questions

1. Which subsidiary books are normally used in a business?

Ans:- Refer para 4.1 of this unit for subsidiary books normally mainlined in a business.

2. What are the advantages of subsidiary books?

Ans:-= For advantages of Subsidiary Books, refer para 4.1 of this unit.

Bank Reconciliation Statements

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
CASH BOOK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI practical Question 1				
BRS					
7	ICAI Illustration 1				
8	ICAI Illustration 2				
9	ICAI Illustration 3				
10	ICAI Illustration 4				
11	ICAI Illustration 5				
12	ICAI Illustration 6				
13	ICAI Illustration 7				
14	ICAI Illustration 8				
15	ICAI Illustration 9				
16	ICAI Illustration 10				
17	ICAI Illustration 11				
18	Additional Question				
19	Additional Question				
20	Additional Question				
21	ICAI practical Question 1				
22	ICAI practical Question 2				
23	ICAI practical Question 3				
24	ICAI practical Question 4				
25	ICAI practical Question 5				
26	RTP May 20				

27	RTP May 20				
28	RTP Nov 20				
29	RTP Nov 20				
30	QP Jan 21				
31	QP Nov 20				
ADDITIONAL QUESTIONS					
1	RTP May 21				
2	RTP Nov 21				
3	RTP May 21				
4	RTP Nov 21				
5	QP July 21				
6	QP Dec 21				
7	Mock Test Oct 21 (series I)				
8	Mock Test Nov 21				
9	RTP May 22				
10	RTP May 22				
11	RTP Nov 22				
12	ICAI Exam May 22				
13	MTP Nov 22 Series I				
14	MTP Nov 22 Series 2				
15	ICAI Exam Nov 22				
16	ICAI Exam Nov 22				
17	RTP May 23				
18	RTP May 23				
19	QP Nov 22				
20	RTP Dec 23				
21	RTP Dec 23				
22	QP Dec 23				
Test In Time Pass In Time					
1	Additional Question				
2	RTP Nov 19				

Let's Get Started... With Class Work

CASH- BOOK

1. ICAI Illustration 1

Enter the following transactions in a Simple Cash Book:

2022		₹
Jan.1	Cash in hand	1,200
"5	Received from Ram	300
"7	Paid Rent	30
"8	Sold goods for cash	300
"10	Paid to Shyam	700
"27	Purchased Furniture	200
"31	Paid Salaries	100
"31	Rent due, not yet paid, for January	30

Solution:

Dr. **Cash Book** **Cr.**

Date 2022	Receipts L.F.	Amount ₹	Date 2022	Payments L.F.	Amount ₹
Jan. 1	To Balance b/d	1,200	Jan. 07	By Rent A/c	30
" 5	To Ram A/c	300	" 10	By Shyam A/c	700
" 8	To Sales A/c	300	" 27	By Furniture A/c	200
			" 31	By Salaries A/c	100
			" 31	By Balance c/d	770
		1,800			1,800
2020					
Feb. 1	To Balance b/d	770			

Note: One can see the following:

2. ICAI Illustration 2

Ganesh commenced business on 1st April, 2022 with ₹ 2,000 as capital. He had the following cash transactions in the month of April 2022:

April		₹	April		₹
1	Purchased furniture				
	and paid cash	250			
2	Purchased goods	500			
4	Sold goods for cash	950			
5	Paid cash to Ram Mohan	560	7	Paid for petty expenses	15
6	He allowed discount	10	8	Cash purchases	150
6	Received cash from		13	Paid for labour	1,000
	Krishna & Co.	600		Paid Ali & Sons	400
	Allowed discount	20		They allowed discount	8

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2022.

Solution:

Cash Book

Dr. Date 2022	Receipts	L.F.	Discount ₹	Amount ₹	Date 2022	Payments	L.F.	Discount ₹	Cr. Amount ₹
April 1	To Capital A/c			2,000	April 1	By Furniture A/c			250
" 4	To Sales A/c			950	" 2	By Purchases A/c			500
" 6	To Krishna A/c		20	600					
					" 5	By Ram Mohan		10	560
					" 7	By Petty			
						Expenses A/c			15
					" 8	By Purchases A/c			150
					" 13	By wages A/c			1,000
					" 13	By Ali & Sons		8	400
					" 30	By Balance c/d			675
			20	3,550				18	3,550
May 1	To Balance b/d			675					

To summarise:

(i) the discount columns in the cash book are totalled;

(ii) they are not balanced; and

(iii) their totals are entered in the discount received/paid account in the ledger.

Note: The person who pays, is credited by both the cash paid by him and the discount allowed to him. Similarly, the person to whom payment is made, is debited with both the amount paid and the discount allowed by him.

3. ICAI Illustration 3

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

2022	Particulars	₹
Jan.1	Chandrika commences business with Cash	20,000
"3	He paid into Current A/c	19,000
"4	He received cheque from Kirti & Co. on account	600
"7	He pays in bank Kirty & Co.'s cheque	600
"10	He pays Rattan & Co. by cheque and is allowed discount ₹ 20	330
"12	Tripathi & Co. pays into his Bank A/c	475
"15	He receives cheque from Warshi and allows him discount ₹ 35	450
"20	He receives cash ₹ 75 and cheque ₹ 100 for cash sale	
"25	He pays into Bank, including cheques received on 15th and 20th	1,000
"27	He pays by cheque for cash purchase	275
"30	He pays sundry expenses in cash	50

Solution:

Dr. **Cash Book** **Cr.**

Date	Receipts	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Payments	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
Jan.	To Capital A/c			20,000		Jan. 3	By Bank A/c	C		19,000	
1											
3	To Cash	C			19,000	7	By Bank A/c	C		600	

4	To Kirti & Co.			600		10	By Ratan & Co.		20		330
7	To Cash	C			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By Purchases			275	
							A/c				
15	To Warshi		35	450		30	By S. Exp. A/c			50	
20	To Sales A/c			175							
25	To Cash	C			1,000						
						31	By Balance c/d			300	20,745
			35	21,225	21,075				20	21,225	21,075
Feb.	To Balance b/d			300	20,745						
1											

4. ICAI Illustration 4

Prepare a Petty Cash Book on the imprest System from the following:

2022		Particulars	₹
Jan.	1	Received ₹100 for petty cash	
"	2	Paid bus fare	.50
"	2	Paid cartage	2.50
"	3	Paid for Postage & Telegrams	5.00
"	3	Paid wages for casual labourers	6.00
"	4	Paid for stationery	4.00
"	4	Paid tonga charges	2.00
"	5	Paid for the repairs to chairs	15.00
"	5	Bus fare	1.00
"	5	Cartage	4.00
"	6	Postage and Telegrams	7.00
"	6	Tonga charges	3.00
"	6	Cartage	3.00
"	6	Stationery	2.00
"	6	Refreshments to customers	5.00

Solution:

Petty Cash Book

Receipts ₹	Date 2022	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
100	Jan.1		To Cash							
	2	1	By Conveyance	.50	.50					
		2	By Cartage	2.50		2.50				
	3	3	By Postage and Telegrams	5.00				5.00		
		4	By Wages	6.00					6.00	
	4	5	By Stationery	4.00			4.00			
		6	By Conveyance	2.00	2.00					
	5	7	By Repairs to Furniture	15.00						15.00
		8	By Conveyance	1.00	1.00					
		9	By Cartage	4.00		4.00				
	6	10	By Postage and Telegrams	7.00				7.00		
	"	11	By Conveyance	3.00	3.00					
	"	12	By Cartage	3.00		3.00				
	"	13	By Stationery	2.00			2.00			
	"	14	By General Expenses	5.00						5.00
				60.00	6.50	9.50	6.00	12.00	6.00	20.00
			By Balance c/d	40.00						
100				100.00						
40.00			To Balance b/d							
60.00	8		To Cash							

5. ICAI Illustration 5

Enter the following transaction in Cash Bank with Discount and Bank columns. Cheques are first treated as cash receipts –

2022	Particulars	₹
March 1	Cash in Hand	15,000
	Overdraft in Bank	500
2	Cash Sales	3,000
3	Paid to Sushil Bros. by cheque	3,400
	Discount received	100
5	Sales through credit card	2,800
6	Received cheque from Srijan	6,200
7	Endorsed Srijan's cheque in favour of Adit	

9	Deposit into Bank	6,800
10	Received cheque from Aviral and deposited the same into Bank by allowing discount of ₹50	3600
12	Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque	
15	Sales through Debit Card	3,200
24	Withdrawn from Bank	1,800
28	Paid to Sanchit by cheque	3,000
30	Bank charged 1% commission on sales through Debit/Credit Cards	

Solution:

Dr. **Cash Book** **Cr**

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
March 1	To Balance b/d			15,000		March 1	By Balance b/d				500
2	To Sales			3,000		3	By Sushil Bros.		100		3,400
5	To Sales				2,800	7	By Adit				6,200
6	To Srijan				6,200	9	By Bank	C		6,800	
9	To Cash A/c	C			6,800	12	By Adit				6,200
10	To Aviral		50		3,600	24	By Cash A/c	C			1,800
12	To Srijan			6,200		28	By Sanchit				3,000
15	To Sales A/c				3,200	30	By Commission				60
24	To Bank A/c	C		1,800		31	By Balance c/d			19,200	1,440
			50	26,000	22,600				100	26,000	22,600

6. ICAI Practical Question 1

Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount is ₹ 500. From the following information, show how his Petty Cash Book would appear for the week ended 12th September, 2022:

₹

7-9-2022	Balance in hand	134.90
	Received Cash reimbursement to make up the imprest	365.10
	Stationery	49.80
8-9-2022	Miscellaneous Expenses	20.90
9-9-2022	Repairs	156.70
10-9-2022	Travelling	68.50
11-9-2022	Stationery	71.40
12-9-2022	Miscellaneous Expenses	6.30
	Repairs	48.30

Solution:

Petty Cash Book

Date 2022	Receipts	Amount	Date 2022	Payments	Total Amount	Stationery ₹	Travelling ₹	Misc Exps.	Repairs ₹
Sept.7	To Balance b/d	134.90	7	By Stationery	49.80	49.80			
	To Reimbursement	365.10	8	By Misc. Expenses	20.90			20.90	
			9	By Repairs	156.70				156.70
			10	By Travelling	68.50		68.50		
			11	By Stationery	71.40	71.40			
			12	By Misc. Expenses	6.30			6.30	
				By Repairs	48.30				48.30
					421.90	121.20	68.50	27.20	205.00
				By Balance c/d	78.10				
		500.00			500.00				
13	To Balance b/d	78.10							

True & false

1. Cash book is a subsidiary book as well as a principal book.
   Ans:- True: Since the balance is directly taken to the Trial balance from cash book. Hence, itis a subsiadiary book as well as principal book.

2. Two column cash book consists of two columns cash column & bank column.
   Ans:- True: Two column cash book consists of two columns either cash column & discount column or cash column & bank column.

3. Discount column of cash book is never balanced.
   Ans:- True: Discount column is totalled and transferred to the discount allowed or received account.

4. Contra entry is passed in a two column cash book.
   Ans:- False: Contra entry is passed in a three column cash book which includes bank and cash columns.

5. If the bank column is showing the opening balance on credit side, it is an overdraft.
   Ans:- True: The debit side of opening balance shows a favourable balance, whereas the credit balance is an unfavourable balance and treated as overdraft.

6. A cash book records cash transactions as well as credit transactions.
   Ans:- False: A cash book records only cash transactions.

7. Discount column of cash book records the trade discount.
   Ans:- False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

Multiple choice questions:

1. The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the ______________
   a) Credit of the discount allowed account.
   b) Debit of the discount allowed account
   c) Credit of the discount received account.
   Ans: b

2. Cash book is a type of _________ but treated as a of accounts.
   a) Subsidiary book, principal book
   b) Principal book, subsidiary book
   c) Subsidiary book, subsidiary book
   Ans:- a

3. Which of the following is not a column of a three-column cash book?
   a) Cash column
   b) Bank column
   c) Petty cash column
   Ans:- c

4. Contra entries are passed only when ____________________________
   a) Double-column cash book is prepared
   b) Three-column cash book is prepared
   c) Simple cash book is prepared
   Ans:- b

5. The Cash Book records ____________________________
   a) All cash receipts
   b) All cash payments
   c) All cash receipts and payments
   Ans:- c

6. The balance in the petty cash book is ____________________________
   a) An expense
   b) A profit
   c) An asset
   Ans:- c

7. If Ram has sold goods for cash, the entry will be recorded ____________________
   a) In the Cash Book
   b) In the Sales Book
   c) In the Journal
   Ans:- a

Theory Questions

1. Is cash book a subsidiary book or a principal book? Explain.

Ans:- Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account, if bank column is also included; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it is also treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

2. What are the various kinds of cash book?

Ans:- The main Cash Book may be of the three types:

(i) Simple Cash Book;

(ii) Two-column Cash Book;

(iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

3. What are the advantages of a three column cash book?

Ans:- The advantages of three column Cash Book are that -

(a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. The chances of error are also reduced.

(b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Cash and Bank Account.

BANK RECONCILIATION STATEMENT

7. ICAI Illustration I

Messer's Tall & Short, Faiz Bazar, New Delhi-110002

in account with

Punjab National Bank, Daryaganj, New Delhi-110002

PASS-BOOK

Date		Particulars	Withdrawal ₹	Deposits ₹	Dr. or Cr.	Balance ₹
2022						
Jan.	2	By Cash		4,00,000	Cr.	4,00,000
"	4	To Furniture Dealers Ltd.	60,000		Cr.	3,40,000
"	4	To Das & Co.	1,25,000		Cr.	2,15,000
"	10	By J. Johnson & Co.'s cheque		35,000	Cr.	2,50,000
"	12	To Roy & James	1,00,000		Cr.	1,50,000
"	15	By B. Babu & Co's cheque		76,000	Cr.	2,26,000
"	16	By Cash		30,000	Cr.	2,56,000
"	20	To Cash	50,000		Cr.	2,06,000
"	26	By J. Rai & Bros cheque		43,000	Cr.	2,49,000
"	31	To Premium paid as per				
		standing instructions	25,000		Cr.	2,24,000
	31	To Bank Charges	1,000		Cr.	2,23,000
	31	By Interest collected on		20,000	Cr.	2,43,000
		Government Securities				

CASH-BOOK (Bank column only)

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Jan. 1	To Cash	4,00,000	Jan. 2	By Furniture	
Jan. 2	To J. Johnson & Co.	35,000		Dealers Ltd.	60,000
Jan. 8	To B. Babu& Co.	76,000	Jan. 2	By Roy & James	1,00,000
Jan. 10	To Cash	30,000	Jan. 2	By Das & Co.	1,25,000
Jan. 16	To J. Rai & Bros.	43,000	Jan. 4	By K. Nagpal & Co.	73,000
Jan. 20	To M. Mohan & Co.	1,05,000	Jan. 17	By Cash	50,000
Jan. 22	To N. Nandy & Sons	34,000	Jan. 20	By B. Babu & Co.	78,000
			Jan. 31	By Balance c/d	2,37,000
		7,23,000			7,23,000
Feb. 1	To Balance b/d	2,37,000			

It will be seen that whereas the pass book shows a credit balance of ₹2,43,000, the cash-book shows a debit balance of ₹2,37,000. We shall compare the two to establish the reasons for the difference. The reconciliation of the two statements can be done in two ways:

1. Arrive at pass book balance from cash book.
2. Arrive at cash book balance from pass book.

Solution:

Step: 1 Compare the debit side of cash book with the deposits column of pass book:-

We find that the following cheques are recorded in the cash book but not in the pass book. Therefore if we enter these two cheques in the deposit side of the pass book the balance becomes:-

Existing balance	2, 43,000
Add:- M Mohan & Co.	1,05,000
N. Nandy & Sons	34,000
Total	3,82,000

Step: 2 Compare the credit side of the cash book with the withdrawal column of the pass book

We find that the following cheques are not recorded. Therefore, if we enter these two cheques on the withdrawal side of the pass book the balance becomes: -

Existing balance	3,82,000
Less:- K Nagpal & Co.	(73,000)
B Babu & Co.	(78,000)
Total	2,31,000

There is an item Interest on Government Securities which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance	2,31,000
Less:- Interest on govt. securities	(20,000)
Total	2,11,000

Further, there are two items which appear on the withdrawal side of the pass book i.e. they have been deducted from the bank balance but not on the credit side of the cash book, so these items should be added in order to reconcile the balance:-

Existing balance:-	2,11,000

Add: Insurance premium	25,000
Add: Bank charges	1,000
Total	2,37,000

Therefore , we have arrived at the balance as per the cash book from the pass book.

This process shows that the difference between the two balance arise only because there are some entries made in the cash-book but not in the pass book and some entries which are made in the pass book but not in the cash book. A comparison of the two shows up such entries and then, on that basis, the reconciliation is prepared. To illustrate it again, let us proceed from the cash book balance of ₹2,37,000. Since cheques totalling ₹1,39,000 have not been entered in the pass book, let us assume that they are also omitted from the cash book, this will reduce the cash book balance to ₹98,000. Cheques totalling ₹1,51,000 have been entered on the credit side of the cash book but not in the pass book their omission from the cash book will increase the cash book balance to ₹2,49,000. Amounts totalling ₹26,000 have been entered in the withdrawals column of the pass book but not in the cash book; an entry on the credit side of the cash book for these amounts will reduce the balance to

₹2,23,000. The deposits column shows an entry of ₹20,000 not found on the debit side of the cash book; the entry made in the cash book will increase balance to ₹2,43,000 as shown in the pass book.

8. ICAI Illustration 2

From the following particulars, prepare a Bank Reconciliation Statement for Jindal offset Ltd.

(1) Balance as per cash book is ₹ 2,40,000

(2) Cheques issued but not presented in the bank amounts to ₹ 1,36,000.

(3) Cheques deposited in bank but not yet cleared amounts to ₹ 90,000.

(4) Bank charges amounts to ₹ 300.

(5) Interest credited by bank amounts to ₹ 1,250.

(6) The balance as per pass book is ₹ 2,86,950.

Solution:

Bank Reconciliation Statement

Particulars	Amount₹
Balance as per cash book	2,40,000
Add: Cheque issued but not presented	1,36,000
Interest credited by bank	1,250
	3,77,250
Less: Cheque deposited but not yet cleared	(90,000)
Bank charges debited by bank	(300)
Balance as per pass book	2,86,950

9. ICAI Illustration 3

On 31st March 2022, the Bank Pass Book of Namrata showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

I. She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.
II. She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.
III. A cheque of ₹ 22,000 deposited by her has not been cleared yet.
IV. Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.
V. Bank has credit an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

Solution:

Bank Reconciliation Statement as on 31st March 2022

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		1,50,000
Add: Cheque deposited but not yet cleared	22,000	
Add: Cheque recorded in Cash Book but not yet deposited	5,000	
Add: Bank Charges debited by bank	250	27,250
Less: Cheque issued but not yet presented	48,000	
Less: Amount deposited but not recorded in Cash Book	15,700	65,200
Less: Interest allowed by bank	1,500	
Balance as per Cash Book		1,12,050

10. ICAI Illustration 4

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2019.

(1) The bank overdraft as per Cash Book on 31st December, 2022 ₹ 6,340.

(2) Interest on overdraft for 6 months ending 31st December, 2022 ₹ 160 is entered in Pass Book.

(3) Bank charges of ₹ 400 are debited in the Pass Book only.

(4) Cheques issued but not cashed prior to 31st December, 2022, amounted to ₹ 11,68,000.

(5) Cheques paid into bank but not cleared before 31st December, 2022 were for ₹ 22,17,000.

(6) Interest on investments collected by the bank and credited in the Pass Book ₹ 12,00,000.

Solution:

Bank Reconciliation Statement As on 31st December, 2022

Particulars	Amount ₹
Overdraft as per Cash Book	6,340
Add: Interest debited in the Pass Book but not yet entered in the Cash Book	160
Add: Bank charges debited in the Pass Book but not entered in the Cash Book	400

Add : Cheques deposited but not yet credited in the Pass Book	22,17,000
	22,23,900
Less: Cheques issued but not yet presented	(11,68,000)
Less: Interest collected and credited by bank but not yet entered in Cash Book	(12,00,000)
Balance as per Pass Book (Credit/Favourable balance)	(1,44,100)

The above illustration can also be presented with the column for "Plus" and "Minus."

Particulars	**Plus Amount ₹**	**Minus Amount ₹**
Overdraft as per Cash Book		6,340
Interest debited in Pass Book but not yet in Cash Book		160
Cheque issued but not yet presented	11,68,000	
Cheques paid in but not yet credited by the Bank		22,17,000
Bank charges		400
Interest collected and credited by the Bank in the Pass		
Book but not yet entered in Cash Book	12,00,000	
Balance as per Pass Book (Credit/Favourable balance)		1,44,100
Total	23,68,000	23,68,000

II. ICAI Illustration 5

On 30th September, 2022, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹4,062. On the same date the bank statement showed a debit balance of ₹ 20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1) A cheque for ₹13,14,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022
2) A payment by cheque for ₹16,000 has been entered twice in the Cash Book.
3) On 29th September, 2022, the bank credited an amount of ₹1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2022.
4) Bank charges amounting to ₹580 had not been entered in the Cash Book.
5) On 6th September, 2022, the bank credited ₹20,000 to X in error.
6) A bill of exchange for ₹1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of X.
7) Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹13,26,000. You are required :

(a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2022 and

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

Solution:

(a) **Cash Book (Bank Column)**

Date 2022		Particulars	Amount ₹	Date 2022		Particulars	Amount ₹
Sept. 30				Sept. 30			
	To	Party A/c	16,000		By	Balance b/d	4,062
	To	Customer A/c			By	Bank charges	580
		(Direct deposit)	1,17,400		By	Customer A/c	
	To	Balance c/d	11,242			(B/R dishonoured)	1,40,000
			1,44,642				1,44,642

(b) **Bank Reconciliation Statement as on 30th September, 2022**

Particulars	Amount ₹
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 30th September, 2022	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 30th September, 2022	(13,26,000)
Credit by Bank erroneously on 6th September	(20,000)
Credit balance as per bank statement	20,758

Note: Bank has credited X by 20,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 13,26,000 resulting in credit balance of ₹ 758 as per pass-book.

12. ICAI Illustration 6

On 30th December, 2022 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book

before 30th December, 2022, were not presented for payment until that date.

2. Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2022, but were entered in the bank statement on 1st January, 2023.
3. A cheque for ₹ 73,000 had been dishonoured prior to 30th December, 2022, but no record of this fact appeared in the cash book.
4. A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2022.
7. A cheque for ₹27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2022.

You are required:

(a) to make appropriate adjustments in the cash book bringing down the correct balance, and

(b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Solution:

(a) A. Philip

Dr. Cash Book (Bank column) Cr.

Date 2022	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
Dec. 30	To Balance b/d	4,610	Dec. 30	By Trade receivables- Cheque dishonoured	73,000
	To Dividend received	3,80,000			
				By Bank interest and charges	4,200
				By Trade Subscription	10,000
			Dec. 31	By Balance c/d	2,97,410
		3,84,610			3,84,610
2020					
Jan. 1	To Balance b/d	2,97,410			

(b) **Bank Reconciliation Statement as at 30th December, 2022**

Particulars	Amount ₹
Balance per cash book	2,97,410
Add: Cheques not yet presented	6,30,000
	9,27,410
Less: Lodgement not yet recorded by bank	(2,50,000)
	6,77,410
Less: Cheque wrongly charged	(27,000)
Balance as per the bank statement	6,50,410

13. ICAI Illustration 7

From the following information, prepare a Bank reconciliation statement as at 31st December, 2022 for Messrs New Steel Limited: ₹

1	Bank overdraft as per Cash Book on 31st December, 2022	22,45,900
2	Interest debited by Bank on 26th December, 2022 but no advice received	2,78,700
3	Cheque issued before 31st December, 2022 but not yet presented to Bank	6,60,000
4	Transport subsidy received from the State Government directly by the Bank but not advised to the company	14,25,000
5	Draft deposited in the Bank, but not credited till 31st December, 2022	13,50,000
6	Bills for collection credited by the Bank till 31st December, 2022 but no advice received by the company	8,36,000
7	Amount wrongly debited to company account by the Bank, for which no details are available	7,40,000

Solution:

M/s. New Steel Ltd.

Bank Reconciliation Statement as on 31st Dec, 2022

Particulars	Details ₹	Amount ₹
Overdraft as per Cash Book		22,45,900
Add: Interest charged by the bank	2,78,700	
Draft deposited in bank but not yet creditedWrong	13,50,000	
debit by the bank, under verification	7,40,000	23,68,700
		46,14,600
Less: Cheque issued but not yet presented	(6,60,000)	
Transport subsidy not yet recorded in the Cash Book	(14,25,000)	
Bills for collection credited in the bank not yet entered in the cash book	(8,36,000)	(29,21,000)
Overdraft as per bank statement		16,93,600

14. ICAI Illustration 8

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2022, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2022 the payment side of the Cash Book was undercast by ₹10,000.

(2) A cheque for ₹1,31,000 issued on 25th December, 2022 was not taken in the bank column.

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

(4) On 18th December, 2022 the debit balance of ₹15,260 as on the previous day, was brought forward as credit balance.

(5) Of the total cheques amounting to ₹11,514 drawn in the last week of December, 2022, cheques aggregating ₹7,815 were encashed in December.

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

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

Prepare a Reconciliation Statement.

Solution:

If the books are not closed on 31st December, 2022)

Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2022

Particulars		Details ₹	Amount ₹
Balance as per the Cash Book			8,36,400
Add : Mistake in bringing forward ₹ 15,260 debit balance as credit balance on 18th Dec., 2022		30,520	
Cheques issued but not presented :			
Issued	11,514		
Cashed	7,815	3,699	
Dividends directly collected by bank but not yet entered in the Cash Book		25,000	
Cheque recorded twice in the Cash Book		3,50,000	
Deposit not recorded in the Bank column		1,50,000	5,59,219
			13,95,619
Less : Wrong casting in the Cash Book on 15th Dec.		10,000	
Cheques issued but not entered in the Bank column		1,31,000	
Subscription paid by the bank directly not yet recorded in the Cash Book		1,000	(1,42,000)
Balance as per the Pass Book			12,53,619

If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:

ADJUSTED CASH BOOK

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	8,36,400	By wrong casting	10,000
To error for wrong posting	30,520	By cheques not entered	1,31,000
To dividends collected by bank	25,000	By subscription	1,000
To cheques recorded twice	3,50,000	By balance c/d	12,49,920

To deposit not recorded	1,50,000		
	13,91,920		13,91,920

Bank Reconciliation Statement

Particulars	₹
Balance as per the Cash Book (corrected)	12,49,920
Add: Cheques issued but not yet presented	3,699
Balance as per the Pass Book	12,53,619

15. ICAI Illustration 9

The following are the Cash Book (bank column) and Pass Book of Jain for the months of March, 2022 and April, 2022:

Cash Book (Bank Column only)

Date	**Particulars**	**Dr.** ₹	**Date**	**Particulars**	**Cr.** ₹
01/3/2022	To Balance b/d	60,000	03/3/2022	By Cash A/c	2,00,000
06/3/2022	To Sales A/c	3,00,000	07/3/2022	By Modi	60,000
10/3/2022	To Ram	65,000	12/3/2022	By Patil	30,000
18/3/2022	To Singhal	2,70,000	18/3/2022	By Suresh	40,000
25/3/2022	To Goyal	33,000	24/3/2022	By Ramesh	1,50,000
31/3/2022	To Patel	65,000	30/3/2022	By Balance c/d	3,13,000
		7,93,000			7,93,000

Pass Book

Date	**Particulars**	**Amount Dr.** ₹	**Amount Cr.** ₹	**Dr. or Cr.**	**Balance** ₹
1/4/2022	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/2022	By Goyal		33,000	Cr.	3,98,000
5/4/2022	By Patel		65,000	Cr.	4,63,000
7/4/2022	To Naresh	2,80,000		Cr.	1,83,000
12/4/2022	To Ramesh	1,50,000		Cr.	33,000
15/4/2022	To Bank Charges	200		Cr.	32,800
20/4/2022	By Usha		17,000	Cr.	49,800
25/4/2022	By Kalpana		38,000	Cr.	87,800
30/4/2022	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2022.

Solution:

1) On scrutiny of the debit side of the Cash Book of March 2022 and receipt side of the Pass Book of April, 2022 reveals that two cheques deposited in Bank (Goyal ₹ 33,000 and Patel ₹ 65,000) in March were not credited by the Bank till 31/3/2022.
2) On scrutiny of the credit side of the cash book and payment side of the Pass Book reveals that a cheque issued to Ramesh for ₹ 1,50,000 in March 2022, had not been presented for payment in Bank till 31/3/2022. Therefore the Bank Reconciliation statement on 31/3/2022 will appear as follows :

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Amount ₹
Balance as per the Cash Book	3,13,000
Add : Cheque issued but not presented for payment	1,50,000
	4,63,000
Less : Cheque deposited but not credited by Bank	(98,000)
Balance as per the Pass Book	3,65,000

16. ICAI Illustration 10

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹10,39,200 for the period ended on 30th June, 2022, this did not agree with the balance in the cash book.

An examination of the Cash Book and Bank Statement disclosed the following:

1. A deposit of ₹3,09,200 paid on 29th June, 2022 had not been credited by the Bank until 1st July, 2022.
2. On 30th March, 2022 the company had entered into hire purchase agreement to pay by bank order a sum of ₹3,00,000 on the 10th of each month, commencing from April, 2022. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of ₹4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to ₹3,000 had not been entered in Cash-Book.

5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.
6. ₹11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2022.

Prepare Bank Reconciliation Statement on 30 June, 2022.

Solution:

Bank Reconciliation Statement on 30th June, 2022

Particulars	Details ₹	Amount ₹
Balance as per the Pass Book		10,39,200
Add: Deposited with bank but not credited	3,09,200	
Payment of Hire Purchase installments not entered in the Cash Book	9,00,000	
(₹ 3,00,000 x 3)		
Discount allowed wrongly entered in bank column	16,000	
Bank charges not entered in the Cash Book	3,000	
Deposit entered in the Cash Book twice	11,200	
Cheque returned 'out of date' entered in the Cash Book	11,00,000	23,39,400
		33,78,600
Less: Direct deposit by customer not entered in the Cash Book		(4,00,000)
Balance as per the Cash Book		29,78,600

17. ICAI ILLUSTRATION 11

Mr. Manoj is employed by Century Rayon and Carpets Pvt Ltd. as their cashier. The main responsibility of Mr. Manoj is to maintain the company's cash book and prepare a bank reconciliation statement at the end of each month. The cash book (only bank column) is set out below together with a copy of the bank statement for the month of February 2022.

You are required to :

a) Reconcile the cash book with the bank statement.

b) Make necessary entries to update the cash book.

c) Start with the balance as per cash book, list any unpresented cheques and sub-total on the reconcliation statement.

Century Rayon and Carpets Pvt Ltd

Cash Book (Bank Column only)

Date	Particulars	Amount Dr. `	Date	Particulars	Amount Cr. `
01/02/2022	To Balance b/d	1,42,500	03/02/2022	By Bhagwandas	1,980
01/02/2022	To Blue and Co	1,570	07/02/2022	By Maruti Ltd (400460)	1,500
04/02/2022	To GM Ltd	2,430	12/02/2022	By Jackson Ltd (400461)	54,000
08/02/2022	To Robinson Ltd	910	18/02/2022	By PC computers (400462)	1,420
13/02/2022	To Donald	750	24/02/2022	By Shiv garage (400463)	49,000
20/02/2022	To Avenue Super mart	4,200	30/02/2022	By Petty cash (400465)	1,500
28/02/2022	To Sleep Well Ltd	940		By Shweta & Co (400464)	2,100
				By AV Partners (400466)	5,200
				By Balance c/d	36,600
		1,53,300			1,53,300

Customer: Century Rayon and Carpets Pvt Ltd Account No – xxxxx0439

Account Statement for the month of February 2022

Date	Particulars	Amount Dr.	Amount Cr.	Dr. or Cr.	Balance `
1/02/2022	Balance b/d				1,42,500
3/02/2022	Cheques		1,570	Cr.	1,44,070
5/02/2022	Maruti Ltd	1,500		Dr.	1,42,570
7/02/2022	Bhagwandas	1,980		Dr.	1,40,590
12/02/2022	GM Ltd		2,430	Cr.	1,43,020
15/02/2022	Robinson Ltd		910	Cr.	1,43,930
20/02/2022	Premium of New India Insurance Ltd	3,800		Dr.	1,40,130
14/02/2022	Donald		750	Cr.	1,40,880
14/02/2022	400463	49,000		Dr.	91,880
23/02/2022	cheques		4,200	Cr.	96,080

26/02/2022	Savita 400465	1,030		Dr.	95,050
26/02/2022	Shreya	1,500		Dr.	93,550
27/02/2022			2,200	Cr.	95,750
28/02/2022	Bank charges	2,538		Dr.	93,212

Solution:

In the books of Century Rayon and Carpets Pvt Ltd

a) Journal entries to be posted:			
Bank A/c	Dr.	2200	
To Shreya A/c			2200
Bank Charges A/c	Dr.	2538	
Insurance Premium A/c	Dr.	3800	
Savita A/c	Dr.	1030	
To Bank A/c			7368

After posting above entries, following will be the updated book of the company.

Cash Book (Bank Column)

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To balance b/d	36,600	By bank charges	2,538
To direct receipt in bank	2,200	By insurance premium	3,800
		By direct payment to Savita	1,030
		By balance c/d	31,432
	38,800		38,800

Bank Reconciliation Statement as on February 28, 2022

Particulars	**Details**	**Amount**
Updated Balance as per Cash book		31,432
Add: Cheques issued but not yet presented for payment		
Jackson Ltd	54000	
P C Computers	1,420	
	2,100	

Shweta & Co	5,200	62,720
A.V. Partners		94,152
Less: Cheques deposited but not yet credited	940	940
Sleep Well Ltd		
Balance as per the bank statement		93,212

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

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

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

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

(4) Bank charges ₹ 2,500 was debited by bank during March, 2019 but accounted in the books of Mukesh on 4.4.2019.

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

Solution:

In the books of Mukesh

Bank Reconciliation Statement as on 31st March, 2019

Particulars	Details	Amount ₹
Overdraft as per the cash book		5,000
Add: Cheques deposited in bank but not collected and credited by bank till 31.3.2019	20,00,000	
Interest on term loan not accounted in books	10,00,000	
Bank charges not accounted in books	2,500	30,02,500
		30,07,500
Less: Cheques issued but not presented for payment till 31.3.2019		(12,00,000)
		18,07,500
Less: Erroneous credit by bank to Mukesh's account		(30,68,000)
Balance as per the bank statement		(12,60,500)

19. From the following information (as on 31.3.2017), prepare a bank reconciliation statement after making necessary amendments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	32,50,000
Cheques deposited, but not yet credited	44,75,000
Cheques issued but not yet presented for payment	35,62,000
Bank charges debited by bank but not recorded in the cash-book	12,500
Dividend directly collected by the bank	1,25,000
Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	2,55,000
Customer's cheque dishonoured by bank not recorded in the cash-book	1,30,000
Wrong credit given by the bank	1,50,000

Also show the bank balance that will appear in the trial balance as on 31.3.2017.

Solution:

Cash Book as on 31.3.2017 (After making necessary amendments)

Particulars	Dr. Amount ₹	Particulars	Cr. Amount ₹
To Balance b/d	32,50,000	By Bank charges	12,500
To Dividend	1,25,000	By Insurance premium	15,900
		By Trade receivables (cheque dishonoured)	1,30,000
		By Cash A/c (wrongly recorded cash sales)	2,55,000
		By Balance c/d	29,61,600
	33,75,000		33,75,000

Bank Reconciliation Statement as on 31.3.2017

Particulars	Details	Amount₹
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000	
Wrong credit given by bank	1,50,000	37,12,000
		66,73,600
Less: Cheques deposited but not yet credited by bank		(44,75,000)
Balance as per the pass book		21,98,600

The bank balance of ₹ 29,61,600 will appear in the trial balance as on 31st March, 2017.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c	Dr	2,55,000	
To Sales A/c			2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c	Dr	2,55,000	
To Bank A/c			2,55,000

20. On 31st March, 2017 the pass-book of a trader showed a credit balance of ₹15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

1. Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹3,84,000 were not yet presented for payment.
2. Bank charged ₹350 for bank charges and 'Z' directly deposited ₹1,816 into the bank account, which were not entered in the cash book.
3. Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2017 although they were banked on 25.03.2017.
4. Interest allowed by bank ₹ 4,500

Prepare a bank reconciliation statement as on 31st March, 2017.

Solution:

Bank Reconciliation Statement as on 31st March, 2017

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book			15,65,000
Add: Cheques deposited into bank but not yet collected	A: 5,15,000		
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
			20,92,850
Less: Cheques issued but not presented for payment	X: 60,000		
	Y: 3,84,000		
Direct deposit of cash in bank by Z		4,44,000	
		1,816	
Interest allowed by the bank		4,500	(4,50,316)

Debit balance as per the cash book			16,42,534

21. ICAI Practical Question 1

From the following particulars prepare a bank reconciliation statement as on 31st December 2022:

(i) On 31st December, 2022 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).

(ii) Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.

(iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2022 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2022 but was banked on 3rd January, 2023.

(iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2022 but was dishonoured and the advice was received on 2nd January, 2023.

(v) Pass-book showed bank charges of ₹ 2,000 debited by the bank.

(vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2022 but the intimation in this respect was received from the bank on 2nd January, 2023.

(vii) Bank pass-book showed a credit balance of ₹ 3,82,000 on 31st December, 2022.

Solution:

Bank Reconciliation Statement
as on 31st December, 2022

	₹	₹
Bank balance (Dr.) as per cash book		60,000
Add: Cheques issued but not yet presented for payment	11,00,000	
Cheques directly deposited by a customer not yet recorded in cash book	5,00,000	16,00,000
		16,60,000
Less: Cheques deposited but not yet credited by bank	11,40,000	
Cheque received and recorded in cash book but not yet banked	5,00,000	
Cheque dishonoured by the bank; the dishonour entry not yet passedin cash book	4,00,000	
Bank charges not recorded in cash book	2,000	(20,42,000)

Bank balance (Dr.) as per pass book		(3,82,000)

22. ICAI Practical Question 2

According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2022.

On investigation you find that :

(i) Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till the date.

(ii) Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2022.

(iii) A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2022) paid by the bank ₹ 27,000 not entered in the cash book.

(v) The payment side of the cash book had been under casted by ₹ 5,000.

(vi) Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.

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

Required:

(a) to make the appropriate adjustments in the cash book, and

(b) to prepare a statement reconciling it with the bank pass book.

Solution:

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	44,50,000	By Insurance premium A/c	27,000
To Dividend A/c	40,000	By Correction of errors	5,000
To Rent A/c	6,00,000	By Bank charges	1,500
To Bill receivable A/c	59,000	By Bill payable	2,00,000

		By Balance c/d	49,15,500
	51,49,000		51,49,000

Bank Reconciliation Statement as on 30th June, 2022

	₹
Adjusted balance as per cash book (Dr.)	49,15,500
Add: Cheques issued but not presented for payment till 30th June, 2022	6,00,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2022	(5,55,000)
Balance as per pass book	49,60,500

23. ICAI Practical Question 3

Prepare a bank reconciliation statement as on 30th September, 2022 from the following particulars.

Particulars	
Bank balance as per pass-book	10,00,000
Cheque deposited into the bank, but no entry was passed in the cash-book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

Solution:

Bank Reconciliation Statement as on 30th September, 2022

	₹	₹
Bank balance as per pass book		10,00,000
Add: Cheque received but not sent to the bank	11,20,000	
Credit side of the bank column cast short	2,000	

Insurance premium paid directly not recorded in the cash book	60,000	
Cheque received entered twice in the cash book	10,000	
Bills dishonoured not recorded in the cash book	5,00,000	16,92,000
		26,92,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	5,00,00	
Bank charges recorded twice in the cash book	2,000	
Cheque issued but not presented to the bank	5,00,000	(10,02,000)
Bank balance as per cash book		16,90,000

24. ICAI Practical Question 4

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022

Particulars	
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection	3,50,000

Solution:

Bank Reconciliation Statement
as on 31st March, 2022

	₹	₹
Debit balance as per cash book		37,20,000
Add: Cheque issued but not yet presented to bank for payment	7,20,000	
Dividend received by bank not entered in cash	5,00,000	

book		
Interest allowed by bank	12,500	12,32,500
		49,52,500
Less: Cheques deposited into bank but not yet collected	15,40,000	
Bank charges	2,000	
A cheque deposited into bank was dishonoured	3,20,000	
House tax paid by bank	3,50,000	(22,12,000)
Credit balance as per pass book		27,40,500

25. ICAI Practical Question 5

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022 and show the balance as per cash book:

i) Overdraft as per passbook on March 31, 2022, is ₹ 3,00,000.

ii) Interest on bank overdraft not entered in the cash book Rs. 36,500

iii) Insurance premium of Rs. 17,950 was due and paid by the bank but same has not been accounted in the books.

iv) Cheques drawn in the last week of March,2022, but not cleared till date for ₹ 13,000 and Rs. 23,500.

v) Cheques deposited into bank on February,2022, but yet to be credited on dated March 31, 2022 Rs. 56,000.

vi) Amount of Rs. 20,500 is wrongly debited by the bank

vii) Interest on Investment Rs. 83,800 collected and credited by bank but the same has not been entered in the Cash Book.

Ans:- Bank Reconciliation Statement as on 31st March, 2022

	₹	₹
Balance as per bank statement (Overdraft)		3,00,000
Add: Cheques drawn but not cleared	36,500	
Interest collected on investments directly credited by bank	83,800	1,20,000
		4,20,3000

Less: Interest on bank overdraft not entered in the cash book	36,500	
Cheques deposited but not yet cleared	56,000	
Insurance premium paid by bank	17,950	
Amount wrongly debited by bank	20,500	1,30,950
Overdraft as per cash book		2,89,350

26. RTP MAY 20

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

2019		Particulars	₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

Solution:

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2019			₹	₹	₹	2019			₹	₹	₹
Nov. 1	To	Balance b/d	-	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		-	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
			----	-----	------	Nov. 30	By	Balance c/d	---	8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Notes:

1. Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.
2. When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

27. RTP MAY 20

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

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

this connection	

Solution:

Bank Reconciliation Statement as on 31st March, 2018

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

28. RTP NOV 20

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

Date	Debit Note No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹260.
30.01.2020		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Solution:

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

29. RTP NOV 20

Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:

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

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

iii. Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

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

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

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

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

Solution:

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	

Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
Less: Excess credit for cash deposit	9	13,850
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

30.QP JAN 21

Prepare a Bank Reconciliation Statement from the following particulars as on 31st December,2020:

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

Solution:

Adjusted Cash Book as on 31st December, 2020

Particulars	₹	Particulars	₹
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		2,98,000

Bank Reconciliation Statement as on 31st December, 2020

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	4,000	
		49,000
		3,08,000
LESS: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book		2,83,000

31. QP NOV 20

On 31-3-2020, Mahesh's cash Book showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :

1. Out of the total cheques of ₹ 8,900 issued on 21th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the of the same amount was issued to him on 1st April. No entry for the return was made.
2. Out of total cash and cheques of 6,800 deposited in the bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.
3. Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book
4. A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.
5. A cheque of ₹ 800, drawn on this account, was Wrongly debited in another account by the bank.
6. A debited ₹ 3,500 appearing in the bank for an unpaid cheque returned for being out of date had been re-dated and deposited in the bank account again on 5th April 2020.
7. The bank allowed interest on deposit ₹ 1,000.
8. A customer Who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the cash book.

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

Solution:

Adjusted Cash Book as on 31-03-2020

Particulars	₹	Particulars	₹
To Interest on deposit	1,000	By balance b/d	98,700
To Customer a/c-Cheque returned	1,500	By bank charges & interest(35 + 2,860)	2,895
		By customer a/c - cheque dishonoured	500
To Balance c/d	1,03,595	By Discount allowed (1,00,000 -96,000)	4,000
	1,06,095		1,06,095

Bank Reconciliation Statement as on 31st March, 2020

Particulars	₹	₹
Overdraft as per Adjusted Cash book		1,03,595
Add :		
Cheque deposited but not credited in the bank	2,600	
Cheque returned 'out of date' by the bank	3,500	6,100
		1,09,695
Less:		
Cheques issued but not presented in the bank		
Cheque deposited in another account wrongly credited to this account by the bank	(7,400)	
Cheque drawn in this a/c wrongly debited to another A/c	(1,550) (800)	(9,750)
Overdraft balance as per Bank Statement		
		99,945

*Adjusted Cash book has been given here for better understanding. However, these adjustments may be routed through Bank Reconciliation Statement without preparing adjusted cash book.

Additional Question

1. RTP MAY 21

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

2020			₹
Sep.	1	Cash in hand	6,000
	1	Cash at bank	24,000
	2	Paid into bank	2,000
	5	Bought furniture and issued cheque	3,000
	8	Purchased goods for cash	1,000
	12	Received cash from Mohan	1,960
		Discount allowed to him	40
	14	Cash sales	10,000
	16	Paid to Amar by cheque	2,900
		Discount received	100
	19	Paid into Bank	1,000
	23	Withdrawn from Bank for Private expenses	1,200
	24	Received cheque from Parul	2,860
		Allowed him discount	40
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	4,000
	30	Paid rent by cheque	1,600

Solution:

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2020			₹	₹	₹	2020			₹	₹	₹
Sep. 1	To	Balance b/d	-	6,000	24,000	Sep. 2	By	Bank (C)		2,000	
Sep. 2	To	Cash (C)		-	2,000	Sep. 5	By	Furniture			3,000
								A/c			
Sep. 12	To	Sapna	40	1,960		Sep. 8	By	Purchase A/c		1,000	
Sep. 14	To	Sales A/c		10,000		Sep. 16	By	Amar	100		2,900
Sep. 19	To	Cash (C)			1000	Sep. 19	By	Bank (C)		1,000	

Sep. 24	To	Parul (Note 2)	40	2,860		Sep. 23	By	Drawings A/c			1,200
Sep. 26	To	Cash (C)			2,860	Sep. 26	By	Bank (C)		2,860	
Sep. 28	To	Bank (C)		4,000		Sep. 28	By	Cash (C)			4,000
						Sep. 30	By	Rent A/c			1,600
			----	-----	------	Sep. 30	By	Balance c/d	---	17,960	17,160
			80	24,820	29,860				100	24,820	29,860
Oct. 1	To	Balance b/d		17,960	17,160						

Note:

1) Discount allowed and discount received ₹ 80 and ₹ 100 respectively should be posted in respective Accounts in the ledger.
2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

2. RTP NOV 21

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

2021			₹
June	1	Received ₹ 1,00,000 for petty cash	
"	2	Paid taxi fare	2,000
"	3	Paid cartage	10,000
"	4	Paid for courier	2,000
"	5	Paid wages	2,400
"	5	Paid for stationery	1,600
"	6	Paid for the repairs to machinery	6,000
"	6	Auto fare	400
"	7	cartage	1,600
"	7	Paid for courier	2,800
"	8	Cartage	12,000
"	9	Stationery	8,000
"	10	Sundry expenses	20,000

Bank Reconciliation Statements

Solution:

PETTY CASH BOOK

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Courier ₹	Wages ₹	Sundries ₹
1,00,000	June1		To Cash							
	2	1	By Conveyance	2,000	2,000					
	3	2	By Cartage	10,000		10,000				
	4	3	By Courier	2,000				2,000		
	5	4	By Wages	2,400					2,400	
	5	5	By Stationery	1,600			1,600			
	6	6	By Repairs to machine	6,000						6,000
	6	7	By Conveyance	400	400					
	7	8	By Cartage	1,600		1,600				
	7	9	By Courier	2,800				2,800		
	8	10	By Cartage	12,000		12,000				
	9	11	By Stationery	8,000			8,000			
	10	12	By Sundry Expenses	20,000						20,000
				68,800	2,400	23,600	9,600	4,800	2400	26,000
			By Balance c/d	31,200						
1,00,000				1,00,000						
31,200			To Balance b/d							
68,800	11		To Cash							

3. RTP MAY 21

From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	32,50,000
Cheques deposited, but not yet credited	44,75,000
Cheques issued but not yet presented for payment	35,62,000
Bank charges debited by bank but not recorded in the cash-book	12,500
Dividend directly collected by the bank	1,25,000
Insurance premium paid by bank as per standing instruction notintimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	2,55,000
Customer's cheque dishonoured by bank not recorded in the cash-book	1,30,000
Wrong credit given by the bank	1,50,000

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

Solution:

Cash Book as on 31.3.2020 (After making necessary adjustments)

Dr.			Cr.
Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	32,50,000	By Bank charges	12,500
To Dividend	1,25,000	By Insurance premium	15,900
		By Trade receivables (cheque dishonoured)	1,30,000
		By Cash A/c (wrongly recorded cash sales)	2,55,000
		By Balance c/d	29,61,600
	33,75,000		33,75,000

Bank Reconciliation Statement as on 31.3.2020

Particulars	**Details**	**Amount ₹**
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000	
Wrong credit given by bank	1,50,000	37,12,000
		66,73,600
Less: Cheques deposited but not yet credited by bank		(44,75,000)
Balance as per the pass book		21,98,600

The bank balance of ₹ 29,61,600 will appear in the trial balance as on 31st March, 2020.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c	Dr	2,55,000	
To Sales A/c			2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c	Dr.	2,55,000	
To Bank A/c			2,55,000

4. RTP NOV 21

On 31st March, 2021 the pass-book of a trader showed a credit balance of ₹ 15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹ 3,84,000 were not yet presented for payment.

Bank charged ₹ 350 for bank charges and 'Z' directly deposited ₹ 1,816 into the bank account, which were not entered in the cash book.

Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.

Interest allowed by bank ₹ 4,500.

Prepare a bank reconciliation statement as on 31st March, 2021.

Solution:

Bank Reconciliation Statement as on 31st March, 2021

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book Add: Cheques deposited into bank butnot yet collected	A: 5,15,000		15,65,000
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
Less: Cheques issued but not presentedfor payment	X: 60,000		20,92,850
	Y: 3,84,000	4,44,000	
Direct deposit of cash in bank by Z		1,816	
Interest allowed by the bank		4,500	(4,50,316)
Debit balance as per the cash book			16,42,534

5. QP July 21

From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:

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

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

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

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

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

Solution:

Bank Reconciliation Statement as on 31st March,2021

Particulars	Amount ₹
Balance as per Pass Book (Dr.)	(3,500)
Add: Cheques deposited but returned on 24th March,2021	2,500
Discounted bill from Mr. Balaji dishonoured	5,000
Wrong debit in passbook	1,500
	5,500
Less: Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)	2,500

6. QP Dec 21

According to the Cash-Book of G there was a balance of ₹ 4,45,000 in his bank on 30th June, 2021. On investigation you find that

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

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

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

iv. Insurance premium (up to 31st December, 2021) Paid by the bank ₹ 2,700 not entered in the cash book.

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

vi. Bank Charges ₹ 150 shown in the pass book had not been entered in the cash book.

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

You are Required:

1) To Make the appropriate adjustment in the cash book, and

2) To prepare a statement reconciling it with the bank Pass Book.

Solution:

In the Books of G

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	4,45,000	By Insurance premium A/c	2,700
To Dividend A/c	4,000	By Correction of errors	500
To Rent A/c	60,000	By Bank charges	150
To Bill receivable A/c	5,900	By Bill payable	20,000
		By Balance c/d	4,91,550
	5,14,900		5,14,900

Bank Reconciliation Statement as on 30th June, 2021

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2021	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55,500)
Balance as per pass book	4,96,050

7. Mock Test Oct 21 (Series I)

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021

The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/
2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought

forwards as credit balance.

4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.

5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.

6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.

7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.

8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.

9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.

10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.

11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.

12. ₹ 500 discount received wrongly entered in bank column in cash book.

13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

Solution:

Bank Reconciliation Statement of Satyam Traders as on 31st March, 2021		
Particulars	**Amount**	**Amount**
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward ₹18,500/-debitBalance as credit balance on 22nd March	37,000	
Cheques issued but not presented Issued = ₹42,000 less cashed ₹ 28,500 = ₹13,500/-	13,500	
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	

Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	
TOTAL		2,40,000
Less:		
Wrong casting in cash book on12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
TOTAL		1,26,700
Balance as per the Passbook		5,25,500
No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of ₹ 32,000/- can be added as well as deducted from balance as per cash book.		

8. Mock Test Nov 21

From the following particulars, prepare a Bank Reconciliation Statement for Ayodhya Ltd. as on 31.3.2021

(1) Balance as per cash book is Rs. 3,60,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 2,04,000.

(3) Bank charges amounts to Rs. 900.

(4) Interest credited by bank amounts to Rs. 4,500.

Solution:

Bank Reconciliation Statement as on 31.3.2021

Particulars	₹

Balance as per cash book	3,60,000
Add : Cheque issued but not presented Interest credited	2,04,000
	4,500
Less : Bank charges	5,68,500
Balance as per pass book	(900)
	5,67,600

9. RTP May 2022

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

2021			₹
April	1	Received ₹ 40,000 for petty cash	
"	2	Paid auto fare	1,000
"	3	Paid cartage	5,000
"	4	Paid for Courier	1,000
"	5	Paid wages	1,200
"	5	Paid for stationery	800
"	6	Paid for the repairs to machinery	3,000
"	6	Bus fare	200
"	7	Cartage	800
"	7	Courier	1,400
"	8	Cartage	6,000
"	9	Stationery	4,000
"	10	Sundry expenses	10,000

(i) Solutions

(a) PETTY CASH BOOK

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
40,000	April1		To Cash							

	2	1	By Conveyance	1,000	1,000					
	3	2	By Cartage	5,000		5,000				
	4	3	By Courier	1,000				1,000	1,200	
	5	4	By Wages	1,200						
	5	5	By Stationery	800			800			
	6	6	By Repairs to machine	3,000						3,000
	6	7	By Conveyance	200	200					
	7	8	By Cartage	800		800				
	7	9	By Courier	1,400				1,400		
	8	10	By Cartage	6,000		6,000				
	9	11	By Stationery	4,000			4,000			
	10	12	By Sundry Expenses	10,000						10,000
				34,400	1,200	11,800	4,800	2,400	1,200	13,000
			By Balance c/d	5,600						
40,000	11			40,000						
5,600			To Balance b/d							
28,800			To Cash							

10.RTP May 2022

From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

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

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

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

still with supplier.

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

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

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

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

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

Solution

Bank Reconciliation Statement as on 31st March, 2021

Particulars		Amount
Overdraft as per Pass Book		8,800
Add: (i) Cheques issued but not presented till 31st March	5,800	
(ii) Transfer from fixed deposit	2,000	
(iii) Direct deposit by M/s Rajesh Trader	400	8,200
		17,000
Less: (i) Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii) Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii) Interest on overdraft debited in Pass Book only	930	
(iv) Corporation tax paid appeared in Pass Book only	1200	6,200
Overdraft as per Cash Book		10,800

11. RTP Nov 2022

The Cash-book of M/s Rajat shows ₹ 1,10,280 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 41,000 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March,2022 the payments side of the Cash-book was under cast by ₹ 1400.

(iii) On 20th March,2022 the debit balance of ₹ 8624 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s Rajat, who received a cash discount of 5% on his account of ₹ 80,000, paid to M/s Rajat a cheque on 24th March,2022. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March,2022 a bill for ₹ 22,800 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 22,000 only.

(vi) A cheque issued amounting to ₹ 6,900 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 3,024 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹6,120 discounted for ₹ 6,000 with the bank had been dishonoured on 30th March,2022, but advice was received on 1st April,2022.

(ix) Bank recorded a Cash deposit of ₹ 6,550 as ₹ 6,505.

Prepare Bank Reconciliation Statement on 31st March,2022.

Solution

Bank Reconciliation Statement on 31st March,2022

Bank Balance as per Cash Book				1,10,280
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	41,000	
	(iii)	Debit balance of ₹8624 brought forward as credit balance on 20th March, 2022 in the Cash Book	17,248	
	(vi)	Cheque issued returned marked 'out of date'	6,900	65,148
Less:	(ii)	Cash Book under cast on 15th March, 2022	1,400	1,75,428
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	400	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	800	

	(vii)	Insurance Premium paid directly by bank understanding instructions	3,024	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	6,120	
	(ix)	Bank recorded short cash deposit	45	11,789
Balance as per Bank Statement				1,63,639

12. ICAI Exam May 2022

From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021.

Particulars	Amount (₹)
Bank balance as per Pass Book	25,00,000
Bills discounted dishonored not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank under-standing instruction	1,50,000
Cheque issued but not presented to Bank for payment	12,50,000
Cheque received, but not sent to Bank	28,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	12,50,000
Credit side of the Bank column cast short	5,000

Solution

Bank Reconciliation Statement as on 31st March,2021

	₹	₹
Bank balance as per Pass book		25,00,000
Add: Bills dishonoured not recorded in the cash book	12,50,000	
Cheque received entered twice in the cash book	25,000	
Insurance premium paid directly not recorded in the cash book	1,50,000	
Cheque received but not sent to the bank	28,00,000	
Credit side of the bank column cast short	5,000	42,30,000

		67,30,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	12,50,000	
Bank charges recorded twice in the cash book	5,000	
Cheque issued but not presented to the bank	12,50,000	(25,05,000)
Bank balance as per Cash book		42,25,000

13. MTP Nov 2022 Series I

Prepare the Bank Reconciliation Statement of M/s. Singh Brothers on 30th June 2022 from the particulars given below:

i) The Bank Pass Book had a debit balance of ₹ 75,000 on 30th June, 2022.

ii) A cheque worth ₹ 1,200 directly deposited into Bank by customer but no entry was made in the Cash Book.

iii) Out of cheques issued worth ₹ 1,02,000, cheques amounting to ₹ 60,000 only were presented for payment till 30th June, 2022.

iv) A cheque for ₹ 12,000 received and entered in the Cash Book but it was not sent to the Bank.

v) Cheques worth ₹ 60,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

1) Cheques collected before 30th June, 2022, ₹ 42,000

2) Cheques collected on 10th July, 2022, ₹ 12,000

3) Cheques collected on 12th July, 2022, ₹ 6,000.

vi) The Bank made a direct payment of ₹ 1,800 which was not recorded in the Cash Book.

vii) Interest on Overdraft charged by the bank ₹ 4,800 was not recorded in the Cash Book.

viii) Bank charges worth ₹ 240 have been entered twice in the cash book whereas Insurance charges for ₹ 210 directly paid by Bank was not at all entered in the Cash Book.

ix) The credit side of bank column of Cash Book was under cast by ₹ 6,000.

x) A bill for ₹ 3000(discounted with bank in May, 2022) dishonored on 30th June ,2022 and noting charges of Rs 100 paid by bank.

Solution

Bank Reconciliation Statement as on 30th June 2022

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		75,000
Add:	Cheques deposited into the Bank by Customer but notentered in	1,200	
	Cash Book Cheques issued but not presented ₹ (1,02,000-60,000)	42,000	
	Bank charges written twice in Cash Book	240	43,440
Less:	Cheques received, recorded in cash Book but not sent to theBank	12,000	1,18,440
	Cheques sent to the Bank but not collected	18,000	
	Direct payment made by the bank not recorded in the Cashbook	1,800	
	Interest on Overdraft charged by Bank	4,800	
	Insurance charges not entered in Cash Book	210	
	Credit side of bank column of Cash Book was undercast	6,000	
	Discounted bill dishonored & noting charges Paid (WN)	3,100	45,910
	Overdraft as per Cash Book		72,530

Working Note: Bill amount of ₹ 3,100 were debited by bank. However, it is not been recorded in the Cash Book. So to arrive at the cash balance, ₹ 3,100 was added.

14. MTP Nov 2022 Series 2

State the causes of difference between the balance shown by the pass book and cash book

Solution

The difference between the balance shown by the passbook and the cashbook may arise onaccount of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

15. ICAI Exam Nov 2022

The cash book of Mr. Karan shows ₹ 2,60,400 as the balance of bank as on 31st December, 2021 but you fine that it does not agree with the balance as per the bank pass book, on analysis, you found the following discrepancies:

i. On 15th December, 2021 the payment side of the cash book was overcast by ₹ 10,000.

ii. A cheque for ₹ 1, 18,000 issued on 6th December, 2021 was not taken in the bank Column.

iii. On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day was brought forward as credit balance in the cash book.

iv. Of the total cheques amounting to ₹12,370 drawn in the last week of December, 2021 cheques aggregating ₹ 9,360 were uncashed in December, 2021.

v. Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.

vi. A cheque issued to a creditors of ₹ 1, 75,000 was recorded twice in the cash book.

vii. Bill for collections amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.

viii. A customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank columns of the cash book.

You are requires to prepared the bank reconciliations statement as on 31st December, 2021.

Solution

Bank Reconciliation Statement of Mr. Karan as on 31st Dec., 2021

Particulars		Details ₹	Amount ₹
Balance as per the Cash Book			2,60,400
Add: Wrong Casting in Cash book as on 15th December,2021 Mistake in bringing forward ₹ 8,460 debit balance as credit balance on 20th Dec., 2021		10,000 16,920	
Cheques issued but not presented:			
Issued	12,370		

Encashed	9,360	3,010	
Dividends directly collected by bank butnot yet entered in the Cash Book		35,000	
Cheque recorded twice in the Cash Book		1,75,000	
Bill for Collection credited in Bank notentered in Cash Book		53,000	2,92,930
Less: Cheques issued but not entered in theBank column		1,18,000	5,53,330
Fire Insurance Premium paid by the bankdirectly not yet recorded in the Cash Book		7,900	
Discount allowed wrongly entered in CashBook		1,800	(1,27,700)
Balance as per the Pass Book			4,25,630

Note: The above answer has been given considering that the books are not closed on 31st December, 2021. Alternatively, **If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:**

Adjusted Cash Book

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d To wrong casting	2,60,400 10,000	By cheques not entered By Fire Insurance Premium	1,18,000 7,900
To error for wrong posting	16,920	By discount wrongly entered	1,800
To dividends collected by bank	35,000	By balance c/d	3,69,620
To cheques recorded twice	1,75,000		
	4,97,320		4,97,320

Bank Reconciliation Statement

Particulars	₹
Balance as per the Cash Book (corrected)	3,69,620
Add: Cheques issued but not yet presented	3,010
Bill for collection credited by Bank	53,000
Balance as per the Pass Book	4,25,630

16. ICAI Exam Nov 2022

Prepare a Triple Column Cash Book form the following transactions of M/S Raj Agencies and bring down the balance for the start of next month:

2022 March		₹
1	Cash in hand	31,000
1	Cash at bank	1,20,000
2	Paid into bank	10,000
5	Bought furniture and issued cheque	15,000
8	Purchased goods for cash	5,000
12	Received cash form Mohan	9,800
	Discount allowed to him	200
14	Cash sales	50,000
16	Paid to Lata by cheque	14,500
	Discount received	500
19	Paid into bank	5,000
23	Withgrawn form Bank for private expenses	6,000
24	Received cheque form Gupta	14,300
	Allowed him discount	200
26	Deposited Gupta's cheque into Bank	
28	Withdrew cash form Bank for office use	20,000
30	Paid rent by cheque	8,000

Solution

M/s Raj Agencies

Cash Book

Dr. Cr.

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
Mar 1	To Balance b/d			30,000	1,20,000	Mar 2	By Bank	C		10,000	
Mar 2	To Cash	C			10,000	Mar 5	By Furniture				15,000
Mar 12	To Mohan		200	9,800		Mar 8	By Goods / Purchase			5,000	
Mar 14	To Sales			50,000		Mar 16	By Lata		500		14,500
Mar 19	To Cash	C			5,000	Mar 19	By Bank	C		5,000	
Mar 24	To Gupta		200	14,300		Mar 23	By Drawings				6,000
Mar 26	To Cash	C			14,300	Mar 26	By Bank	C		14,300	
Mar 28	To Bank	C		20,000		Mar 28	By Cash	C			20,000
						Mar 30	By Rent				8,000
						Mar 31	By Balance c/d			89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

17. RTP May 23

Prepare a Triple Column Cash Book for the month of April 2022 from the followingtransactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	9,000
1	Cash at bank	36,000
2	Paid into bank	3,000
5	Bought furniture and issued cheque	4,500
8	Purchased goods for cash	1500
12	Received cash from Ms. Kamini and deposited thesame into Bank	2,940
	Discount allowed to her	60
14	Cash sales	15,000
16	Paid to Ms. Shikha by cheque	4,350
	Discount received	150
19	Paid into Bank	1500

20	Sales through Credit Card	4,000
23	Withdrawn from Bank for Private expenses	1,800
24	Received cheque from Ms. Reema	4,290
	Allowed her discount	60
26	Deposited Ms. Reema's cheque into Bank	
28	Withdrew cash from Bank for Office use	6,000
30	Paid rent by cheque	2,400
30	Bank Charged 1% commission on sale through debit/credit card	

Solution

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2022			₹	₹	₹	2022			₹	₹	₹
April 1	To	Balance b/d		9,000	36,000	April 2	By	Bank (C)		3,000	
April 2	To	Cash (C)			3,000	April 5	By	Furniture A/c			
April 12	To	Ms. Kamini	600	2,940		April 8	By	Purchase A/c		1500	
April 14	To	Sales A/c		15,000		April 16	By	Ms. Shikha	150		4,350
April 19	To	Cash (C)			1500	April 19	By	Bank (C)		1500	
April 20	To	Sales			4000	April 23	By	Drawings A/c			1800
April 24	To	Ms. Reema (Note 2)		4,290		April 26	By	Bank (C)		4,290	
April 26	To	Cash (C)			4,290	April 28	By	Cash (C)			6,000
April 28	To	Bank (C)		6000		April 30	By	Rent A/c			2,400
						April 30	By	Commission			40
				---	---	April 30	By	Balance c/d	---	26,940	29,700
				37,230	48,790				150	37,230	48,790
May 1	To	Balance b/d		26,940	29,700						

Note:

(1) Discount allowed and discount received ₹ 120 and ₹ 150 respectively should be posted in respective Accounts in the ledger.

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

18. RTP May 23

Bank Reconciliation Statements

On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of ₹ 13,440 although his Bank Statement showed only ₹ 9,600 overdrawn. An examination of the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by ₹ 1,200.

(ii) A cheque for ₹ 4,800 in favour of Hari suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

(iii) A cheque for ₹ 561 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 516 but was shown correctly in the Bank Statement.

(iv) A cheque for ₹ 1,275 from Mr. Satpal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for ₹ 450 to Mr. Shankar Account by mistake, it should have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 300 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 3,900 drawn on October was not presented for payment.

(viii) Cheque for ₹ 3,600 deposited on 30th October was not credited by the Bank.

(ix) Interest amounting to ₹ 900 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 31st October, 2022.

Solution

Bank Reconciliation Statement as on 31st October, 2022

Particulars			₹	₹
Bank Overdraft as per Bank Statement				9,600
Add:	(i)	Debit side of the Cash Book was undercast	1,200	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	4,800	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	300	
	(vii)	Cheque issued but yet to be presented for payment	3,900	10,200
				19,800
Less:	(iii)	Cheque issued for ₹ 561 posted in the Cash Book as ₹ 516	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	1,275	

	(v)	Wrong debit by the Bank to Shankar's A/c	450	
	(viii)	Cheque deposited but yet to be credited	3,600	
	(ix)	Interest debited by the Bank and yet to beentered in the Cash Book	900	6,270
Bank overdraft as per the Cash Book (Cr.)				13,530

19. QP June 23

Form the following information's prepare bank Reconciliation statement as on 31st March 2022 for A Ltd.

		₹
	Bank overdraft as per cash book as 31st March 2022	15,50,750
1.	Cheque deposited on 15th February, 2022 credited on 5th April, 2022	12,50,000
2.	Interest debited by bank on 31st March,2022	1,75,500
3.	Cheques issues before 31st March,2022 but not yet presented	7,75,000
4.	On 10th March,2022 bank credited to A Ltd in error	1,50,000
5.	Draft deposited in the bank but not credited till 31st March,2022	12,75,000
6.	Bills for collections credited by bank but no advice received by the company	9,45,000
7.	Bank charges charged by bank not entered in cash book	2,85,000
8.	Transport subsidy received form the state government directly by the bank not advised to the company	17,50,000

Solution

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	**Details** `	**Amount** `
Overdraft as per Cash Book		15,50,750
Add: Cheque deposited but not credited	12,50,000	
Interest charged by the bank	1,75,500	
Draft deposited in bank but not yet credited	12,75,000	
Bank Charges not entered in cash book	2,85,000	29,85,500
		45,36,250
Less: Cheque issued but not yet presented	(7,75,000)	

Transport subsidy not yet recorded in the Cash Book	(17,50,000)	
Bills for collection credited in the bank not yetentered in the cash book	(9,45,000)	
Wrong credit by the bank	(1,50,000)	(36,20,000)
Overdraft as per bank statement		9,16,250

Alternatively, the above solution can also be done through Adjusted Cash Book.

Cash Book (Bank Column)

Particulars		Amount `	Particulars		Amount `
To	Bill Receivable	9,45,000	By	Balance b/d	15,50,750
To	Transport subsidyreceived	17,50,000	By By	Interest debited by BankBank Charges	1,75,500 2,85,000
			By	Balance c/d	6,83,750
		26,95,000			26,95,000

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details `	Amount `
Balance as per Cash Book		6,83,750
Add : Cheque issued but not yet presentedWrong credit by the bank	7,75,000 1,50,000	9,25,000
		16,08,750
Less: Cheque deposited but not credited Draft deposited in bank but not yet credited	(12,50,000) (12,75,000)	(25,25,000)
Overdraft as per bank statement		(9,16,250)

20. RTP Dec 23

Prepare a Triple Column Cash Book from the following transactions and bring downthe balance for the start of next month:

2022			₹
Sep.	1	Cash in hand	18,000
	1	Cash at bank	72,000
	2	Paid into bank	6,000
	5	Bought furniture and issued cheque	9,000
	8	Purchased goods for cash	3,000

	12	Received cash from Mohan	5,880
		Discount allowed to him	120
	14	Cash sales	30,000
	16	Paid to Amar by cheque	8,700
		Discount received	300
	19	Paid into Bank	3,000
	23	Withdrawn from Bank for Private expenses	3,600
	24	Received cheque from Parul	8,580
		Allowed him discount	120
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	12,000
	30	Paid rent by cheque	4,800

Solution

<u>Triple Column Cash Book</u>

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2022			₹	₹	₹	2022			₹	₹	₹
Sep. 1	To	Balance b/d	-	18,000	72,000	Sep. 2	By	Bank (C)	-	6,000	-
Sep. 2	To	Cash (C)	-	-	6,000	Sep. 5	By	Furniture A/c	-	-	9,000
Sep. 12	To	Mohan	120	5,880	0	Sep. 8	By	Purchase A/c	-	3,000	-
Sep. 14	To	Sales A/c	-	30,000	0	Sep. 16	By	Amar	300	-	8,700
Sep. 19	To	Cash (C)	-	-	3000	Sep. 19	By	Bank (C)	-	3,000	-
Sep. 24	To	Parul (Note 2)	120	8,580	0	Sep. 23	By	Drawings A/c	-	-	3,600
Sep. 26	To	Cash (C)	-	-	8,580	Sep. 26	By	Bank (C)	-	8,580	-
Sep. 28	To	Bank (C)	-	12,000	0	Sep. 28	By	Cash (C)	-	-	12,000
						Sep. 30	By	Rent A/c	-	-	4,800
			----	-----	-----	Sep. 30	By	Balance c/d		53,880	51,480
			240	74,460	89,580				300	74,460	89,580
Oct. 1	To	Balance b/d		53,880	51,480						

Note:

(1) Discount allowed and discount received ₹ 240 and ₹ 300 respectively should be posted in respective Accounts in the ledger.

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

21. RTP Dec 23

On 30th September, 2022, the bank account of Vikrant, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Vikrant. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2022, the bank credited an amount of ₹ 2,34,800 received from a customer of Vikrant, but the advice was not received by Vikrant until 1st October, 2022.
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2022, the bank credited ₹ 40,000 to Vikrant in error.
6. A bill of exchange for ₹ 2,80,000 was discounted by Vikrant with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of Vikrant.
7. Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹ 26,52,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Vikrant, to arrive at the correct balance on 30th September, 2022 and

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

Solution

a) Cash Book (Bank Column)

Date	Particulars		Amount	Date	Particulars		Amount
2022			₹	2022			
Sept. 30	To	Party A/c	32,000	Sept. 30	By	Balance b/d	8,124
	To	Customer A/c			By	Bank charges	1,160

		(Direct deposit)	2,34,800		By	Customer A/c	2,80,000
	To	Balance c/d	22,484			(B/R dishonoured)	
			2,89,284				2,89,284

b) **Bank Reconciliation Statement as on 30th September, 2022**

Particulars	Amount (₹)
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2022	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept.,2022	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Vikrant by 40,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

22. Question Paper Dec 23

1. From the following particulars, prepare a bank Reconciliation Statement as on 31st December, 2022.
   - i. Debit balance (overdraft) shown by the passbook ₹ 2,48,000.
   - ii. Cheques of ₹ 2,10,000 were issued in the last week of December, but of these ₹ 1,40,000 only were presented for payment.
   - iii. A cheque for ₹ 19,200 drawn for the payment of telephone bill had been entered in the cash book as ₹ 29,200 but was shown correctly in the bank statement.
   - iv. A cheque received of ₹ 37,520 entered twice in the cashbook.
   - v. A cheque for ₹ 1,17,000 was issued for purchased of merchandise of was paid by the bank but not recorded in cash book.
   - vi. Interest of overdraft and bank charges amounting to ₹ 3,500 were not entered in the cash book .
   - vii. A cheque for ₹ 45,000 was credited in the passbook but not was recorded in the cash book
   - viii. A bill of exchange for ₹ 26,200 which was discounted with bank, returned dishonored but not entry was made in the cash book.
   - ix. Payment side of the cash book has been undercast by ₹ 12,000.

2. Prepare a Triple column cash book from the following transactions of G. Enterprises for the month of Jan 2023.

Date	Particulars	Amount ₹

01-01-2023	Cash in hand	14,500
	Cash at bank	1,95,000
03-01-2023	Received From K	
	-Cash	7,300
	-Cheque	15,000
	Discount Allowed to him	400
06-01-2023	Goods sold for cash	9,100
07-01-2023	Withdrew from bank by self-cheque	3,000
12-01-2023	Issued a cheque to B	10,590
	Discount Received	410
14-01-2023	Received a cheque from R (in full settlement of her account ₹ 6,500) by cheque	6,350
17-01-2023	Withdrew from bank for personal use	15,000
18-01-2023	Paid electricity bill by cheque	5,000
20-01-2023	Cash purchases on stationary	1,200
31-01-2023	Deposit the entire cash in the bank in excess of ₹ 10,000	

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2016	Particulars	₹
Jan.1	Chandrika commences business with Cash	20,000
"3	He paid into Current A/c	19,000
"4	He received cheque from Kirti & Co. on account	600
"7	He pays in bank Kirty & Co.'s cheque	600
"10	He pays Rattan & Co. by cheque and is allowed discount ₹ 20	330
"12	Tripathi & Co. pays into his Bank A/c	475
"15	He receives cheque from Warshi and allows him discount ₹ 35	450
"20	He receives cash ₹ 75 and cheque ₹ 100 for cash sale	
"25	He pays into Bank, including cheques received on 15th and 20th	1,000
"27	He pays by cheque for cash purchase	275
"30	He pays sundry expenses in cash	50

Solution:

Dr. **Cash Book** **Cr.**

Date	Receipts	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Payments	L.F.	Discount ₹	Cash ₹	Bank ₹
2020						2020					
Jan. 1	To Capital A/c			20,000		Jan. 3	By Bank A/c	C		19,000	
3	To Cash	C			19,000	7	By Bank A/c	C		600	
4	To Kirti & Co.			600		10	By Ratan & Co.		20		330
7	To Cash	C			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By Purchases A/c			275	
15	To Warshi		35	450		30	By S. Exp. A/c			50	
20	To Sales A/c			175							
25	To Cash	C			1,000						
						31	By Balance c/d			300	20,745

			35	21,225	21,075				20	21,225	21,075
Feb. 1	To Balance b/d			300	20,745						

2. (RTP Nov 19)

Prepare a Petty Cash Book on the Imprest System from the following

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

Solution:

PETTY CASH BOOK

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500	600	
	5	4	By Wages	600						
	5	5	By Stationery	400			400			

	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

True & false

1. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.
   Ans:- False : Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.

2. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.
   Ans:- True : These are the three broad categories

3. Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.
   Ans:- False : Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.

4. Debit balance in cash book is same as overdraft as per pass book.
   Ans:- False : Debit balance as per cash book should be represented by credit or favourable balance in pass book.

5. Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.
   Ans:- False : Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.

6. Overcasting of the debit side of the cash book is an example of a difference that is due to error.
   Ans:- True : Overcasting is an example of an error.

7. When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.
   Ans:- True : Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.

8. The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.
   Ans:- False : Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.

9. When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.
Ans:- True : Since, we don't know the causes of difference, matching the two statements is only efficient way to identify the difference.

10. While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.
Ans:- False : Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book

11. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.
Ans:- True : Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.

12. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
Ans:- False : Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.

13. A cheque for ₹ 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of ₹ 50,000 from the balance in pass book.
Ans:- True: ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.

14. A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.
Ans:- True : It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.

15. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.

Ans:- True : Reconciliation statement can be prepared in either of the two formats.

16. The difference between cash book & pass book that relates to errors are those mostly made by Bank.

    Ans:- False : Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.

17. A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.

    Ans:- False : We need to deduct ₹ 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.

18. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.

    Ans:- False : Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.

19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

    Ans:- True : In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.

20. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.

    Ans:- False : Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.

Bank Reconciliation Statements

Multiple choice questions:

1. When the balance as per Cash Book is the starting point, direct deposits by customers are:
   a) Added
   b) Subtracted
   c) Not required to be adjusted.
   Ans:- a

2. A debit balance in the depositor's Cash Book will be shown as:
   a) A debit balance in the Bank Statement.
   b) A credit balance in the Bank Statement.
   c) An overdrawn balance in the Bank Statement.
   Ans:- b

3. When balance as per Pass Book is the starting point, interest allowed by Bank is
   a) Added
   b) Subtracted
   c) Not required to be adjusted
   Ans:- b

4. A Bank Reconciliation Statement is prepared with the help of:
   a) Bank statement and bank column of the Cash Book.
   b) Bank statement and cash column of the Cash Book
   c) Bank column of the Cash Book and cash column of the Cash Book.
   Ans:- a

5. The cash book showed an overdraft of ₹ 1,50,000, but the pass book made up to the same date showed that cheques of ₹ 10,000, ₹ 5,000 and ₹ 12,500 respectively had not been presented for payments; and the cheque of ₹ 4,000 paid into account had not been cleared. The balance as per the pass book will be:
   a) ₹ 1,10,000
   b) ₹ 2,17,500
   c) ₹ 1,26,500
   Ans:- c

6. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:
   a) Added;

b) Deducted;

c) Not required to be adjusted.

Ans:- a

7. When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:

1. Cheque issued but not presented to bank
2. B/R collected directly by bank
3. Overcasting of the Dr. Side of bank A/c in the cash book.

a) only I

b) only I& 2

c) all of the above

Ans:- b

8. A bank reconciliation statement is mainly prepared to:

a) Reconcile the cash balance of the cash book

b) Reconcile the difference between the bank balance shown by the cash book and bank passbook

c) both a & b

Ans:- b

Bank Reconciliation Statements

Theory Questions

1. Write short note on Bank reconciliation statement.

Ans:- Bank reconciliation statement is prepared as on a particular date to reconcile and explain the causes of difference between the bank balance as per cash book and the same as per savings bank pass book or current account statement. At the end of each month, the bank balance as per cash book and that as per pass book /bank statement should be compared and, if there is disagreement, these balances should be reconciled stating exact reasons of disagreement. The reconciliation is made in a statement called the bank reconciliation statement

2. State the causes of difference between the balance shown by the pass book and the cash book.

Ans:- The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.
(ii) Cheques deposited into the bank but not yet cleared.
(iii) Interest allowed by the bank.
(iv) Interest and expenses charged by the bank.
(v) Interest and dividends collected by the bank.
(vi) Direct payments by the bank.
(vii) Direct deposits into the bank by a customer.
(viii) Dishonour of a bill discounted with the bank.
(ix) Bills collected by the bank on behalf of the customer.
(x) An error committed in cash book or by the bank etc.
(xi) Undercasting or Overcasting in cashbook.

RECTIFICATION OF ERRORS

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	Additional Questions				
2	Additional Questions				
3	Additional Questions				
4	Additional Questions				
5	ICAI Illustration 1				
6	ICAI Illustration 2				
7	ICAI Illustration 3				
8	ICAI Illustration 4				
9	ICAI Illustration 5				
10	ICAI Illustration 6				
11	ICAI Illustration 7				
12	ICAI Illustration 8				
13	ICAI practical Question 1				
14	ICAI practical Question 2				
15	ICAI practical Question 3				
16	ICAI practical Question 4				
17	QP May 19				
18	RTP Nov 19				
19	RTP May 19				
20	RTP Nov 18				
21	QP May 18				
22	QP Nov 18				
23	RTP May 20				
24	RTP Nov 20				
25	RTP Nov 20				
26	QP Jan 21				
27	QP Nov 20				
28	RTP May 21				
29	RTP Nov 21				

30	QP July 21				
31	QP Dec 21				
32	Mock Test Oct 21 (series 1)				
33	Mock Test Nov 22				
34	RTP May 22				
35	RTP Nov 22				
36	MTP Nov 22 (series 1)				
37	MTP Nov 22 (series 2)				
38	QP Nov 22				
39	RTP May 23				
TEST IN TIME PASS IN TIME					
1	RTP May 19				
2	RTP Dec 23				

Let's Get Started... With Class Work

1. Rectify the following errors:

Credit purchases from Raghu Rs. 20,000

1. were not recorded.
2. were recorded as Rs. 10,000.
3. were recorded as Rs. 25,000.
4. were not posted to his account.
5. were posted to his account as Rs. 2,000.
6. were posted to Reghav's account.
7. were posted to the debit of Raghu's account.
8. were posted to the debit of Raghav.
9. were recorded through sales book.

Solution:

Journal Entries

S. No.	Particulars		L.F.	Dr. Rs.	Cr. Rs.
i)	Purchases A/c	Dr.		20,000	
	To Raghu's A/c				20,000
	(Credit purchases from Raghu omitted to be recorded, now corrected)				
(ii)	Purchases A/c	Dr.		10,000	
	To Raghu's A/c				10,000
	(Credit purchases from Raghu recorded as Rs. 10,000 instead of Rs. 20,000 now corrected)				
(iii)	Raghu's A/c	Dr.		5,000	
	To Purchases A/c				5,000
	(Credit purchases from Raghu recorded as Rs. 25,000 instead of Rs. 20,000).				
(iv)	Suspense A/c	Dr.		20,000	

	To Raghu's A/c				20,000
	(Credit purchases from Raghu not posted to his account now corrected).				
(v)	Suspense A/c	Dr.		18,000	
	To Raghu's A/c				18,000
	(Credit purchases from Raghu Rs. posted to his account as Rs. 2,000)				
(vi)	Raghav's A/c	Dr.		20,000	
	To Raghu's A/c				20,000
	(Credit purchases from Raghu wrongly credited to Raghav, now corrected)				
(vii)	Suspense A/c	Dr.		40,000	
	To Raghu's A/c				40,000
	(Credit purchases from Raghu Rs. 20,000 wrongly posted to the debit of his account, now corrected).				
(viii)	Suspense A/c	Dr.		40,000	
	To Raghav's A/c				20,000
	To Raghu's A/c				20,000
	(Credited purchases from Raghu Rs. 20,000 wrongly debited to Raghav, now corrected).				
(ix)	Sales A/c			20,000	
	Purchases A/c			20,000	
	To Raghu's A/c				40,000
	(Credit purchases from Raghu wrongly recorded through sales book, now corrected).				

2. Trial balance of Anurag did not agree. It showed an excess credit Rs. 10,000. Anurag put the difference to suspense account. He located the following errors :

1. Sales return book over cast by Rs. 1,000.
2. Purchases book was undercast by Rs. 600.
3. In the sales book total of page no. 4 was carried forward to page 5 as Rs. 1,000 instead of Rs. 1,200 and total of page 8 was carried forward to page 9 as Rs. 5,600 instead of Rs. 5,000.
4. Goods returned to Ram Rs. 1,000 were recorded through sales book.

5. Credit purchases from M & Co. Rs. 8,000 were recorded through sales book.
6. Credit purchases from S & Co. Rs. 5,000 were recorded through sales book. However, S & Co. were correctly credited.
7. Salary paid Rs. 2,000 was debited to employee's personal account.

Solution:

Journal Entries

S. No.	Particulars		L.F.	Dr. Rs.	Cr. Rs.
i)	Suspense A/c	Dr.		1,000	
	To Sales Return A/c				1,000
	(Sales returns book overcast by Rs. 1,000, now corrected).				
(ii)	Purchases A/c	Dr.		600	
	To Suspense A/c				600
	(Purchases book undercast by Rs. 600, now corrected)				
(iii)	Sales A/c	Dr.		400	
	To Suspense A/c				400
	(Error in carry forward of sales book, now corrected).				

Note: Errors in carry forward the total of one page to another during a period finally affects the total of that book resulting in error of under/overcasting. In this case, carry forward from page 4 to 5 resulted in undercasting of Rs. 200 and carry forward from page 8 to page 9 resulted in overcasting of Rs. 600. Overall overcastting being Rs. 600-200 = Rs. 400.

S. No.	Particulars		L.F.	Dr. Rs.	Cr. Rs.
(iv)	Sales A/c	Dr.		1,000	
	To Return Outwards A/c				1,000
	(Return Outwards wrongly recorded through sales book, now rectified).				
(v)	Purchases A/c	Dr.		8,000	
	Sales A/c			8,000	
	To M & Co.'s A/c				16,000
	(Credit purchases wrongly recorded through sales book,				

	now rectified).				
(vi)	Purchases A/c	Dr.		5,000	
	Sales A/c			5,000	
	To Suspense A/c				10,000
	(Credit purchases wrongly recorded through sales book, however suppliers account correctly credited, now rectified).				
(vii)	Salary A/c	Dr.		2,000	
	To Employee's personal A/c				2,000
	(Salary paid wrongly debited to employee's personal account, now corrected)				

Dr. **Suspense Account** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Difference as per trial balance		10,000		Purchases Sales		600
	Sales return		1,000		Sales		400
					Purchases		5,000
					Sales		5,000
			11,000				**11,000**

3. Pass journal entries necessary to rectify the following errors:

a) An amount of Rs. 2,000 withdrawn by the proprietor for his personal use has been debited to trade expenses account.

b) A purchase of goods from Nathan amounting to Rs. 3,000 has been wrongly entered in the sales book.

c) A credit sale of Rs. 1,000 to santhanam has been wrongly passed through the purchases book.

d) Rs. 1,500 received from malhotra have been credited to mehrotra.

e) Rs. 3,750 paid on account of salary to the cashier dhawan stands debited to his personal account.

f) A contractor's bill for extension of premises amounting to Rs. 27,500 has been debited to building repairs account.

g) On 25th March., goods of the value of Rs. 5,000 were returned by akash deep and were taken into stock but the returns were entered in the books under date 3rd April, i.e.,; after the expiration of the financial year on 31st March.

h) A bill of Rs. 2,000 for old office furniture sold to sethi was entered in the sales day book.
i) An amount of Rs. 800 received on account of interest was credited to commission account.

Solution:

Answer Not Found

4. Pass journal entries to rectify the following errors assuming the existence of the necessary suspense account:
   a) Goods bought from mukesh amounting to Rs. 5,500 was posted to the credit of his account as Rs. 5,000.
   b) Sales book was overcast by Rs. 10,000
   c) While carrying forward the total of one page of the purchases book to the next, the amount of Rs. 12,350 was written as Rs. 13,250
   d) Cartage Rs. 780 paid on machinery newly acquired was debited to carriage inward account.
   e) Purchases returns to shivalker bros. Rs. 3,100 were not recorded in purchases returns book but the account of shivalker bros. was duly debited with the amount.
   f) Drawings of goods costing 300 were not recorded in the books of account.
   g) Whitewashing expenses, Rs. 670 were posted from cash book to the nominal account as Rs. 760. Also prepare suspense account starting it with debit balance of Rs. 320.

Solution:

Answer Not found

5. ICAI Illustration 1

How would you rectify the following errors in the book of Rama & Co.?

1. The total to the Purchases Book has been undercast by Rs.100.

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

Solution:

1. The Purchases Account should receive another debit of ₹100 since it was debited short previously: "To Undercasting of Purchases Book for the month of --- ₹100."
2. Due to this error the Returns Inward Account has been posted short by ₹ 50 : the correct entry will be: "To Undercasting of Returns Inward Book for the month of --- ₹50."
3. The omission of the debit to the Depreciation Account will be rectified by the entry: "To Omission of posting on ₹ 250".
4. The excess debit will be removed by a credit in the Salaries Account by the entry: "By double posting on ₹ 75".
5. ₹1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by ₹ 3,000 by the entry: "To Wrong posting of B/R received on ₹ 3,000"
6. Hari's personal A/c is debited ₹ 36 short. The rectification entry will be: "To Wrong posting ₹ 36".
7. Due to this error, the discount account has been debited short by ₹ 25. The required entry is : "To Omission of discount allowed to Satish on ₹ 25."

So far we have discussed the correction of errors which affected only one Account or more than one account but for which rectifying entries were not complete journal entries.We shall now take up the correction of errors which affect more than one account in such a way that complete journal entries are possible for their rectification. Read the following illustrations:

(i) The purchase of machinery for ₹ 2,000 has been entered in the purchases book. The effect of the entry is that the account of the supplier Ram & Co. has been credited by ₹ 2,000 which is quite correct. But the debit to the Purchases Account is wrong : the debit should be to Machinery Account. To rectify the error, the debit in the purchases Account has to be transferred to the Machinery Account. The correcting entry will be to Credit Purchases Account and debit the Machinery Account. Please see the three entries made below: the last entry rectifies the error:

Wrong Entry:		₹	₹
Purchases Account	Dr.	2,000	
To Ram & Co.			2,000
Correct Entry:			
Machinery Account	Dr.	2,000	
To Ram & Co.			2,000
Rectifying Entry:			
Machinery Account	Dr.	2,000	
To Purchases Account			2,000

(ii) ₹100 received from Kamal Kishore has been credited in the account of Krishan Kishore. The error is that there is a wrong credit in the account of Krishan Kishore and omission of credit in the account of Kamal Kishore; Krishan Kishore should be debited and Kamal Kishore be credited. The following three entries make this clear:

Wrong Entry:		₹	₹
Cash Account	Dr.	100	
To Krishan KishoreCorrect Entry:			100
Cash Account	Dr.	100	
To Kamal KishoreRectifying Entry:			100
Krishan Kishore	Dr.	100	
To Kamal Kishore			100

(iii) The sale of old machinery, ₹1,000 has been entered in the sales book. By this entry the account of the buyer has been correctly debited by ₹1,000. But instead of crediting the Machinery Account. Sales Account has been credited. To rectify the error this account should be debited and the Machinery Account credited. See the three entries given below:

Wrong Entry:		₹	₹
Buyer's Account	Dr.	1,000	
To Sales AccountCorrect Entry:			1,000
Buyer's Account	Dr.	1,000	
To Machinery AccountRectifying Entry:			

Sales Account			1,000
To Machinery Account	Dr.	1,000	
			1,000

6. ICAI Illustration 2

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

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

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

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

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

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

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

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

Solution:

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Furniture A/c	Dr.	500	
	To Purchases A/c			500
	(Correction of wrong debit to Purchases A/c for furniture purchased)			
(2)	Repairs A/c	Dr.	50	
	To Building A/c			50
	(Correction of wrong debit to building A/c for repairs made)			
(3)	Drawings A/c.	Dr.	100	
	To Trade Expenses A/c			100
	(Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)			

(4)	Rent A/c	Dr.	100	
	To Landlord's Personal A/c			100
	(Correction of wrong debit to landlord's A/c for rent paid)			
	Salaries A/c			
(5)	To Clerk's (Personal) A/c	Dr.	125	
	(Correction of wrong debit to Clerk's personal A/c for salaries paid)			125
	Shaw & Co.			
(6)	To Shah & Co.	Dr.	100	
	(Correction of wrong credit to Shaw & Co. Instead of Shah & Co.)			100
	Typewriter A/c			
	To Office Expenses A/c			
(7)	(Correction of wrong debit to Office Expenses A/c for purchase oftypewriter)	Dr.	700	700

7. ICAI Illustration 3

Give journal entries to rectify the following:

(1) A purchase of goods from Ram amounting to Rs.150 has been wrongly entered through the Sales Book.

(2) A Credit sale of goods amounting Rs.120 to Ramesh has been wrongly passed through the Purchase Book.

(3) On 31st December, 2020 goods of the value of Rs.300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.

(4) An amount of Rs. 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.

(5) A Cheque for Rs.100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

Solution:

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Purchases A/c	Dr.	150	
	Sales A/c	Dr.	150	
	To Ram			300
	(Correction of wrong entry in the sales Book for a purchases ofgoods from Ram)			
(2)	Ramesh	Dr.	240	
	To Purchases A/c			120
	To Sales A/c (Correction of wrong entry in the Purchases Book of a credit sale of goods to Ram)			120
(3)	Returns Inwards A/c	Dr.	300	
	To Hari Saran (Entry of goods returned by him and taken in inventory omitted from records)			300
(4)	Mahesh Chand	Dr.	200	
	To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recoveryof previously written off bad debts)			200
(5)	Man Mohan	Dr.	100	
	To Sales Return A/c (Correction of wrong debit to Sales Returns A/c for dishonour of cheque received from Man Mohan)			100

Thus it can be said that errors detected before the preparation of trial balance can be rectified either through rectification statements (not entries) or through rectification entries.

8. ICAI Illustration 4

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

(a) The Sales Book has been totalled Rs.100 short.

(b) Goods worth Rs.150 returned by Green & Co. have not been recorded anywhere.

(c) Goods purchased Rs.250 have been posted to the debit of the supplier Gupta & Co.

(d) Furniture purchased from Gulab & Bros, Rs.1,000 has been entered in Purchases Day Book.

(e) Discount received from Red & Black Rs.15 has not been entered in the Discount Column of the Cash Book.

(f) Discount allowed to G. Mohan & Co. Rs.18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

Solution:

If a Suspense Account is not opened.

(a) Since sales book has been cast ₹100 short, the Sales Account has been similarly credited ₹100 short. The correcting entry is to credit the Sales Account by ₹100 as "By wrong totalling of the Sales Book ₹100".

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

Returns Inward Account To Green & Co. (Goods returned by the firm, previouslyomitted from the Returns Inward Book)	Dr.	₹150	₹150

(c) Gupta & Co. have been debited ₹250 instead of being credited. This account should now be credited by 500 to remove the wrong debit and to give the correct debit. The entry will be on the credit side... "By errors in posting ₹500".

(d) By this error Purchases Account has to be debited by ₹1,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account To Purchases Account (Correction of the mistake by which of theFurniture Account)	Dr.	₹1,000	₹1,000

(e) The discount of ₹15 received from Red & Black should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Red & Black would have been debited. This entry should not be made:

Red & Black To Discount Account (Rectification of the error by which the discount allowed by the firm was not enteredin Cash Book)	Dr.	₹15	₹15

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹18 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be debited by the entry; "To Omission of entry in the Cash Book18."

If a Suspense Account is opened:

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		100	
	To Sales Account (Being the correction arising from under- casting of Sales Day Book)				100
(b)	Return Inward Account	Dr.		150	
	To Green & Co (Being the recording of unrecorded returns)				150
(c)	Suspense Account	Dr.		500	
	To Gupta & Co. (Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹ 250).				500
(d)	Furniture Account	Dr.		1,000	
	(Being the correction of recording purchase of furniture as ordinary purchases)				1,000
(e)	Red & black	Dr.		15	
	To Discount Account (Being the recording of discount omitted to be recorded)				15
(f)	Discount Account	Dr.		18	
	To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				18

Suspense Account

Dr. Date	Particulars	Amount ₹	Date	Particulars	Cr. Amount ₹
	To Sales A/c	100		By Difference in	
	To Gupta & Co.	500		Trial Balance	582
				By Discount A/c	18
		600			600

Notes:

I. One should note that the opening balance in the Suspense Account will be equal to the difference in the trial balance.

II. If the question is silent as to whether a Suspense Account has been opened, the student should make his assumption, state it clearly and then proceed.

9. ICAI Illustration 5

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by Rs. 493 excess credit. The difference thus has been posted to a Suspense Account.

(a) An amount of Rs.100 was received from D. Das on 31st December, 2022 but has been omitted to enter in the Cash Book.

(b) The total of Returns Inward Book for December has been cast Rs.100 short.

(c) The purchase of an office table costing Rs. 300 has been passed through the Purchases Day Book.

(d) Rs. 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".

(e) A purchase of Rs. 67 had been posted to the trade payables' account as Rs. 60.

(f) A cheque for Rs. 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".

(g) Rs. 1,000 paid for the purchase of a motor cycle for Mr. Dutt had been charged to "Miscellaneous Expenses Account".

(h) Goods amounting to Rs.100 had been returned by customer and were taken in to inventory, but no entry in respect there of, was made into the books.

(i) A sale of Rs. 200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

Solution

Journal Entries

Particulars	L.F.	₹	₹
(i) Cash Account	Dr.	100	
To D. Das (Being the amount received)			100
(ii) Returns Inward Account	Dr.	100	
To Suspense Account (Being the mistake in totalling the Returns Inward Book corrected)			100
(iii) Furniture Account	Dr.	300	
To Purchases Account (Being the rectification of mistake by which purchase of furniture was entered in Purchases book and hence debited to Purchases			300

	Account)			
(iv)	Furniture Account	Dr.	375	
	To Wages Account (Being the wages paid to workmen for making show-cases which should be capitalised and not to be charged to Wages Account)			375
(v)	Suspense Account	Dr.	7	
	To Creditors (personal) Account (Being the mistake in crediting the Trade payables Account less by ₹7, now corrected)			7
(vi)	P.C. Joshi	Dr.	200	
	To Allowances Account (Being the cheque of P.C. Joshi dishonoured, previously debited to Allowances Account)			200
(vii)	Drawings Account	Dr.	1,000	
	To Miscellaneous Expenses (Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)			1,000
(viii)	Returns Inward Account	Dr.	100	
	To Debtors (Personal) Account (Correction of the omission to record return of goods by customers)			100
(ix)	Singh & Co.	Dr.	400	
	To Suspense Account (Being the correction of mistake by which the account of Singh & Co. was credited by ₹ 200 instead of being debited)			400

Suspense Account

Dr. Date 2022 Dec.31	Particulars	Amount ₹	Date 2022 Dec. 31	Particulars	Cr. Amount ₹
" "	To Difference in Trial Balance To Trade Payables A/c	493 7	" "	By Returns Inwards A/c By Singh & Co.	100 400
		500			500

10. ICAI Illustration 6

The following errors, affecting the account for the year 2022 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture Rs.150 treated as sale of goods.

(2) Receipt of Rs. 500 from Ram Mohan credited to Shyam Sunder.

(3) Goods worth Rs.100 brought from Mohan Narain have remained unrecorded so far.

(4) A return of Rs.120 from Mukesh posted to his debit.

(5) A return of Rs. 90 to Shyam Sunder posted as Rs. 9 in his account.

(6) Rent of proprietor's residence, Rs. 600 debited to rent A/c.

(7) A payment of Rs. 215 to Mohammad Sadiq posted to his credit as Rs.125.

(8) Sales Book added Rs. 900 short.

(9) The total of Bills Receivable Book Rs. 1,500 left unposted.

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

Solution:

Journal

	Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
(1)	Sales Account	Dr.		150	
	To Furniture Account (Rectification of sales of furniture treated as sales of goods)				150
(2)	Shyam Sunder	Dr.		500	
	To Rama Mohan (Rectification of a receipt from Ram Mohan credited to Shyam Sunder)				500
(3)	Purchases Account	Dr.		100	
	To Mohan Narain (Purchases of goods from Mohan Narain unrecorded)				100
(6)	Drawing Account	Dr.		600	
	To Rent Account (Rectification of Payment of rent of proprietor's				600

	residence treated as payment of office rent)				

N.B. : For 4, 5, 7, 8, 9 no journal entry can be passed as they affect a single account. The correction will be as under:

(4) Credit Mukesh's Account with ₹ 240.

(5) Debit the account of Shyam Sunder by ₹ 81.

(7) Debit the account of Mohammad Sadiq by ₹ 340.

(8) Credit Sales Account by ₹ 900.

(9) Debit Bills Receivable Account with ₹1,500.

Effect of the Errors on Trial Balance

1. No effect		
2. No effect		
3. No effect		
4. Trial Balance credit total short by	₹	240.
5. Trial Balance debit total short by	₹	81.
6. No effect		
7. Trial Balance debit total short by	₹	340.
8. Trial Balance credit total short by	₹	900.
9. Trial Balance debit total short by	₹	1,500.

II. ICAI illustration 7

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

1) Goods of the value of Rs.100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2) An amount of Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
3) A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs. 20;
4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2022 amounting to 250 was not posted.

Solution:

Journal

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		100	
	Sales Returns Account	Dr.		100	
	To Suspense Account				200
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		300	
	To Mr. Philip				300
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam To Suspense Account				20 180
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹ 200, now rectified)				
(4)	Bad Debts Account	Dr.		450	
	To Suspense Account				450
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		250	
	To Suspense Account				250
	(The total of Discount allowed during September, 2022 not posted from the Cash Book; error now rectified)				

12. ICAI Illustration 8

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

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

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

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

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

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

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

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

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

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

Solution:

Date	Particulars			Dr. ₹	Cr. ₹
(1)	Motor Vehicles Account	Dr.		2,700	
	To Profit and Loss Adjustment A/c				2,700
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalisation of ₹ 2,700, i.e., ₹ 3,000 less 10% depreciation)				
(2)	Suspense Account	Dr.		10,000	
	To Profit & Loss Adjustment A/c				10,000
	(Purchase Account overcast in the previous year; error now rectified).				
(3)	Profit & Loss Adjustment A/cTo P's Account	Dr.		4,000	
	(Credit purchase from P ₹ 2,000, enteredas sales last year; now rectified)				4,000
(4)	B's Account	Dr.		1,000	
	To A's Account				1,000
	(Amount received from A wrongly posted to the account of B; now rectified)				
(5)	Suspense Account	Dr.		1,000	
	To C's Account				1,000
	(₹ 500 received from C wrongly debited to his account; now rectified)				
(6)	Trade receivables	Dr.		500	
	To Suspense Account				500
	(₹ 500 due by Q not taken into trialbalance; now rectified)				
(7)	R's Account	Dr.		2,000	

	To Profit & Loss Adjustment A/c (Sales to R omitted last year; now adjusted)				2,000
(8)	Suspense Account	Dr.		198	
	To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹ 2,593, instead of ₹ 2,395, now adjusted)				198
(9)	Profit & Loss Adjustment A/cTo Roy's Capital Account	Dr.		10,898	
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)				10,898
(10)	Roy's Capital Account	Dr.		10,698	
	To Suspense Account (Balance of Suspense Account transferred to the Capital Account)				10,698

Profit and Loss Adjustment Account

(Prior Period Items)

	₹		₹
To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		14,898

Suspense Account

	₹		₹
To Profit & Loss Adjustment Account	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital Account (Transfer)	10,698
To Profit & Loss Adjustment Account	198		
	11,198		11,198

13. ICAI Practical Question 1

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

(i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had been posted to the ledger.

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

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

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

(v) A vehicle bought originally for `7,000 four years ago and depreciated to `1,200 had not been sold for `1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

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

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

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

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

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

Solution:

	Particulars		Dr.	Cr.
1.	Suspense Account	Dr.	6,160	
	To Return Outward A/c			6,160
2.	Suspense Account	Dr.	2,640	
	To Discount Allowed Account			1,320
	To Discount Received Account			1,320
3.	Suspense Account	Dr.	10,000	
	To Sales Account			10,000
4.	Suspense Account	Dr.	270	
	To Customer Account			270
5.	Suspense Account	Dr.	1,500	
	To Vehicle Account			1,200
	To Profit on Sale of Vehicle Account			300
6.	Telephone Charges Account	Dr.	560	
	To Outstanding Expenses Account			560
7.	Bad Debts Account	Dr.	1,560	
	To Trade receivables Account			1,560
	Provision for Doubtful Debts Account	Dr.	164	
	To Profit and Loss Account			164

8.	Loose Tools Account	Dr.	1,200	
	To Purchases Account			1,200
9.	Drawings Account	Dr.	1,960	
	To Purchases Account			1,960

1. Bad debts will be debited in the profit and loss account.
2. Provision @ 10% of ₹21,560 i.e. 2,156; Excess provision ₹164 (2320 - 2156 = 164)

Working Notes:

(i)	Trade receivables as per books		23,390
	Deduction vide item (iv) 270	270	
	Bad Debts	1,560	1,830
			21,560

(ii) Suspense Account

	₹		₹
To Return outward Account	6,160	By balance b/d	20,570
To Discount allowed Account	1,320		
To Discount Received Account	1,320		
To Sales Account	10,000		
To Customers Account	270		
To Vehicles Account	1,200		
To Profit on Sale of Vehicle	300		
	20,570		20,570

14. ICAI Practical Question 2

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

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

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

(3) Supplier account has been overcast by 225.

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

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

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

You are required to

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

(ii) Show how they affect the Profits; and

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

Solution:

Journal Entries

Particulars		L.F.	Dr. ₹	Cr. ₹
Suspense Account	Dr.		50	
To Expenses Account				50
(Being the mistake in totalling of Expenses Account, rectified)				
Suspense Account	Dr.		100	
To Sales Account				100
(Being the mistake in totalling of Sales Accounts rectified)				
Supplier*	Dr.		225	
To Suspense Account				225
(Being the mistake in posting from Day Book to Ledger rectified)				
Sales Returns Account	Dr.		100	
To Suspense Account				100
(Being the sales return from a party not posted to "Sales Returns" now rectified)				
Trade payables Account	Dr.		500	
To Purchases Account				500
(Being the payments made to supplier wrongly posted to purchases now rectified)				
Trade receivables Account	Dr.		100	
To Suspense Account				100
(Being the sales wrongly credited to Customer's Account now rectified)				

Suspense Account

	Dr. ₹		Cr. ₹
To Expenses Account	50	By Difference in Trial Balance	150
To Sales Account	100	By Trade payables	225
To Balance c/d	425	By Sales Returns Account	100

		By Trade receivables	100
	575		575
		By Balance b/d	425

Since the Suspense Account does not balance, it is clear that all the errors have not been traced.

As a result of the above corrections the Net Profit will be:

	Increased by ₹	Decreased by ₹
Mistake in totalling in "Expenses" Mistake in totalling in "Sales" Mistake in posting from day book to Ledger under "Purchases" Omission in posting under "Sales Returns" Net Increase	50 100 500	 100
	650	100
	550	

As a result of these adjustments, the Profits will be increased by ₹550.

15. ICAI Practical Question 3

Mr. A closed his books of account on September 30, 2021 in spite of a difference in the trial balance. The difference was ₹830 the credits being short; it was carried forward in a Suspense Account. In 2022 following errors were located:

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

(ii) The total of the Returns Inward Book for July, 2021 ` 1,240 was not posted in the ledger.

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

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

(v) A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th sept. 2021 was not entered in the books at all. The book value of the machine was ₹6,750.

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

Solution:

Journal of Mr. A

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2021 (i)	Mrs. Mala	Dr.		2,300	
	Mr. Lala	Dr.		2,300	
	To Suspense A/c				4,600
	(Correction of error by which a sale of ₹ 2,300 to Mr. Lala was posted to the Credit of Mrs. Mala)				
(ii)	Profit and Loss Adjustment A/c	Dr.		1,240	
	To Suspense A/c				1,240
	(Rectification of omission to post the total of Returns Inward Book for July, 2020)				
(iii)	(a) Machinery A/c	Dr.		5,600	
	Suspense A/c	Dr.		5,600	
	To Profit & Loss Adjustment A/c				6,500
	(Correction of error by which freight paid for a machine ₹ 5,600 was posted to Freight Account at ₹ 6,500 instead of capitalising it)				
	(b) Profit & Loss Adjustment A/c	Dr.		560	
	To Plant and Machinery A/c				560
	(Depreciation @ 10% charged on freight paid on a machine capitalised)				
(iv)	Suspense A/c	Dr.		8,640	
	To Profit & Loss Adjustment A/c				8,640
	(Correction of wrong carry forward of total in the purchase Account to the next page ₹ 65,590 instead of ₹ 56,950)				
(v)	Mr. Mehta	Dr.		9,000	
	To Plant & Machinery A/c				6,750
	To Profit & Loss Adjustment A/c				2,250
	(Correction of omission of a sale of machine on credit to Mr. Mehta for ₹ 9,000)				

Comments

The Suspense Account will now appear as shown below:

Suspense Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2021	To Profit and Loss		2020	By Balance b/d	830
	Adjustment A/c	900		By Sundries	
	To Profit and Loss			Mrs. Mala	2,300
	Adjustment A/c	8640		Mr. Lala	2,300
				By Profit and Loss	
				Adjustment A/c	1,240
				By balance c/d	2,870
		9,540			9,540

Since the Suspense Account still shows a balance, it is obvious that there are still some errors left in the books.

Profit & Loss Adjustment A/c

(For Prior Period Items)

Dr. Cr.

Date 2022	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
	To Suspense A/c	1,240		By Machinery A/c	5,600
	To Plant and Machinery A/c	560		By Suspense A/c	900
	To Balance c/d	15,590		By Suspense A/c	8,640
				By Mr. Mehta	2,250
		17,390			17,390

16. ICAI Practical Question 4

A merchant's trial balance as on June 30, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹4,539 was carried forward to the next page as ₹4,593.

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

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

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

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

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

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

Solution:

Journal Entries

	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Suspense Account	Dr.		54	
	To Profit and Loss Adjustment A/c				54
	(Correction of error by which Purchase Account was over debited last year- ₹4,593 carried forward instead of ₹4,539)				
(ii)	Profit & Loss Adjustment A/c	Dr.		180	
	Customer's Account	Dr.		1,326	
	To Suspense Account				1,506
	(Correction of the entry by which (a) Sales A/c was over credited by ₹180 (b) customer was credited by ₹753 instead of being debited by ₹573)				
(iii)	Suspense Account	Dr.		1,020	
	To Profit & Loss Adjustment A/c				1,020
	(Correction of error by which Returns Inward Account was debited by ₹510 instead of Returns Outwards Account being credited by ₹ 510)				
(iv)	Suspense Account	Dr.		1,240	
	To C. Dass				620
	To G. Dass				620
	(Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).				
(v)	Customer's Account	Dr.		840	
	To Profit & Loss Adjustment A/c				840
	(Rectification of the error arising from non-preparation of invoice for goods delivered)				

(vi)	Profit & Loss Adjustment A/c	Dr.		200	
	Inventory Account	Dr.		800	
	To Customer's Account				1,000
	(The Customer's A/c credited with ₹1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment Account)				
(vii)	Profit & Loss Adjustment A/c	Dr.		1,534	
	To Capital Account				1,534
	(Transfer of Profit & Loss Adjustment A/c balance to the Capital Account)				

17. QP May 19

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

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

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

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

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

Solution:

Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

Cost concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective and free from all bias.

18. RTP Nov 19

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

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

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240 How would you rectify the errors assuming that:

a) they are detected before preparation of Trial Balance.

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

c) they are detected after preparing Final Accounts.

Solution:

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

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

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

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

Rectification Entry

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

19. RTP May 19

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

i. Goods of the value of Rs.100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

ii. An amount of Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

iii. A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs. 20;

iv. Bad Debts aggregating Rs.450 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

v. The total of "Discount Allowed" column in the Cash Book for the month of September, 2015 amounting to 250 was not posted.

Solution:

JOURNAL

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma				
	wrongly posted to Sales and omission of debit				
	to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods				
	returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	

	To Suspense Account				45,000
	(The amount of Bad Debts written off not				
	adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during				
	September, 2018 not posted from the Cash				
	Book; error now rectified)				

20.RTP Nov 2018

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

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 4,500 from M not recored in subsidiary books.

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

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

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

Solution:

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

21. QP May 18

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

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

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

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

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

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

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

Suggest the necessary rectification entries.

Solution:

Journal Entries in the books of Miss Daisy

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense* A/c			8,000
	(Purchase Account under cast in the previous			
	year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted tothe account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year,			
	₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited tomachinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000

	Credit purchase of goods from Mr. Paul sale last year, now rectified)			
(vii)	Daisy's Capital A/c	Dr.	13,750	
	To Profit and Loss Adjustment Account			13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	8,450	
	To Daisy's Capital A/c			8,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

*Considering that the difference was posted to Suspense account.

Working Notes

Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/cTo Machinery A/c	450 1,800	By Daisy's Capital A/c (Bal. Transfer)	13,750
To Mr. Paul's A/c	6,000		
	16,250		16,250

Suspense Account

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

22. QP Nov 18

The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed: —

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

of ₹ 1,235 was written as ₹ 1,325.

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

Solution:

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			

(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)	Dr.	90	 90

Suspense A/c

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

23. RTP MAY 20

The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

i. Sales Day Book was overcast by ₹ 1,000.

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

iii. General expenses ₹ 180 was posted in the General Ledger as ₹ 810.

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

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

vi. Cash received from Ram was debited to Shyam ₹ 1,500.

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

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

Solution:

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			

(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			

Suspense A/c

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

24. RTP NOV 20

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

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

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

How would you rectify the errors assuming that:

a. they were detected before preparation of Trial Balance.

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

c. they were detected after preparing Final Accounts.

Solution:

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

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

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

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

Rectification Entry

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

25. RTP NOV 20

The following is the Trial Balance of T on 31st March, 2019:

Particulars	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

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

ii. Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.

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

iv. Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Solution:

Journal Entries

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

Trading, Profit and Loss Account of T
for the year ending 31st March, 2019

Dr.			Cr.		
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			

To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation 2,00,000 x (10 / 100) x (6/12)	10,000	24,000	2,50,000 x (12/ 100)x(8/ 12)		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2019

Liabilities		₹	Assets		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	Less: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors Investments		2,50,000 2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

26. QP JAN 21

Mr. Joshi's trial balance as on 31st March 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

i. The total of the purchased Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

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

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

iv. Cash received from Senu, ₹ 895 was posted to debit of sethu.

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

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

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

viii. Sale of goods to M.r R ₹ 3,000 was omitted to be recorded.

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

Solution:

Journal Entries

	Particulars		**L.F.**	**Dr. ₹**	**Cr. ₹**
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)				936
(ii)	Profit & Loss Adjustment A/c Customer's Account	Dr.		540	
	To Suspense Account	Dr.		1,102	
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)				1,642
(iii)	Suspense Account	Dr.		590	

	To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)				590
(iv)	Suspense Account To Senu	Dr.		1,790	895
	To Sethu (Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				895
(v)	Customer's Account	Dr.		1,400	
	To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)				1,400
(vi)	Profit & Loss Adjustment A/cTo Customer's Account	Dr.		1600	
	(The Customer's A/c credited with goods not yet purchased by him)				1,600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c	Dr.		1280	
	(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)				1280
(viii)	Trade receivable/ Q's Account	Dr.		600	
	To Suspense Account (₹600 due by Q not taken into trial balance, now rectified)				600
(ix)	R's account/Trade receivable	Dr.		3,000	
	To Profit & Loss Adjustment A/c(Sales to R omitted, now rectified)				3,000
(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account	Dr.		5,066	
	(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)				5,066

27. QP NOV 20

M/s. Applied Laboratories were unable to agree the trial Balance as on 31st march, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered :

i. Repairs made during the year were Wrongly debited to the building A/c- ₹ 12,500.

ii. The addition of the freight column in the purchase journal was short by ₹ 1,500.

iii. Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of rani & Co. and also to sales returns.

iv. Sundry items of furniture sold for ₹ 30,000 had been entered in the sales account.

v. A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

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

Solution:

Rectification entries in the books of M/s Applied Laboratories

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr.		12,500	
	To Building Account			12,500
	(Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)			
2.	Profit and Loss Adjustment Account Dr.		1,500	
	To Suspense Account			1,500
	(Addition of freight column in purchase journal was under casted, now rectification entry made)			
3.	Suspense Account Dr.		2,100	
	To Rani & Co.			2,100
	(Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)			
4.	Profit and Loss Adjustment Account Dr.		30,000	
	To Furniture account			30,000

	(Being sale of furniture wrongly entered in salesbook, now rectified)			
5.	Raja & Co. Dr.		20,000	
	To Bills receivable account			20,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)			

28. RTP MAY 21

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

(1) Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;

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

(4) Bad Debts aggregating ₹15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹12,500 was not posted.

Solution:

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		5,000	
	Sales Returns Account	Dr.		5,000	
	To Suspense Account				10,000
	(The value of goods returned by Mr. Sharma				
	wrongly posted to Sales and omission of debit				
	to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		15,000	
	To Mr. Hari				15,000
	(Wrong debit to Mr. Hari for goods				

	returned by him, now rectified)				
(3)	Mr. Amit	Dr.		20,000	
	To Mr. Sumit				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		15,000	
	To Suspense Account				15,000
	(The amount of Bad Debts written off not				
	adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		12,500	
	To Suspense Account				12,500
	(The total of Discount allowed during				
	September, 2020 not posted from the Cash				
	Book; error now rectified)				

29. RTP NOV 21

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

(i) Sale of furniture credited to Sales Account.

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

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

(iv) Purchase worth ₹ 4,500 from Mr. X not recorded in subsidiary books.

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

Solution:

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

30.QP July 21

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

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

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

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

iv. Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000. Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.

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

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

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

Suggest the necessary rectification entries.

Solution:

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter Account	Dr.	27,000	
	To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)			27,000
(2)	Suspense Account	Dr.	1,00,000	
	To Profit & Loss Adjustment A/c			1,00,000
	(Purchase Account overcast in the previous year error now rectified).			
(3)	Profit & Loss Adjustment A/c	Dr.	40,000	
	To X's Account			40,000
	(Credit purchase from X ₹20,000, entered as sales last year, now rectified)			
(4)	Bhaskar's Account	Dr.	10,000	

	To Anand's Account			10,000
	(Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)			
(5)	Suspense Account	Dr.	10,000	
	To Chandu's Account			10,000
	(₹ 5,000 received from Chandu wrongly debitedto his account; now rectified)			
(6)	Trade receivables (Ramesh) / Ramesh	Dr.	5,000	
	To Suspense Account			5,000
	(₹5,000 due by Mr. Ramesh not taken into trialbalance now rectified)			
(7)	Ram's Account	Dr.	20,000	
	To Profit & Loss Adjustment A/c			20,000
	(Sales to Ram omitted last year; now adjusted)			
(8)	Suspense Account	Dr.	1,980	
	To Profit & Loss Adjustment A/c			1,980
	(Excess posting to purchase account last			
	year, ₹25,930, instead of ₹23,950, nowadjusted)			
(9)	Profit & Loss Adjustment A/c	Dr.	1,08,980	
	To Ratan's Capital Account			1,08,980
	(Balance of Profit & Loss Adjustment A/ctransferred to Capital Account)			
(10)	Ratan's Capital Account	Dr.	1,06,980	
	To Suspense Account			1,06,980
	(Balance of Suspense Account transferred toCapital Account)			

31. QP Dec 21

Pass the journal entries to rectify the following errors detected during preparation of the Trial Balance:

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

(ii) A Credit sale of goods ₹ 1,200 to Ramesh has Been Wrongly passed through the purchase Book.

(iii) An Amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debt in the previous year was unexpectedly recovered and has been posted to the personal Account of Mahesh Chand

(iv) Goods (Cost being ₹ 5,000 and sale price being ₹ 6,000) Distributed as free samples among prospective customers were not recorded anywhere.

(v) Goods Worth ₹ 1,500 returned by Green have not been recorded anywhere.

Solution:

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Building A/c	Dr.	20,000	
	To Wages A/c			20,000
	(Correction of wrong debit in the wages A/c of the construction of office building)			
(2)	Ramesh	Dr.	2,400	
	To Purchases A/c			1,200
	To Sales A/c			1,200
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			
(3)	Mahesh Chand	Dr.	2,000	
	To Bad Debts Recovered A/c			2,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	5,000	
	To Purchases A/c			5,000
	(Entry of the goods distributed as free samples omitted from records)			
(5)	Returns Inwards /Sales Return A/c	Dr.	1,500	
	To Green			1,500
	(Entry of goods returned by Green omitted from records)			

32. Mock Test Oct 21 (Series I)

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

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 500 from M not recorded in subsidiary books.

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

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

(v) Goods worth ₹ 5000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Solution:

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

33.Mock Test Nov 21

The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(j) Sales Day Book was overcast by Rs. 5,000.

(k) A sale of Rs. 25,000 to Ram was wrongly debited to the Account of Shyam.

(l) General expenses Rs. 360 was posted in the General Ledger as Rs. 630.

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

(n) Legal Expenses Rs. 2,910 paid to Mrs. Neetu was debited to her personal account.

(o) Cash received from Aman was debited to Vimal Rs. 3,200.

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

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

Solution:

	Particulars		Dr.	Cr.
			₹	₹
(i)	P & L Adjustment A/c	Dr.	5,000	
	To Suspense A/c			5,000
	(Correction of error by which sales account was overcast last year)			
(ii)	Ram A/c	Dr.	25,000	
	To Shyam A/c			25,000
	(Correction of error by which sale of . 25,000 to Ram was wrongly debited to Shyam's account)			
(iii)	Suspense A/c	Dr.	270	
	To P & L Adjustment A/c			270
	(Correct of error by which general expenses of ₹ 360 was wrongly posted as ₹ 630)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Hari			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through Bills Payable book)			
(v)	P & L Adjustment A/c	Dr.	2,910	
	To Mrs. Neetu			2,910
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	6,400	
	To Aman A/c			3,200
	To Vimal A/c			3,200
	(Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received)			

(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹ 90/-, i.e.: ₹ 1,325 – ₹ 1,235)	Dr.	90	 90

Suspense A/c

	₹		₹
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Ram A/c To Shyam A/c	3,200 3,200	By Difference in Trial Balance (Balancing figure)	1,760
To P&L Adjustment A/c	90		
	6,760		6,760

34. RTP May 22

The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

a) Return outward book was under cast by ₹ 100.

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

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

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

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

Solution

In the Books of Dime Ltd.

	Particulars	Dr.	Cr.
2021		Amount	Amount
(i)	Suspense A/c Dr.	100	
	To Profit & Loss Adjustment A/c		100
	(Returns outward book was under cast now rectified).		

(ii)	Suspense A/c Dr.	1,500	
	To Profit & Loss Adjustment A/c		1,500
	(Discount received was not recorded, nowrectified)		
(iii)	Office Furniture A/c Dr.	6000	
	To Profit & Loss Adjustment A/c		6000
	(Office furniture purchased wrongly debited to		
	Purchase A/c. now rectified.)		
(iv)	Debtors A/c Dr.	90	
	To Suspense A/c		90
	(Debtors account was posted ₹ 670 in place of760 now rectified.)		
(v)	Debtors A/c Dr.	10,000	
	To Profit & Loss Adjustment A/c (Sales of ₹10,000 omitted to be recorded, now rectified)		10,000

35. RTP Nov 22

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

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

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

c) An amount of ₹ 4,500 received on account of Interest was credited to Commission account.

d) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobha Traders at ₹ 2,670

Solution

S. No.		Debit (₹)	Credit(₹)
(i)	Drawings A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	35,000	35,000
(ii)	Return Inward A/c Dr.	5,000	

	To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)		5,000
(iii)	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	4,500	4,500
(iv)	M/s Sobha Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobha Traders A/c less by 90, now rectified)	90	90

36. MTP Nov 22 Series I

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

i. Credit sale wrongly passed through the Purchase Book.
ii. Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
iii. Purchase from M not recorded in subsidiary books.
iv. Goods worth ₹ 1,520 purchased on credit from Ram recorded in the Purchase Book as ₹ 1,250.
v. Sale of furniture credited to Sales Account.

Solution

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

37. MTP Nov 22 Series 2

The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ₹ 7,000.

(ii) Legal Expenses ₹ 7,670 paid to Mr. Bansal was debited to her personal account.

(iii) General expenses ₹ 4,900 was posted in the General Ledger as ₹ 9,400.

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

(v) Cash received from Deepak was debited to Vivek ₹ 7,500.

(vi) A sale of ₹ 25,000 to Reema was wrongly debited to the Account of Shikha.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 21,690 was written as ₹ 21,960.

(viii) ₹ 7,000 due by Mr. Surya was omitted to be taken to trial balance.

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

Solution

(i)	P&L Adjustment A/c	Dr.	7,000	
	To Suspense A/c			7,000
	(Correction of error by which Sales account was overcast last year)			
(ii)	P & L Adjustment A/c	Dr.	7,670	
	To Mr. Bansal			7,670
	(Correction of error by which legal expenses paid to Mr. Bansal was wrongly debited to his personal account)			
(iii)	Suspense A/c	Dr.	4,500	
	To P & L Adjustment A/c			4,500
	(Correct of error by which general expenses of ₹ 4,900 was wrongly posted as ₹ 9,400)			
(iv)	Bills Receivables A/c	D.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Jai A/c			3,100
	(Correction of error by which Bills Receivable account of ₹ 1,550 was wrongly posted through Bills Payable book)			
(v)	Suspense A/c	Dr.	15,000	
	To Deepak			7,500
	To Vivek			7,500
	(Removal of wrong debit to Vivek and giving credit to Deepak from whom cash was received)			
(vi)	Reema A/c	Dr.	25,000	

	To Shikha A/c (Correction of error by which sale of ₹ 25,000 to Reema was wrongly debited to Shikha's account)		25,000
(vii)	Suspense A/c Dr. To P&L Adjustment A/c (Correction of error by which Purchase A/c was excessdebited by ₹ 270 i.e. ₹ 21,960 – ₹ 21,690)	270	270
(viii)	Trade Receivable A/c Dr. To Suspense A/c (₹ 7,000 due by Mr. Surya not taken into trial balance nowrectified)	7,000	7,000

Suspense A/c

	₹		₹
To P & L Adjustment A/c	4,500	By P & L Adjustment A/c	7,000
To Deepak	7,500	By Trade Receivable (Mr. Surya)	7,000
To Vivek	7,500	By Difference in Trial Balance	5,770
To P&L Adjustment A/c	270	(Balancing figure)	
	19,770		19,770

38. QP Nov 22

Before preparations of the Trial Balance, the following errors were found in the books of Hare Rama and Sons. Give the necessary entries to correct them.

i. Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.
ii. An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current years, and had been posted to the personal Account of of Shayam Lal.
iii. Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
iv. Good purchased form Ram Sing amounting to ₹ 8,000 have remained unrecorded so far.
v. College fees of proprietor's son ₹ 15,000 debited to the Audit fees Account.
vi. Receipt of ₹4,500 form Meet. Kumar credited to the Pinki Rani.
vii. Good amounting to ₹ 6,200 had been returned by customer and were taken in the inventory, but no entry was in the books.
viii. ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.
ix. Salary paid to a clerk ₹ 12,000 has been debited to his personal Account.
x. A purchase of good form Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Solution

In the books of Hare Rama & SonsJournal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Repairs A/c Dr. To Building A/c (Correction of wrong debit to building A/c for repairsmade)		1,850	1,850
(ii)	Shyam Lal A/c Dr. To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect ofrecovery of previously written off bad debts)		3,000	3,000
(iii)	Furniture A/c Dr. To Purchases A/c (Correction of wrong debit to Purchases A/c for furniturepurchased)		20,000	20,000
(iv)	Purchases A/c Dr. To Ram Singh A/c (Purchases of goods from Ram Singh remainedunrecorded)		8,000	8,000
(v)	Drawings A/c Dr. To Audit Fees A/c (Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)		15,000	15,000
(vi)	Pinki Rani A/c Dr. To Meet Kumar A/c (Correction of wrong credit to Pinki Rani. instead of MeetKumar.)		4,500	4,500
(vii)	Returns Inwards / Sales Return A/c Dr. To Customer/Debtors A/c (Entry of goods returned by customer and taken ininventory omitted from records)		6,200	6,200
(viii)	Furniture A/c Dr. To Wages A/c (Wages paid to workmen for office furniture wronglycharged to wages a/c now rectified)		1,500	1,500
(ix)	Salaries A/c Dr. To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)		12,000	12,000
(x)	Purchases A/c Dr. Sales A/c Dr.		20,000 20,000	

	To Raghav A/c (Correction of wrong entry in the sales Book forpurchases of goods from Raghav)			40,000

39.RTP May 23

Mr. Anirudh was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by ₹ 16,000.

(ii) Sale of goods to Mr. Rahim for ₹ 5,000 was omitted to be recorded.

(iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.

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

(v) Repairs to Machinery was debited to Machinery Account ₹ 6,100.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale. Suggest the necessary rectification entries.

Solution

Journal Entries in the books of Mr. Anirudh

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense* A/c			16,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	5,000	
	To Profit & Loss Adjustment A/c			5,000
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anubhav's Account	Dr.	1,200	
	To Ashok's Account			1,200
	(Amount received from Ashok wrongly posted to the account of Anubhav now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450

	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)		
(v)	Profit & Loss Adjustment A/c Dr. To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)	6,100	 6,100
(vi)	Profit & Loss Adjustment A/c Dr. To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified)	6,000	 6,000
(vii)	Anirudh's Capital A/c Dr. To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Anirudh's Capital A/c – Refer W.N. 1)	23,550	 23,550
(viii)	Suspense A/c Dr. To Anirudh's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)	16,450	 16,450

*Considering that the difference was posted to Suspense account.

1. **Profit and Loss Adjustment Account**

	₹		₹
To Suspense A/c	16,000	By Rahim's A/c	5,000
To Suspense A/c To Machinery A/c	450 6,100	By Anirudh's Capital A/c (Bal. Transfer)	23,550
To Mr. Paul's A/c	6,000		
	28,550		28,550

Working Notes

2. **Suspense Account**

	₹		₹
To Anirudh's Capital A/c (Balance Transfer)	16,450 16,450	By P & L Adj. A/c By P & L Adj. A/c	16,000 45016,450

40.RTP Dec 23

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

(1) Goods of the value of ₹15,000 returned by Mr. X were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹22,500 entered in the Sales Returns Book, has been posted tothe debit of Mr. Shiv, who returned the goods;

(3) A sale of ₹60,000 made to Mr. Amit was correctly entered in the Sales DayBook but wrongly posted to the debit of Mr. Sumit as ₹ 6,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Salesledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month ofOctober, 2022 amounting to ₹37,500 was not posted.

Solution

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		15,000	
	Sales Returns Account	Dr.		15,000	
	To Suspense Account				30,000
	(The value of goods returned by Mr. X wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		45,000	
	To Mr. Shiv				45,000
	(Wrong debit to Mr. Shiv for goodsreturned by him, now rectified)				
(3)	Mr. Amit	Dr.		60,000	
	To Mr. Sumit				6,000
	To Suspense Account				54,000
	(Omission of debit to Mr. Amit andwrong credit to Mr. Sumit for sale of ₹ 60,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written offnot adjusted in General Ledger, now rectified)				

(5)	Discount Account Dr. To Suspense Account (The total of Discount allowed during October, 2022 not posted from the Cash Book; error now rectified)		37,500	37,500

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. RTP May 19

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

i. Goods of the value of Rs.100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

ii. An amount of Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

iii. A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs.20;

iv. Bad Debts aggregating Rs.450 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

v. The total of "Discount Allowed" column in the Cash Book for the month of September, 2015 amounting to 250 was not posted.

Solution:

JOURNAL

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				

(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not				
	adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during				
	September, 2018 not posted from the Cash				
	Book; error now rectified)				

True & false

1. The method of rectification of errors depends on the stage at which the errors are detected.
   Ans:- True: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification of errors.

2. In case of error of complete omission, the trial balance does not tally.
   Ans: False: In case of error of complete omission, the trial balance tallies.

3. When errors are detected after preparation of trial balance, suspense account is opened.
   Ans:- True: In order to balance the difference of balances in the trial balance suspense account is opened.

4. When purchase of an asset is treated as an expense, it is known as error of principle.
   Ans:- True: Where the accounts being debited is principally incorrect it is termed as error of principle.

5. Trial balance agrees in case of compensating errors.
   Ans: True: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account oftwo different mistakes.

6. When amount is written on wrong side, it is known as an error of principle.
   Ans:- False: When amount is written on wrong side, it is known as an error of commission.

7. On purchase of old furniture, the amount spent on repairs should be debited to repairs account.
   Ans:- False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.

8. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.
   Ans:- False: 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period.

9. Rent paid to landlord of the proprietors house, must be debited to 'Rent account'.
   Ans:- False: Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.

10. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

Ans:-False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

Multiple choice questions

1. Goods purchased from A for ₹10,000 passed through the sales book. The error will resultin
   a) Increase in gross profit.
   b) Decrease in gross profit.
   c) No effect on gross profit.

   Ans:- a

2. If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the
   a) Trial balance would show the debit side to be ₹1,000 more than the credit.
   b) Trial balance would show the credit side to be ₹ 1,000 more than the debit.
   c) The debit side of the trial balance will be ₹ 2,000 more than the credit side.

   Ans:- c

3. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called
   a) Error of omission.
   b) Error of commission.
   c) Error of principle.

   Ans:- b

4. ₹ 200 paid as wages for erecting a machine should be debited to
   a) Repair account.
   b) Machine account.
   c) Capital account.

   Ans:- b

5. On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to
   a) Repair account.
   b) Furniture account.
   c) Cash account.

   Ans:- b

6. Goods worth ₹50 given as charity should be credited to
   a) Charity account.
   b) Sales account.
   c) Purchase account.
   Ans:- c

7. Goods worth ₹100 taken by proprietor for domestic use should be credited to
   a) Sales account.
   b) Proprietor's personal expenses.
   c) Purchases account.
   Ans:- c

8. Sales of office furniture should be credited to
   a) Sales Account.
   b) Furniture Account.
   c) Purchase Account.
   Ans:- b

9. The preparation of a trial balance is for:
   a) Locating errors of commission.
   b) Locating errors of principle.
   c) Locating clerical errors.
   Ans:- c

10. ₹ 200 received from Smith whose account, was written off as a bad debt should becredited to:
   a) Bad Debts Recovered account.
   b) Smith's account.
   c) Cash account.
   Ans:- a

11. Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:
   a) A clerical error.
   b) An error of principle.
   c) An error of omission.
   Ans:- b

Theory questions

1. How does errors of omission differ from errors of commission?

Answer

i. Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

ii. Errors of Commission: If an amount is posted in the wrong account or it iswritten on the wrong side or the totals are wrong or a wrong balance is struck,it will be a case of "errors of commission."

2. What is error of principle and how does it affect Trial Balance?

Answer

Errors of principle: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a typewriter, the office expenses account is debited; the trial balance will still agree.

3. When and how is Suspense account used to rectify errors?

Answer

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree inspite of errors by **opening a suspense account** and putting the difference in the trial balanceto the account - the suspense account will be debited if the total of the credit columnin the trial balance exceeds the total of the debit column; it will be credited in the other case. Each and every error detected after preparation of trial balance can only becorrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the differenceor the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Inventories

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI practical Question 1				
7	ICAI Illustration 1				
8	ICAI Illustration 2				
9	ICAI Illustration 3				
10	ICAI Illustration 4				
11	ICAI Illustration 5				
12	ICAI Illustration 6				
13	ICAI practical Question 1				
14	ICAI practical Question 2				
15	ICAI practical Question 3				
16	ICAI practical Question 4				
17	RTP May 2018				
18	RTP Nov 18 / May 20				
19	Mock test 2				
20	RTP Nov 20				
21	QP Jan 21				
22	QP Nov 20				
23	RTP May 21				
24	RTP Nov 21				
25	QP July 21				
26	QP Dec 21				
27	RTP May 22				
28	RTP Nov 22				
29	ICAI Exam May 22				

30	MTP Nov 22 (series 2)				
31	RTP May 23				
32	QP Jun 23				
TEST IN TIME PASS IN TIME					
1	RTP Dec 23				
2	QP Dec 23				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Surekha Ltd deals in 3 products P, Q & R, which are neither similar nor interchangeable. At the end of a financial year, the Historical Cost and NRV of items of Closing Stock are given below. Determine the value of Closing Stock.

Items	Historical Cost (in ₹ Lakhs)	Net Realisable Value (in ₹ Lakhs)
P	38	42
Q	29	29
R	17	14

Solution:

Inventories are to be valued at the lower of cost and Net Realisable Value (NRV). Inventories are usually written down to NRV on an item-by-item basis. The Value of Closing Stocks is determined as under:

Items	Historical Cost (in ₹ Lakhs)	Net Realisable Value (in ₹ Lakhs)	Valuation = Least of Costor NRV
P	38	42	38
Q	29	29	29
R	17	14	14
Total			81

2. ICAI Illustration 2

A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets:

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

1,600 units were issued during the month of December till 18th December.

Solution:

The closing inventory is 1,000 units and would consist of:

800 units received on 28th December; and

200 units received on 19th December as per FIFO

The value of 800 units @ ₹47	37,600
The value of 200 units @ ₹60	12,000
Total	49,600

3. ICAI Illustration 3

In the previous example assume that following issues were made during the month of December:

Record of issues

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

Solution:

Computation of closing stock under perpetual inventory system

Using LIFO method, following will be stock ledger:

Date	Receipts			Issues			Balance inventory		
Dec.	Qty.	Rate	Amount	Qty	Rate	Amount	Qty.	Rate	Amount
4	900	50	45,000	-	-	-	900	50	45,000
5	-	-	-	500	50	25,000	400	50	20,000
10	400	55	22,000	-	-	-	400	50	20,000
							400	55	22,000

11	300	55	16,500	-	-	-	400	50	20,000
							400	55	22,000
							300	55	16,500
19	200	60	12,000	-	-	-	400	50	20,000
							400	55	22,000
							300	55	16,500
							200	60	12,000
20	-	-	-	200	60	12,000			
	-	-	-	300	55	16,500			
	-	-	-	100	55	5,500	400	50	20,000
							300	55	16,500
28	800	47	37,600	-	-	-	400	50	20,000
							300	55	16,500
28							800	47	37,600
29	-	-	-	500	47	23,500	400	50	20,000
							300	55	16,500
							300	47	14,100

Therefore, cost of closing inventory of 1,000 pcs will be ₹ 50,600. Computation under periodic inventory system

In the above example, if the entity followed periodic inventory valuation, closing inventory of 1,000 pcs. will be valued as follows:

800 pcs. @ ₹ 47 each (purchased on Dec. 28th)	=	₹ 37,600
200 pcs. @ ₹ 60 each (purchased on Dec. 19th)	=	₹ 12,000
Total 1,000 pcs.	=	₹ 49,600

"LIFO method is based on an irrational assumption that inventories entering last in the stores are issued or consumed first. However, the flow of goods which is generally observed in business entities is contradictory to this assumption. It should be noted that while applying LIFO, there will be difference in cost of goods sold and value of closing inventory, if the entity follows periodic as against perpetual method of inventory valuation. (Periodic and Perpetual methods have been explained later in this chapter). Therefore, LIFO method is no longer adopted for valuing inventories. Accounting Standards also does not permit the usage of LIFO Method. Generally, in practice, FIFO and Weighted Average Price Method are popular among the business entities and both these methods are also permitted by Accounting Standards."

4. ICAI Illustration 4

In the same example of a manufacturer of radio sets given earlier, let us calculate the value of closing inventory using Average Price Method:

Solution:

The simple average in this question is:

[(50 + 55 + 55 + 60 + 47)/5] = 267/5 = ₹ 53.4

1,000 units valued at ₹ 53.4 would be ₹ 53,400

5. ICAI Illustration 5

On the basis of the data given in illustration 2 and 3, calculate the weighted average price and also the value of closing inventory by weighted average price method.

Solution:

The computation of weighted average price in the referred example is shown below:

A new average rate would be calculated on receiving a fresh consignment. Answer on that basis would be as under:

Date	Receipts			Issues			Balance inventory		
	Qty	Rate	Amount	Qty	Rate	Amount	Qty	Rate	Amount
Dec. 4	900	50	45,000	-	-	-	900	50	45,000
Dec. 5	-	-	-	500	50	25,000	400	50	20,000
Dec. 10	400	55	22,000	-	-	-	800	52.5	42,000
Dec. 11	300	55	16,500	-	-	-	1,100	53.18	58,500
Dec. 19	200	60	12,000	-	-	-	1,300	54.23	70,500
Dec. 20	-	-	-	600	54.23	32,538	700	54.23	37,962
Dec. 28	800	47	37,600	-	-	-	1,500	50.37	75,562
Dec. 29	-	-	-	500	50.37	25,185	1,000	50.37	50,377

6. ICAI Illustration 6

Inventories

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2022:

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

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

Solution:

Determination of cost of purchases:

Goods received from suppliers		₹	15,75,500
Less: Trade discount 3%		₹	(47,265)
			15,28,235
Add: Sales Tax 11%		₹	1,68,106
		₹	16,96,341
Add: Packaging and transportation charges		₹	87,500
		₹	17,83,841
Determination of estimated gross profit margin:			
Sales during the year		₹	22,45,500
Closing inventory at the selling price		₹	2,35,000
			24,80,500
Less: Purchases		₹	(17,83,841)
Gross profit		₹	6,96,659
Gross profit margin			28.09%
Inventory valuation:			
Selling price of closing inventories		₹	2,35,000
Less: Gross profit margin 28.09%		₹	(66,012)

		₹	1,68,988

7. ICAI Illustration 7

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Sales during the year	2,00,000
Cost of purchases	2,00,000
Opening inventory	Nil
Closing inventory at selling price	50,000

Solution:

Calculation of gross margin of profit:

	₹
Sales	2,00,000
Add: Closing inventory (at selling price)	50,000
Selling price of goods available for sale:	2,50,000
Less: Cost of goods available for sale	2,00,000
Gross margin	50,000
Rate of gross margin = (50,000 / 2,50,000) × 100 = 20%	

Cost of closing inventory = 50,000 less 20% of ₹ 50,000 = ₹ 40,000

8. ICAI Illustration 8

From the following particulars ascertain the value of Inventories as on 31st March, 2022:

	₹
Inventory as on 1.4.2019	1,42,500
Purchases	7,62,500
Manufacturing Expenses	1,50,000
Selling Expenses	60,500
Administrative Expenses	30,000
Financial Charges	21,500
Sales	12,45,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 17,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

Solution:

Statement of Inventory in trade as on 31st March, 2022

	₹	₹
Inventory as on 1st April, 2019	1,42,500	
Less: Book value of abnormal inventory (₹ 50,000 - ₹17,500)	32,500	1,10,000
Add: Purchases		7,62,500
Manufacturing Expenses		1,50,000
		10,22,500
Less: Cost of goods sold:		
Sales as per books	12,45,000	
Less: Sales of abnormal item	45,000	
	12,00,000	
Less: Gross Profit @ 20%	2,40,000	9,60,000
Inventory in trade as on 31st March, 2020		62,500

9. ICAI Illustration 9

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2022 on which date the total cost of goods in his godown came to ₹ 5,00,000. The following facts were established between 31st March and 15th April, 2022.

(i) Sales ₹ 4,10,000 (including cash sales ₹ 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, 2022.

Solution:

Statement of valuation of Inventory on 31st March, 2022

	₹	₹
Value of Inventory as on 15th April, 2022		5,00,000
Add: Cost of goods sold during the period between 31st March, 2022 to 15th April, 2022		
Sales (₹ 4,10,000 - ₹ 10,000)	4,00,000	
Less: Gross Profit (20% of ₹ 4,00,000)	80,000	3,20,000
		8,20,000
Less: Purchases during the period from 31st March, 2022 to 15th April, 2022		50,340
		7,69,660

10. ICAI Illustration 10

Inventory taking for the year ended 31st March, 2022 was completed by 10th April 2022, the valuation of which showed a inventory figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for 68,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹ 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow moving items costing ₹ 11,250, which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 30th March, 2022.

Solution:

Statement showing the valuation of Inventory as on 31st March, 2022

	₹
Value of Inventory as on 10th April	16,75,000
Add: Cost of goods sold after 31st March till Inventory taking	51,560
(₹ 68,750 – ₹ 17,190)	
Less: Purchases for the next period (net)	(81,000)
Less: Cost of Sales Returns	(2,250)
Less: Loss on revaluation of slow moving inventories	(6,000)
Less: Reduction in value on account of default	(3,000)
Value of Inventory on 31st March	16,34,310

Note: Profit margin of 33.33 percent on cost means 25 percent on sales price.

11. ICAI Illustration 11

The following are the details of a spare part of Sriram mills:

1-1-2022	Opening Inventory	Nil
1-1-2022	Purchases	100 units @ ₹ 30 per unit
15-1-2022	Issued for consumption	50 units
1-2-2022	Purchases	200 units @ ₹ 40 per unit
15-2-2022	Issued for consumption	100 units
20-2-2022	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2022 if the company follows First in first out basis.

Solution:

First-in-First out basis

Sriram Mills

Calculation of the value of Inventory as on 31-3-2022

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2022	Balance							Nil	
1-1-2022	100	30	3,000				100	30	3,000
15-1-2022				50	30	1,500	50	30	1,500
1-2-2022	200	40	8,000				50	30	1,500
							200	40	8,000
15-2-2022				50	30	1,500			
				50	40	2,000	150	40	6,000
20-2-2022				100	40	4,000	50	40	2,000

Therefore, the value of Inventory as on 31-3-2022: 50 units @ ₹ 40 = ₹ 2,000

12. ICAI Illustration 12

The following are the details of a spare part of Sriram Mills:

1-1-2022	Opening Inventory	Nil
1-1-2022	Purchases	100 units @ ₹ 30 per unit
15-1-2022	Issued for consumption	50 units
1-2-2022	Purchases	200 units @ ₹ 40 per unit
15-2-2022	Issued for consumption	100 units
20-2-2022	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2022 if the company follows Weighted Average basis.

Solution:

Weighted Average basis

Sriram Mills

Calculation of the value of Inventory as on 31-3-2022

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2022	Balance							Nil	
1-1-2022	100	30	3,000				100	30	3,000
15-1-2022				50	30	1,500	50	30	1,500
1-2-2022	200	40	8,000				250	38	9,500
15-2-2022				100	38	3,800	150	38	5,700
20-2-2022				100	38	3,800	50	38	1,900

Therefore, the value of Inventory as on 31-3-2022 = 50 units @ ₹ 38 = ₹ 1,900

13.ICAI Practical Question 1

X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, when it was ascertained by him to be worth ₹ 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2022 and 9.4.2022 as per the sales day book are ₹ 17,200.

Purchases between 31.3.2022 and 9.4.2022 as per purchases day book are ₹ 1,200, out of these goods amounting to ₹ 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2022 but goods received only on 4th April, 2022 amounted to ₹ 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2022.

Solution:

Statement of Valuation of Physical Stock as on 31st March, 2022

		₹
Value of stock as on 9th April, 2022		2,50,000
Add: Cost of sales during the intervening period		
Sales made between 31.3.2022 and 9.4.2022	17,200	
Less: Gross profit @ 25% on sales	(4,300)	12,900
		2,62,900
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	1,200	
Less: Goods not received upto 9.4.2022	(500)	700
		2,62,200
Less: Purchases during March, 2022 received on 4.4.2022		1,000
Value of physical stock as on 31.3.2022		2,61,200

14. ICAI Practical Question 2

From the following information, ascertain the value of stock as on 31.3.2022:

Value of stock on 1.4.2021	7,00,000
Purchases during the period from 1.4.2021 to 31.3.2022	34,60,000
Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2021 a sum of ₹ 60,000 was written off a particular item which was originally purchased for ₹ 2,00,000 and was sold for ₹ 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

Solution:

Statement of Valuation of Stock as on 31st March, 2022

		₹
Value of stock as on 1st April, 2021		7,00,000
Add: Purchases during the period from 1.4.2021 to 31.3.2022		34,60,000
Add: Manufacturing expenses during the above period		7,00,000

Less: Cost of sales during the period:		48,60,000
Sales	52,20,000	
Less: Gross profit	10,32,000	41,88,000
Value of stock as on 31.3.2022		6,72,000

Working Note:

	₹
Calculation of gross profit:	
Gross profit on normal sales 20/100 x (52,20,000 -1,60,000)	10,12,000
Gross profit on the particular (abnormal) item 1,60,000 - (2,00,000 - 60,000)	20,000
	10,32,000

Note: The value of closing stock on 31st March, 2022 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2022.

15. ICAI Practical Question 3

The Profit and loss account of Hanuman showed a net profit of ₹ 6,00,000, after considering the closing stock of ₹ 3,75,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 15,000 paid for new electric fittings for the shop

(ii) Hanuman gave away goods valued at ₹ 40,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to ₹ 2,50,000 have been entered on 27th March, 2022, but the goods were not included in stock.

(iv) In March 2022, goods of ₹ 2,00,000 sold and delivered were taken in the sales for April, 2022.

(v) Goods costing ₹ 75,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended on that date.

Solution:

Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Advertisement (samples)	40,000	By Net profit	6,00,000
To Sales (goods approved in April to be takenas April sales: (75,000 + 25,000)	1,00,000	By Electric fittings	15,000
To Adjusted net profit	10,40,000	By Samples	40,000
		By Stock (purchases of March not included in stock)	2,50,000
		By Sales (goods sold in March wrongly taken as April sales)	2,00,000
		By Stock (goods sent on approval basis not included in stock)	75,000
	11,80,000		11,80,000

Calculation of value of inventory on 31st March, 2022

	₹
Stock on 31st March, 2022 (given)	3,75,000
Add: Purchases of March, 2022 not included in the stock	2,50,000
Goods lying with customers on approval basis	75,000
	7,00,000

16.ICAI Practical Question 4

Physical verification of stock in a business was done on 23rd June, 2022. The value of the stock was 48,00,000. The following transactions took place between 23rd June to 30th June, 2022:

(i) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.

(ii) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2022.

(iii) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2022.

(iv) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000. Determine the value of stock on 30th June, 2022.

Solution:

Statement of Valuation of Stock on 30th June, 2022

		₹
Value of stock as on 23rd June, 2022		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2022 to 30th June, 2022	2,40,000	
Goods in transit on 30th June, 2022	1,60,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	7,68,000
		55,68,000
Less: Cost of sales during the period from 23rd June, 2022 to 30th June, 2022		
Sales (₹ 13,60,000 - ₹ 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		11,04,000
Value of stock as on 30th June, 2022		44,64,000

Working Notes:

1. Calculation of normal sales:		
Actual sales		13,60,000
Less: Abnormal sales	1,20,000	
Return of goods sent on approval	1,60,000	2,80,000
		10,80,000
2. Calculation of gross profit:		
Gross profit or normal sales 20/100 x ₹ 10,80,000		2,16,000
Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹ 1,20,000)		1,20,000
Gross profit		96,000

17.RTP May 2018

Closing stock is valued by XYZ Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2017.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

Solution:

Statement showing the valuation of stock as on 31st March, 2017

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less:* Purchases for the next period (net)	8,100
D	*Less:* Cost of Sales Returns	225
E	*Less:* Loss on revaluation of slow moving inventories	600
F	*Less:* Reduction in value on account of default	300
G	Value of Stock on 31st March, 2017	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

18. RTP Nov 2018 / RTP May 20

Sky **Ltd.** keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31 st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018.

Solution:

Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		
₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	800	72,000
Less: (1) Overcasting of a page total ₹ (6,000 – 5,000)	1,000	1,52,000
(2) Goods sold and dispatched during January – March, 2018		
₹ (90,000 – 5,000 + 4,000) 89,000		
Less: Profit margin [89,000 x (25/ 125)] 17,800	71,200	72,200
Value of stock as on 31st March, 2018		79,800

19.Mock test 2

Physical verification of stock in a business was done on 23rd June, 2018. The value of the stock was Rs. 48,00,000. The following transactions took place between 23rd June to 30th June, 2018:

(a) Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.

(b) Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5th July, 2018.

(c) Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2018, but no information is available regarding the remaining goods.

(d) Goods are sold at cost plus 25%. However goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

You are required to determine the value of stock on 30th June, 2018.

Solution:

Statement of Valuation of Stock on 30th June, 2020

Value of stock as on 23rd June, 2020		48,00,000	
Add: Unsold stock out of the goods sent on consignment	2,40,000		
Purchases during the period from 23rd June, 2020 to 30th June, 2020	2,40,000		
Goods in transit on 30th June, 2020	1,60,000		
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	7,68,000	
		55,68,000	
Less: Cost of sales during the period from 23rd June, 2020 to 30th June, 2020			
Sales (₹ 13,60,000 - ₹ 1,60,000)	12,00,000		
Less: Gross profit	96,000		
			11,04,000
Value of stock as on 30th June, 2020		44,64,000	

Working Notes:

1. Calculation of normal sales:

Actual sales		13,60,000	
Less: Abnormal sales	1,20,000		
Return of goods sent on approval	1,60,000		2,80,000
		10,80,000	

2. Calculation of gross profit:

Gross profit or normal sales 20/100 x ₹ 10,80,000		2,16,000
Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹ 1,20,000)		1,20,000
Gross profit	96,000	

20.RTP NOV 20

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.

i. Sales ₹ 41,000 (including cash sales ₹ 10,000)

ii. Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

iii. Sales Return ₹ 1,000.

iv. On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

v. The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2020.

Solution:

Statement of Valuation of Stock on 31st March, 2020

		₹	₹
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020 Sales (₹ 41,000 – ₹1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

21. QP JAN 21

From the following particulars ascertain the value of inventories as on 31st March ,2020 :

Inventory as on 1st April, 2019	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	18,50,000
Manufacturing Expenses	1,00,000
Selling and Distribution Expenses	50,000
Administration Expenses	80,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20% on sales.

Solution:

(a) Statement of Inventory in trade as on 31st March, 2020

	₹	₹
Inventory as on 31st March, 2019	3,50,000	
Less:Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2020		1,75,000

22. QP NOV 20

Physical verification of stock in a business was done on 23rd February, 2020.the value of the stock was ₹ 28,00,000, the following transaction took from 23rd February,2020 :

1. Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.
2. Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March,2020.
3. Sales were ₹ 13,36,000 which include goods worth ₹ 3,20,000sent on approval. Half of these goods were returned before 29th February,2020, but no information is available regarding the remaining goods.
4. Goods are sold at cost plus 25% However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000. Determine the value of stock on 29th February,2020.

Solution:

Statement of Valuation of Stock on 29thFebruary, 2020

		₹
Value of stock as on 23rd February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23rd February, 2020 to 29th February, 2020	1,80,000	
Goods in transit on 29th February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	6,58,000
Cost of sales during the period from 23rdFebruary, 2020to 29thFebruary, 2020		34,58,000
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	1,20,000	10,80,000
Value of stock as on 29th February, 2020		23,78,000

Working Notes:

1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	1,60,000	3,10,000 10,50,000
2.	Calculation of gross profit:		
	Gross profit on normal sales 20/100 x		2,10,000
	₹ 10,50,000		90,000
	Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹ 1,50,000)		
	Gross profit		1,20,000

23. RTP MAY 21

Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

Solution:

Statement showing the valuation of stock as on 31st March, 2020

		₹
A	Value of Stock as on 10th April, 2020	5,02,500
B	Add: Cost of sales after 31st March, till stock taking (₹ 20,625 – ₹ 5,156)	15,469
C	Less: Purchases for the next period (net)	(24,300)
D	Less: Cost of Sales Returns (900-675)	(675)
E	Less: Loss on revaluation of slow moving inventories	(1800)
F	Less: Reduction in value on account of default	(900)
G	Value of Stock on 31st March, 2020	4,90,294

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

24. RTP NOV 21

Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31 st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

ii) On 30th September, stock sheet showed the following discrepancies:

(a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

(b) The total of a page had been undercast by ₹ 600.

iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30thSeptember, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled ₹12,000.

iv) Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

Solution:

Valuation of Physical Stock as at March 31, 2021

		₹
Stock at cost on 30.09.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during SeptemberMarch, 2021		
₹ (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return ₹ (3,000 – 600)	2,400	2,16,000
		4,56,000
Less:(1) Overcasting of a page total ₹ (16,000 – 15,000)	1,000	
(2) Goods sold and dispatched during January – March, 2021		
₹ (2,70,000 – 15,000 +12,000) 2,67,000		
Less: Profit margin 2,67,000 x (25/125) 53,400	2,13,600	2,14,600
Value of stock as on 31st March, 2021		2,41,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 1,20,000 goods delivered in March, 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

25. QP July 21

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	- ₹ 5,00,000
Sales during the year	- ₹ 7,50,000
Opening Inventory	Nil
Closing Inventory at selling price	- ₹ 1,00,000

Solution:

Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross margin	3,50,000

Rate of gross margin =3,50,000 /8,50,000 × 100 = 41.18%

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830

26. QP Dec 21

The following are the details of the spare parts of an oil mill:

1-1-2021	opening Inventory	Nil
1-1-2021	Purchases	10 Units @ ₹ 300 Per unit

15-1-2021	Issued for consumption	5 Unit
1-2-2021	Purchases	20 Unit @ ₹ 400 Per unit
15-2-2021	Issued for consumption	10 Units
20-2-2021	Issued for consumption	10 units

Find out the Value of Inventory as on 31-3-2021, if the company follows Weighted Average Method.

Solution:

Oil Mill

Calculation of the value of Inventory as on 31-3-2021

	Receipts			Issues			Balance		
Date	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**
		₹	₹		₹	₹		₹	₹
1-1-2021	Balance							Nil	
1-1-2021	10	300	3,000				10	300	3,000
15-1-2021				5	300	1,500	5	300	1,500
1-2-2021	20	400	8,000				25	380	9,500
15-2-2021				10	380	3,800	15	380	5,700
20-2-2021				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹380 = ₹1,900

27. RTP May 2022

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2021 on which date the total cost of goods in his godown came to ₹ 1,50,000. The following facts were established between 31st March and 15th April, 2021.

(i) Sales ₹ 1,23,000 (including cash sales ₹ 30,000)

(ii) Purchases ₹ 15,102 (including cash purchases ₹ 5970)

(iii) Sales Return ₹ 3,000.

(iv) On 15th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 24,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2021.

Solutions

Statement of Valuation of Stock on 31st March, 2021

		₹	₹
Value of stock as on 15th April, 2021			1,50,000
Add:	Cost of sales during the period from 31st March, 2021to 15th April, 2021 Sales (₹ 1,23,000 – ₹ 3,000)	1,20,000	
	Less: Gross Profit (20% of ₹ 1,20,000)	24,000	96,000
	Cost of goods sent on approval basis(80% of ₹ 18,000)		14,400
Less:	Purchases during the period from 31st March, 2021 to15th April, 2021	15,102	260400
	Unsold stock out of goods received on consignmentbasis (30% of ₹ 24,000)	7,200	22,302
			2,38,098

28. RTP Nov 2022

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April,2022 on which date the total cost of goods in his godown came to ₹ 2,50,000. The following facts were established between 31st March and 15th April,2022.

(i) Sales ₹ 2,05,000 (including cash sales ₹ 50,000)

(ii) Purchases ₹ 25,170 (including cash purchases ₹ 9,950)

(iii) Sales Return ₹ 5,000

(iv) On 15th March, goods of the sale value of ₹ 50,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 40,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2022.

Solutions

Statement of Valuation of Stock on 31st March, 2022

		₹	₹
Value of stock as on 15th April, 2022			2,50,000
Add:	Cost of sales during the period from 31st March,2022 to15th April, 2022 Sales (₹ 2,05,000-5,000)	2,00,000	
	Less: Gross Profit (20% of ₹ 2,00,000)	40,000	1,60,000
	Cost of goods sent on approval basis (80% of ₹ 30,000)		24,000
Less:	Purchases during the period from 31st March,2022 to15th April, 2022	25,170	4,34,000
	Unsold stock out of goods received on consignmentbasis (30% of ₹ 40,000)	12,000	37,170
			3,96,830

29. ICAI Exam May 2022

Zed Enterprises furnishes the following information for the year ended 31st March,2021.

Particulars	Amount (₹)
Value of Stock as on 1st April,2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

a) At the time of valuing stock on 31st March,2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March,2021 for ₹ 6,40,000.

b) Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March,2021.

Solution

Statement of Valuation of Stock as on 31st March, 2021

		₹
Value of stock as on 1st April, 2020		28,00,000
Add: Purchases during the year		1,38,40,000
Add: Manufacturing expenses during the above period		28,00,000
		1,94,40,000
Less: Cost of sales during the period:		
Sales	2,08,80,000	
Less: Gross profit	51,40,000	1,57,40,000
Value of stock as on 31.3.2021		37,00,000

Working Note:

	₹
Calculation of gross profit:	
Gross profit on normal sales 25/100 x (2,08,80,000 -6,40,000)	50,60,000
Gross profit on the particular (abnormal) item 6,40,000 - (8,00,000 –2,40,000)	80,000
	51,40,000

The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2021.

Alternatively the solution can be presented in the following manner:

Dr Trading account for the year ended 31st March, 2021 Cr

	Normal	Abnormal	Total		Normal	Abnormal	Total
To Opening Stock	22,40,000	5,60,000	28,00,000	By Sales	2,02,40,000	6,40,000	2,08,80,000
	13,8,40,000	0	1,38,40,000	By Closing Stock	37,00,000	0	37,00,000
To Purchases	28,00,000	0	28,00,000				
To Manufacturing Expenses	50,60,000	80,000	51,40,000				
To Gross Profit (Working							

Note)*							
Total	2,39,40,000	6,40,000	2,45,80,000		2,39,40,000	6,40,000	2,45,80,000

30. MTP Nov 2022 Series 2

M/s Mandeep, Profit and loss account showed a net profit of ₹ 32,00,000, after considering the closing stock of ₹ 30,00,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

i. Purchases for the year included ₹ 1,20,000 paid for new electric fittings for the shop.

ii. M/s Mandeep gave away goods valued at ₹ 3,20,000 as free samples for which no entry was made in the books of accounts.

iii. Invoices for goods amounting to ₹ 20,00,000 have been entered on 27th March, 2022, but the goods were not included in stock.

iv. In March, 2022 goods of ₹ 16,00,000 sold and delivered were taken in the sales for April, 2022.

v. Goods costing ₹ 6,00,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

You are required to determine the adjusted net profit for the year ended on 31.3.2022 and calculate the value of stock on 31st March, 2022.

Solution

Profit and Loss Adjustment Account

To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
To Adjusted net profit	67,20,000	By Samples	3,20,000
		By Stock (Purchases of March not included in stock)	20,00,000
		By Sales (goods sold in March wrongly taken in April sales)	16,00,000
		By Stock (goods sent onapproval basis not included in stock)	6,00,000

	78,40,000		78,40,000

Calculation of value of inventory on 31st March, 2022

	₹
Stock on 31st March, 2022 (given)	30,00,000
Add: Purchases of March, 2022 not included in the stock	20,00,000
Goods lying with customers on approval basis	6,00,000
	56,00,000

31.RTP May 23

Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at ₹ 5,00,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards inthe Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April 2022 to 9th April 2022 amounting to ₹ 80,000 as per SalesDay Book.

(iv) Free samples for business promotion issued during 1st April 2022 to 9th April 2022amounting to ₹ 16,000 at cost.

(v) Purchases during 1st April 2022 to 9th April 2022 amounting to ₹ 40,000 but goodsamounts to ₹ 8,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to ₹ 80,000 were entered on 28th March2022 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March, 2022.

Solution

Statement of Valuation of Physical Stock as on 31st March,2022

	₹	₹
Value of stock as on 10th April, 2022		5,00,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2022 and 9.4.2022	80,000	
Less: Gross profit @ 20% on sales	(16,000)	64,000
Free sample		16,000

		5,80,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	40,000	
Less: Goods not received upto 9.4.2022	(8,000)	(32,000)
		5,48,000
Add: Purchases during March, 2022 but not recorded in stock		80,000
Value of physical stock as on 31.3.2022		6,28,000

32. QP June 23

The profit and Loss account of the Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2022 Subsequently the following information was obtained from scrutiny of the book.

(i) Purchase for the year included ₹ 10.500 paid for electrical fitting of the shop.

(ii) Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.

(iii) Invoice for goods amounting to ₹ 1, 85,000 have been entered on 29th March 2022 but were not included in the stock.

(iv) Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.

(v) Goods costing ₹ 55,000 were sent on sale or return basis in March 2022 at a margin of profit of 33 1/3 % on cost. Approval was given in April 2022 but these were considered as sales in March, 2022.

Calculate the value of stock on 31st March 2022 and the adjusted net profit for the year ended 2022,

Solution

Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Advertisement (samples)	25,000	By Net profit	5,75,000
To Sales (goods approved in April to be taken as April sales: (55,000 + 18,333)	73,333	By Electric fittings	10,500
To Adjusted net profit	9,57,167	By Samples	25,000

		By Stock (purchases of March not included in stock)	1,85,000
		By Sales (goods sold in March wrongly taken as April sales)	2,05,000
		By Stock (goods sent on approval basis not included in stock)	55,000
	10,55,500		10,55,500

Calculation of value of inventory on 31st March, 2022

	`
Stock on 31st March, 2022 (given)	2,55,000
Add: Purchases of March, 2022 not included in the stock	1,85,000
Goods lying with customers on approval basis	55,000
Value of inventory as on 31.03.2022	4,95,000

Note: Figures are rounded off to the nearest Rupee.

33. RTP Dec 23

Stock taking of ABC Stores for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 3,35,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 13,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 18,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 600 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 2,250 which should be taken at ₹ 1,050 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 3,100 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 2,500 on 31st March, 2023. You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2023. Closing stock is valued by ABC Stores on generally accepted accounting principles.

Solution

Statement showing the valuation of stockas on 31st March, 2023

		₹
A	Value of Stock as on 10th April, 2023	3,35,000
B	Add: Cost of sales after 31st March, till stock taking	10,312
	(₹ 13,750 – ₹ 3,438)	
C	Less: Purchases for the next period (net)	16,200
D	Less: Cost of Sales Returns	450
E	Less: Loss on revaluation of slow moving inventories	1200
F	Less: Reduction in value on account of default	600
G	Value of Stock on 31st March, 2023	3,26,862

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

34. QP Dec 2023

From the following Information, Ascertain The value of closing stock as on 31st March, 2023.

Particulars	₹
Opening stock	1,47,500
Cash sales	5,50,000
Credit sales	4,00,000
Purchases	8,85,000
Manufacturing Expenses	1,35,000
Advertisement Expenses	43,000
Rate of gross profit on cost	25%

At the time of valuing inventory as on 31st march, 2023, a sum of ₹ 12,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 40,000.

Inventories

True & False

1. Inventories are stocks of goods and materials that are maintained for mainly the purposeof revenue generation.
   Ans:- True: Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.

2. A building is considered inventory in a construction business.
   Ans:- True: For a construction business, a building under construction will be inventory. The building is being built in the normal course of business and will eventually besold as inventory.

3. Inventory is valued as carrying cost less percentage decreases.
   Ans:- False: Inventory is valued at lower of cost or net realizable value.

4. Management has daily information about the quantity and valuation of closing stockunder physical Inventory System.
   Ans:- False: Under Perpetual Inventory System management have daily information of closing stock.

5. Periodic Inventory System is more suitable for small enterprises.
   Ans:- True: A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.

6. When closing inventory is overstated, net income for the accounting period will beunderstated.
   Ans:- False: When closing inventory is overstated, net income for the accounting period will be overstated.

7. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goodssold.
   Ans:- False: Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).

8. Cost of inventories should comprise all cost of purchase.
   Ans:- False: Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

9. Inventory by-products, should be valued at net realisable value where cost of by productscan be separately determined.
   Ans:- False: Inventory by-products, should be valued at net realisable value where cost of by products cannot be separately determined. .

10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
    Ans:- False: Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.

11. Perpetual system requires closure of business for counting of inventory.
    Ans:- False: Periodic system requires closure of business for counting of inventory.

12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
    Ans:- True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

13. The value of closing inventory under simple average price method is realistic as compare to LIFO.
    Ans: True: Value of Closing stock as per average method is more realistic then LIFO.

14. The value of stock is shown on the assets side of the balance-sheet as fixed assets.
    Ans;- False: The value of stock is shown on the assets side of the balance-sheet as current assets. As it is realisable within 12 months.

15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.
    Ans: False: Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.

16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
    Ans:- False: Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.

17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.
    Ans:- True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net realisable value whichever is less, therefore is based on principle of Conservatism.

18. Finished goods are normally valued at cost or market price whichever is higher.
    Ans:- False: Finished goods are normally valued at cost or market price whichever is lower.

MULTIPLE CHOICE QUESTIONS

1. The amount of purchase if Cost of goods sold is ₹ 80,700Opening Inventory ₹ 5,800 Closing Inventory ₹ 6,000
   a) ₹ 80,500
   b) ₹ 74,900
   c) ₹ 80,900.
   Ans:- c

2. Average Inventory = ₹ 12,000. Closing Inventory is ₹ 3,000 more than opening Inventory.The value of closing Inventory = _.
   a) ₹ 12,000
   b) ₹ 24,000
   c) ₹ 13,500.
   Ans:- c

3. While finalizing the current year's profit, the company realized that there was an errorin the valuation of closing Inventory of the previous year. In the previous year, closing Inventory was valued more by ₹ 50,000. As a result
   a) Previous year's profit is overstated and current year's profit is also overstated
   b) Previous year's profit is overstated and current year's profit is understated
   c) Previous year's profit is understated and current year's profit is also understated
   Ans:- b

4. Consider the following for Q Co. for the year 2021-22:Cost of goods available for sale ₹ 1,00,000
   Total sales ₹ 80,000
   Opening inventory of goods₹ 20,000
   Gross profit margin on sales 25%
   Closing inventory of goods for the year 2021-22 as
   a) ₹ 80,000
   b) ₹ 60,000
   c) ₹ 40,000
   Ans:- c

5. If the profit is 25% of the cost price then it is
   a) 25% of the sales price

b) 33% of the sales price

c) 20% of the sales price

Ans:- c

6. Goods purchased ₹ 1,00,000. Sales ₹ 90,000. Margin 20% on cost. Closing Inventory =?

a) ₹ 20,000

b) ₹ 10,000

c) ₹ 25,000

Ans:- c

7. A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw-materials during the week are as follows:

1.12.2022 opening Inventory 50 units value ₹ 2,200.

2.12.2022 purchased 100 units @ ₹47.

4.12.2022 issued 50 units.

5.12.2022 purchased 200 units @ ₹ 48.

The value of inventory at the end of the week and the unit weighted average costs is

a) ₹ 14,200 – ₹ 47.33

b) ₹ 14,300 – ₹ 47.67

c) ₹ 14,000 – ₹ 46.66

Ans:- a

8. The cost of sales is equal to

a) Opening stock plus purchases

b) Purchases minus Closing stock

c) Opening stock plus purchases minus closing stock

Ans:- c

9. Inventory is disclosed in financial statements under:

a) Fixed Assets

b) Current Assets

c) Current Liabilities

Ans:- b

10. Accounting Standards do not permit following method of inventory valuation

a) FIFO

b) Average cost

c) LIFO

Ans:- c

11. Which inventory costing formula calculates value of closing inventory considering that inventory most recently purchased has not been sold?

a) FIFO

b) LIFO

c) Weighted average cost

Ans:-

12. Valuing inventory at cost or net releasable value is based on which principle

a) Consistency

b) Conservatism

c) Going concern

Ans:- b

13. Under inflationary trend, which of the methods will show highest value of inventory?

a) FIFO

b) Weighted average

c) LIFO

Ans:- a

14. Which of the following methods does not consider historical cost of inventory?

a) Weighted average

b) FIFO

c) Retail price method

Ans:- c

Inventories

Theory Questions

1. Write short notes on:
   a) Adjusted Selling Price method of determining cost of stock.
   b) Principal methods of ascertainment of cost of inventory.

Answer

a) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit onsuch stocks.

b) The specific identification method, First-In-First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

2. Distinguish between:
   (i) LIFO and FIFO basis of costing of stock.
   (ii) FIFO and weighted average price method of stock costing.

Answer:

(i) Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed andconsequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.

(ii) Under the First-In-First-Out (FIFO) method of valuation of stock, the actual issue of goods is usually the earliest lot on hand. Hence, the stock in hand will therefore consist of the latest consignments. The closing stock is valued at the price paid for such consignments. The weighted average price method is not a simple average price method.Under this method of valuation of stock, a stock ledger is maintained, recording receipts and issues on daily basis. A new average would be calculated on receiving fresh consignment. The average price thus calculated after considering arrival of new consignment with the previous value of stock and dividing the preceding stock value and the cost of new arrival with the totalunits of preceding and new arrival will give the weighted average price.

3. Define inventory. Explain the importance of proper valuation of inventory in thepreparation of statements of the business entity.

Answer:

Inventory can be defined as assets held

- for sale in the ordinary course of business, or
- in the process of production for such sale, or
- for consumption in the production of goods or services for sale, includingmaintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:

(i) Determination of Income
(ii) Ascertainment of Financial Position
(iii) Liquidity Analysis
(iv) Statutory Compliance

Depreciation and Amortisation

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI Illustration 12				
13	ICAI Illustration 13				
14	ICAI Illustration 14				
15	ICAI practical Question 1				
16	ICAI practical Question 2				
17	ICAI practical Question 3 / RTP May 18				
18	ICAI practical Question 4				
19	ICAI practical Question 5				
20	ICAI practical Question 6				
21	**Additional Questions**				
22	RTP Nov 18				
23	Mock test 2				
24	RTP May 20				
25	RTP Nov 20				
26	QP Jan 21				
27	RTP May 21				
28	RTP Nov 21				

29	QP July 21				
30	QP Dec 21				
31	Mock test Oct 21 (series 1)				
32	Mock test Nov 21				
33	RTP Nov 22				
34	ICAI Exam May 22				
35	MTP Nov 22 Series 1				
36	MTP Nov 22 Series 2				
37	ICAI Exam Dec 22				
38	ICAI Exam Nov 22				
39	RTP May 23				
40	QP Jun 23				
TEST IN TIME PASS IN TIME					
1	RTP Dec 23				
2	QP Dec 23				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.

Required

Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

Solution:

Machinery Account

		₹			₹
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c	
July 1	To Bank A/c -			10% on ₹15,00,000 for	75,000
	Installation Expenses	1,00,000	Dec. 31	6 months By Balance c/d	14,25,000
		15,00,000			15,00,000
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c	
				10% on ₹15,00,000	1,50,000
			Dec. 31	By Balance c/d	12,75,000
		14,25,000			14,25,000

Depreciation Account

		₹			₹
2021	To Machinery A/c		2021	By Profit & Loss A/c	
Dec. 31		75,000	Dec. 31		75,000
2022			2022		
Dec. 31	To Machinery A/c		Dec. 31	By Profit & Loss A/c	
		1,50,000			1,50,000

2. ICAI Illustration 2

Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required

Show the Machinery Account on diminishing balance method for the year 2021 and 2022.

Solution:

As per Reducing Balance Method

Machinery Account

		₹			₹
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c	75,000
July 1	To Bank A/c -	1,00,000		(₹15,00,000 x 10% x 6/12) for	
				6 months	
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			15,00,000
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c	1,42,500
				(₹14,25,000 x 10%)	
			Dec. 31	By Balance c/d	12,82,500
		14,25,000			14,25,000

3. ICAI Illustration 3

M/s Akash & Co. purchased a machine for Rs. 10,00,000. Estimated useful life and scrap value were 10 years and Rs. 1,20,000 respectively. The machine was put to use on 1.1.2017.

Required

Show Machinery Account and Depreciation Account in their books for 2022 by using sum of years digits method.

Solution:

In the books of M/s Raj & Co.

Machinery Account

		₹			₹
2022			2022		
Jan. 1	To Balance b/d (w.n.2)	3,60,000	Dec. 31	By Depreciation A/c (w.n.3)	80,000
			Dec. 31	By Balance c/d	2,80,000
		3,60,000			3,60,000
2023					
Jan.1	To Balance b/d	2,80,000			

Depreciation Account

		₹			₹
2022			2022		
Dec. 31	To Machinery A/c	80,000	Dec. 31	By Profit and Loss A/c	80,000
		80,000			80,000

Working Notes:

(1) Total of sum of digit of depreciation for 2017-21

= (₹ 10,00,000 - ₹ 1,20,000) × (10 + 9 + 8 +7 + 6)/ [10 (10 + 1) / 2]

= ₹ 8,80,000 × 40 / 55 = ₹ 6,40,000

(2) Written down value as on 1-1-2022

₹ 10,00,000 – ₹ 6,40,000 = ₹ 3,60,000

(3) Depreciation for 2022

(₹ 10,00,000 – ₹ 1,20,000) × 5 / 55 = ₹ 80,000.

4. ICAI Illustration 4

A machine was purchased for Rs. 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be Rs. 2,00,000 and anticipated pattern of distribution of effective hours is as follows :

Year

1 – 3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

Solution:

Statement of Annual Depreciation under Machine Hours Rate Method

Year	Annual Depreciation
1 - 3	(3,000 / 24,000) x (₹30,00,000 - ₹2,00,000) = ₹3,50,000
4 - 6	(2,600 / 24,000) x (₹30,00,000 - ₹2,00,000) = ₹3,03,333
7 - 10	(18,000 / 24,000)x (₹30,00,000 - ₹2,00,000) = ₹2,10,000

5. ICAI Illustration 5

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

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

Required

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

Solution:

Statement showing Depreciation under Production Units Method

Year	Annual Depreciation
1-3	(20,000 / 1,50,000) × (₹20,00,000 - ₹2,00,000) = ₹2,40,000
4-7	(15,000 /1,50,000) x (₹20,00,000 - ₹2,00,000) = ₹1,80,000
8-10	(10,000 / 1,50,000) x (₹20,00,000 - ₹2,00,000) = ₹1,20,000

6. ICAI Illustration 6

M/s Surya & Co. took lease of a quarry on 1-1-2019 for Rs. 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019	2,000 tonnes
2020	10,000 tonnes
2021	15,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

Solution:

Quarry Lease Account

		₹			₹
2019 Jan.	To Bank A/c	1,00,00,000	2019 Dec. 31	By Depreciation A/c [(2,000/2,00,000) x ₹ 1,00,00,000]	₹ 1,00,000
			Dec. 31	By Balance c/d	99,00,000
		1,00,00,000			1,00,00,000
2020 Jan. 1	To Balance b/d	99,00,000	2020 Dec. 31	By Depreciation	5,00,000
			Dec. 31	A/c By Balance c/d	94,00,000
		99,00,000			99,00,000

2021 Jan. 1	To Balance b/d	94,00,000	2021 Dec. 31	By Depreciation A/c	7,50,000
			Dec. 31	By Balance c/d	86,50,00
		94,00,000			94,00,000

Depreciation Account

		₹			₹
2019			2019		
Dec. 31	To Quarry lease A/c		Dec. 31	By Profit & Loss A/c	1,00,000
		1,00,000			1,00,000
2020			2020		
Dec. 31	To Quarry lease A/c	5,00,000	Dec. 31	By Profit & Loss A/c	5,00,000
2021		5,00,000	2021		
Dec. 31	To Quarry lease A/c		Dec. 31	By Profit & Loss A/c	7,50,000
		7,50,000			7,50,000

7. ICAI Illustration 7

A firm purchased on 1st January, 2020 certain machinery for Rs. 5,82,000 and spent Rs. 18,000 on its erection. On July 1, 2020 another machinery for Rs. 2,00,000 was acquired. On 1st July, 2021 the machinery purchased on 1st January, 2020 having become obsolete was auctioned for Rs. 3,86,000 and on the same date fresh machinery was purchased at a cost of Rs. 4,00,000.

Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required

Prepare machinery account.

Solution:

Machinery Account

		₹			₹
2020			2020		₹
Jan. 1	To Bank A/c	5,82,000	Dec. 31	By Depreciation A/c	70,000

Jan. 1	To Bank A/c –				
	erection charges	18,000		By Balance c/d	7,30,000
July 1	To Bank A/c	2,00,000			
		8,00,000			
					8,00,000
2021			2021		
Jan. 1	To Balance b/d	7,30,000	July 1	By Depreciation on	
				sold machine	27,000
July 1	To Bank A/c	4,00,000		By Bank A/c	3,86,000
				By Profit and Loss A/c	1,27,000
			Dec. 31	By Depreciation A/c	39,000
				By Balance c/d	5,51,000
		11,30,000			11,30,000

Working Note:

Book Value of Machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	6,00,000	2,00,000	4,00,000
Depreciation for 2018	(60,000)	(10,000)	
Written down value	5,40,000	1,90,000	
Depreciation for 2019	(27,000)	(19,000)	(20,000)
Written down value	5,13,000	1,71,000	3,80,000
Sale Proceeds	(3,86,000)		
Loss on Sale	1,27,000		

8. ICAI Illustration 8

On April 1, 2019 Shubra Ltd. purchased a machinery for ₹ 12,00,000. On Oct 1, 2021, a part of the machinery purchased on April 1, 2019 for ₹ 80,000 was sold for ₹ 45,000 and a new machinery at a cost of ₹ 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Required: Show the necessary ledger accounts for the years ended 31st March 2020 to 2022 assuming that (a) 'Provision for Depreciation Account' is not maintained (b) Provision for Depreciation Account is maintained.

Solution:

(a) When 'Provision for Depreciation Account' is not maintained.

Dr. Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Depreciation A/c	1,20,000
				By Balance c/d	10,80,000
		12,00,000			12,00,000
01.04.2020		10,80,000	31.03.2021	By Depreciation A/c	1,08,000
				By Balance c/d	9,72,000
		10,80,000			10,80,000
01.04.2021	To Balance b/d	9,72,000	01.10.2021	By bank A/c	45,000
01.10.2021	To Bank A/c	1,58,000		By Profit & Loss A/c	16,560
				By Depreciation A/c	3,240
			31.3.2021	By Depreciation A/c (7,900+ 90,720)	98,620
				By Balance c/d (8,16,480 + 1,50,100)	9,66,580
		11,30,000			11,30,000

(b) When 'Provision for Depreciation Account' is maintained

Dr. Machinery Account (at original cost) Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Balance c/d	12,00,000
01.04.2020	To Balance b/d	12,00,000	31.03.2021	By Balance c/d	12,00,000
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Machinery Disposal A/c	80,000
01.10.2021	To Bank A/c	1,58,000	31.03.2022	By Balance c/d	12,78,000
		13,58,000			13,58,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To Balance c/d	1,20,000	31.03.2020	By Depreciation A/c	1,20,000
31.03.2021	To Balance c/d	2,28,000	1.04.2020	By Balance b/d	1,20,000
			31.03.2021	By Depreciation A/c	1,08,000
		2,28,000			2,28,000
01.10.2021	To Machinery Disposal	18,440	01.04.2021	By Balance b/d	2,28,000
	A/c				
31.03.2022	To Balance c/d	3,11,420	01.10.2021	By Depreciation A/c	3,240
			31.03.2022	By Depreciation A/c	98,620
		3,29,860			3,29,860

Dr. Machinery Disposal Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Machinery Disposal	80,000	01.10.2021	By Provision for	18,440
	A/c			Depreciation A/c	
				By Bank A/c	45,000
				By Profit and Loss A/c	16,560
		80,000			80,000

Working Notes:

1. **Calculation of Profit/Loss on Sale of Machinery**

Particulars	₹
A. Original Cost	80,000
B. *Less*: Depreciation @ 10% WDV p.a. for 2 ½ years	18,440
C. Book Value as on date of Sale (A – B)	61,560
D. *Less*: Sale proceeds	45,000
E. Loss on Sale (C – D)	16,560

2. **Calculation of Depreciation for Current Year on Machines (other than sold)**

Particulars	₹
A. On Old Machines of ₹ 9,07,200 for 1 year (10% WDV)	90,720
B. On New Machine of ₹ 1,58,000 for ½ year	7,900
	98,620

9. ICAI Illustration 9

A firm purchased second hand machinery on 1st January, 2019 for ₹ 3,00,000, subsequent to which ₹ 60,000 and ₹ 40,000 were spent on its repairs and installation, respectively. On 1st July, 2020 another machinery was purchased for ₹ 2,60,000. On 1st July, 2021, the first machinery having become outdated was auctioned for ₹ 3,20,000 and on the same date, another machinery was purchased for ₹ 2,50,000.

On 1st July, 2022, the second machinery was also sold off and it fetched ₹ 2,30,000.

Depreciation was provided on machinery @ 10% on the original cost annually on 31st December, under the straight line method.

Required:

Prepare the following accounts in the books of the company: (i) Machinery Account for the years ending Dec. 31 2019 to 2022 and (ii) Machinery Disposal Account.

Solution:

Dr. **Machinery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.01.2019	To Bank A/c (A) – Cost	3,00,000	31.12.2019	By Depreciation (A)	40,000
	- Repairs	60,000		By Balance c/d (A)	3,60,000
	- Installation	40,000			
		4,00,000			4,00,000
01.01.2020	To Balance b/d	3,60,000	31.12.2020	By Depreciation	
				(A) 40,000 (B) 13,000	53,000
01.07.2020	To Bank A/c (B)	2,60,000		By Balance b/d	
				(A) 3,20,000 (B) 2,47,000	5,67,000
		6,20,000			6,20,000
01.01.2021	To Balance b/d	5,67,000	01.07.2021	By Machinery Disposal	3,00,000
				A/c (A)	
01.07.2021	To Bank A/c (C)	2,50,000		By Depreciation A/c	
				(A) 20,000	
				(B) 26,000	
				(C) 12,500	58,500
				By Balance c/d	

				(B) 2,21,000	
				(C) 2,37,500	4,58,500
		8,17,000			8,17,000
01.01.2022	To Balance b/d	4,58,500	01.07.2022	By Machinery Disposal A/c (B)	2,08,000
				By Depreciation A/c	
				(B) 13,000	
				(C) 25,000	38,000
				By Balance c/d	2,12,500
		4,58,500			4,58,500

Machinery Disposal Account

Date	Particulars	₹	Date	Particulars	₹
01.07.2021	To Machinery A/c (A)	3,00,000	01.07.2021	By Bank A/c	3,20,000
	To Profit Loss A/c (Profit)	20,000			
		3,20,000			3,20,000
01.07.2022	To Machinery A/c (B)	2,08,000	01.07.2022	By Bank A/c	2,30,000
	To P & L A/c (Profit)	22,000			
		2,30,000			2,30,000

10.ICAI Illustration 10

M/s Anshul commenced business on 1st January 2017, when they purchased plant and equipment for Rs. 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount ₹
1-1-2018	1,50,000
1-1-2021	2,00,000

On 1-1-2021 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2021 with no scrap value and 10 years for the asset purchased on 1.1.2021.

Required

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2021.

Solution:

Depreciation on written down value basis

		Purchased on Jan. 1, 2017 ₹	Purchased on Jan. 1, 2018 ₹	Total Depreciation ₹
2017	Cost	7,00,000		
	Depreciation	(1,05,000)		1,05,000
	Written Down Value (WDV)	5,95,000		
2018	Cost	-	1,50,000	
	Depreciation	(89,250)	(22,500)	1,11,750
	W.D.V.	5,05,750	1,27,500	
2019				
	Depreciation	(75,863)	(19,125)	94,988
	W.D.V.	4,29,887	1,08,375	
2020				
	Depreciation	(64,483)	(16,256)	80,739
	W.D.V.	3,65,404	92,119	
2021				
	Depreciation	(60,900)	(15,353)	76,253
		3,04,504	76,766	

Plant and Equipment Account

		₹			₹
2021			2021		
Jan. 1	To Balance b/d	4,57,523	Dec. 31	By Depreciation (60,900+15,353+20,000)	96,253
				By Balance c/d	5,61,270
	To Bank	2,00,000			
		6,57,523			6,57,523
2022					
Jan. 1	To Balance b/d	5,61,270			

11. ICAI Illustration 11

A Machine costing Rs. 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required Calculate depreciation for the fourth year.

Solution:

Depreciation per year = ₹ 6,00,000 / 10 = ₹ 60,000

Depreciation on SLM charged for three years = ₹ 60,000 x 3 years = ₹ 1,80,000

Book value of the computer at the end of third year = ₹ 6,00,000 – ₹ 1,80,000 = ₹ 4,20,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Depreciation from the fourth year onwards = ₹ 4,20,000 / 5 = ₹ 84,000 per annum

12. ICAI Illustration 12

A machine of cost Rs. 12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by Rs. 60,000 the remaining useful life was reassessed at 9 years.

Required

Calculate depreciation for the fourth year.

Solution:

Depreciation per year charged for three years = ₹ 12,00,000 / 10 = ₹ 1,20,000

WDV of the machine at the end of third year = ₹ 12,00,000 – ₹ 1,20,000 × 3 = ₹ 8,40,000.

Depreciable amount after revaluation = ₹ 8,40,000 + ₹ 60,000 = ₹ 9,00,000

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 9 years

Depreciation for the fourth year onwards = ₹ 9,00,000 / 9 = ₹1,00,000

13.Illustration 13

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹ 28,00,000 and spent ₹ 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required

Show the Patent Account and Amortisation Account for the year 2021 and 2022

SOLUTION

Useful Life: 10 years from 1 July, 2021

Residual Value: NIL

Value of patent = ₹ 30,00,000 (₹ 28,00,000 cost + ₹ 2,00,000 legal expenses and registration fees)

Therefore, annual depreciation: ₹ 30,00,000 ÷ 10 years = ₹ 3,00,000

Patent Account

		₹			₹
2021			2021		
July 1	To Bank A/c	28,00,000	Dec 31	By Amortisation A/c ₹ 3,00,000 x 6/12	1,50,000
July 1	To Bank A/c - Legal & Reg. Exp.	2,00,000			
			Dec 31	By Balance c/d	28,50,000
		30,00,000			30,00,000
2022			2022		
Jan 1	To Balance b/d	28,50,000	Dec. 31		3,00,000
			Dec. 31		25,50,000
		28,50,000			28,50,000

Amortisation Account

		₹			₹
2021			2021		
Dec. 31 2022	To Patent A/c	1,50,000	Dec. 31 2022	By Profit & Loss A/c	1,50,000
Dec. 31	To Patent A/c	3,00,000	Dec. 31	By Profit & Loss A/c	3,00,000

14. ILLUSTRATION 14

Prime Streaming Co. acquired the streaming rights of a movie for ₹ 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years.

Required

Calculate amortisation for the fourth year.

SOLUTION

Amortisation per year = ₹ 18,00,000 / 10 = ₹ 1,80,000

Amortisation on SLM charged for three years = ₹ 1,80,000 x 3 years = ₹ 5,40,000

Carrying Amount of the Streaming Rights at the end of third year = ₹ 18,00,000 – ₹ 5,40,000 = ₹ 12,60,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Amortisation from the fourth year onwards = ₹ 12,60,000 / 5 = ₹ 2,52,000 per annum

15. ICAI Practical Question 1

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost	Depreciation Provision
2005	2,00,000	2,00,000
2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	21,35,000

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

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹ 15,00,000
2. Plant that had been bought in 2011 for ₹ 170,000 was scrapped.
3. Plant that had been bought in 2012 for ₹ 90,000 was sold for ₹ 5,000.
4. Plant that had been bought in 2013 for ₹ 2,40,000 was sold for ₹ 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2022.

(i) Plant and machinery at cost;

(ii) Depreciation provision;

(iii) Sales or disposal of plant and machinery.

Solution:

Calculation of provision for depreciation of plant and machinery for the year ended 31st December, 2022.

Plant purchased in:		₹	₹
2005		nil	
2011		nil	
2012			50,000
2013	1/2 year at 10% on ₹ 2,40,000	12,000	
	1 year at 10% on ₹ 4,60,000	46,000	58,000
2020	10% on ₹ 5,00,000		50,000
2021	10% on ₹ 3,00,000		30,000
2022	1/2 year at 10% on ₹ 15,00,000		75,000
			2,63,000

Plant and Machinery Account (for 2022) at Cost

	₹		₹
To Balance b/d	30,00,000	By Disposals account:	
To Bank A/c	15,00,000	Scrapped	1,70,000
		Sold	3,30,000

		By Balance c/d	3,30,000
	45,00,000		45,00,000

Depreciation Provision Account (for 2022)

		₹		₹
To Disposal Account :			By Balance b/d	21,35,000
Scrapped-2004 assets	1,70,000		By Prot and Loss Account	2,63,000
Sold - 2005 assets	90,000			
Sold - 2006 assets	2,16,000	4,76,000		
To Balance c/d		19,22,000		
		23,98,000		23,98,000

Sale or disposal of Plant and Machinery Account (for 2022)

		₹		₹
To Plant and Machinery :			By Provision for Depreciation	4,76,000
Scrapped		1,70,000	By Cash-Sales Proceeds	20,000
Sold		3,30,000	By Loss on sales	4,000
		5,00,000		5,00,000

16.ICAI Practical Question 2

The Machinery Account of a Factory showed a balance of ₹ 19,00,000 on Ist January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On Ist June 2022, a new machinery was acquired at a cost of ₹ 2,80,000 and installation charges incurred in erecting the machine works out to ₹ 8,920 on the same date. On 1st June, 2022 a machine which had cost ₹ 4,37,400 on 1st January 2020 was sold for ₹ 75,000. Another machine which had cost ₹ 4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing. Write a plant and machinery account for the year 2021, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

Solution:

Plant and Machinery Account

		₹			₹
2022			2022		
Jan. 1	To Balance b/d	19,00,000	June 1	By Bank (Sales)	75,000
June. 1	To Bank (2,80,000 + 8,920)	2,88,920		By Depreciation (onsold machine)	14,762
				By Loss on sale	2,64,532
				By Loss on scrapping the machine	3,76,912
				By Depreciation (on scrapped machinery)	16,388
				By Depreciation (Note iii)	1,32,094
				By Balance c/d	13,09,232
		21,88,920			21,88,920

Working Note :

(i) Calculation of loss on sale of machine on 1-6-2022		₹
Cost on 1-1-2020		4,37,400
Less : Depreciation @ 10% on ₹ 4,37,400		(43,740)
W.D.V. on 31-12-2020		3,93,660
Less : Depreciation @ 10% on ₹ 3,93,660		(39,366)
W.D.V. on 31-12-2021		3,54,294
Less : Depreciation @ 10% on ₹ 3,54,294 for 5 months		(14,762)
		3,39,532
Less : Sale proceeds on 1-6-2022		(75,000)
Loss		2,64,532
(ii) Calculation of loss on scrapped machine		₹
Cost on 1-1-2021		4,37,000
Less : Depreciation @ 10% on ₹ 4,37,000		(43,700)
W.D.V. on 1-1-2022		3,93,300
Less : Depreciation @ 10% on ₹ 3,93,300 for 5 months		(16,388)
Loss		3,76,912
(iii)Depreciation		
Balance of machinery account on 1-1-2022		19,00,000
Less : W.D.Vof machinery sold	3,54,294	
W.D.V. of machinery scrapped	3,93,300	(7,47,594)

W.D.V. of other machinery on 1-1-2022		11,52,406
Depreciation @ 10% on ₹ 11,52,406 for 12 months		1,15,240
Depreciation @ 10% on ₹ 2,88,920 for 7 months		16,854
		1,32,094

17. RTP May 2018 / ICAI Practical Question 3

The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the motor truck account for two year ending 31 Dec, 2022.

Solution:

Date	Particulars	Amount	Date	Particulars	Amount
2021			2021		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
	To Profit & Loss A/c				
Oct-01	(Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Oct-01	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			3,47,00,000
2022			2022		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			2,29,75,000

Working Note:

1. Profit on settlement of truck

	₹
Original cost as on 1.4.2019	45,00,000

Less: Depreciation for 2019	(6,75,000)
	38,25,000
Less: Depreciation for 2020	(9,00,000)
	29,25,000
Less: Depreciation for 2021 (9 months)	(6,75,000)
	22,50,000
Less: Amount received from Insurance company	(27,00,000)
	4,50,000

18. ICAI Practical Question 4

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

Solution:

Depreciation per year for first 4 years = ₹ 20,00,000 / 10 = ₹ 2,00,000

Thus, WDV of the Machinery at end of the 4th year = ₹ 20,00,000 – (₹ 2,00,000 x 4) = ₹ 12,00,000

Revalued Amount i.e. New Depreciable Amount shall be = ₹ 12,00,000 + ₹ 80,000 = ₹ 12,80,000

Original remining useful life is (10-4) = 6 Years whereas it is reassessed as 8 Years.

Hence, depreciation for 5th Year = ₹ 12,80,000 / 8 = ₹ 1,60,000

19. ICAI Practical Question 5

Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹ 35,00,000 on 31st December 2022. The balance in Revaluation Surplus on that date was ₹ 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2022 was (a) ₹ 37,00,000 (b) ₹ 33,00,000 and (c) ₹ 31,00,000. Also, give the journal entries.

Solution:

(a) Fair Value : ₹ 37,00,000

Since this is an upward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in an additional credit of ₹ 2,00,000 to Revaluation Surplus and hence the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall increase to ₹ 5,00,000. The Accounting journal entry shall be:

Property, Plant & Equipment A/c	Dr	2,00,000	
To Revaluation Surplus A/c			2,00,000

(b) Fair Value : ₹ 33,00,000

Since this is a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of ₹ 2,00,000 (35,00,000 – 33,00,000) and hence the entire amount shall be debited to Revaluation Surplus. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall decrease to ₹ 1,00,000. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	2,00,000	
To Property, Plant & Equipment A/c			2,00,000

(c) Fair Value : ₹ 31,00,000

Since this is also a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of ₹ 4,00,000 (35,00,000 – 31,00,000) and hence the Revaluation Surplus A/c shall be debited by ₹ 3,00,000 and the balance ₹ 1,00,000 shall be debited to Profit & Loss A/c. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall become Nil. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	3,00,000	
Profit & Loss A/c	Dr	1,00,000	
To Property, Plant & Equipment A/c			4,00,000

20. ICAI Practical Question 6

On April 1, 2019 a firm purchased a machinery for ₹ 2,00,000. On Ist October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On Ist October, 2020, the machinery purchased on Ist April 2019, having become obsolete was sold off for ₹ 90,000. On October 1, 2021, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on Ist October 2019 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

Solution:

Dr. **Machinery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Bank A/c	2,00,000	31.03.2020	By Balance c/d	3,00,000
01.10.2019	To Bank A/c	1,00,000			
		3,00,000			3,00,000
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Bank A/c	90,000
				By Provision for Depreciation A/c	30,000
				By Profit and Loss A/c	80,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			3,00,000
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Bank A/c	85,000
01.10.2021	To Bank A/c	2,50,000		By Provision for Depreciation A/c	20,000
	To Profit and Loss A/c	5,000	31.3.2022	By Balance c/d	2,50,000
		3,55,000			3,55,000

Depreciation Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To provision for Depreciation A/c	25,000	31.03.2020	By Profit and Loss A/c	25,000
		25,000			25,000
01.10.2020	To Provision for Depreciation A/c	10,000	31.03.2021	By Profit and Loss A/c	20,000
31.03.2021	To Provision for Depreciation A/c	10,000			
		20,000			20,000
01.10.2021	To Provision for Depreciation A/c	5,000	31.03.2022	By Profit and Loss A/c	17,500
31.03.2022	To Provision for Depreciation A/c	12,500			
		17,500			17,500

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (₹ 20,000 + ₹ 5,000)	25,000
		25,000			25,000
01.12.2020	To Machinery A/c (₹ 20,000 + ₹ 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			45,000
01.10.2021	To Machinery A/c (₹ 5,000 + ₹ 10,000+ ₹ 5,000)	20,000	01.04.2021	By Balance b/d	15,000
31.03.2022	To Balance c/d	12,500	01.10.2021	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
		32,500			32,500

21. M/s. Prabha Pharmaceuticals has imported a machine on 1st July, 2014, for Pound 8,000, paid custom duty and freight ₹ 80,000 and incurred erection charges ₹ 60,000. Another local machinery costing 1,00,000 was purchased on Ist Jan 2015. On 1st July, 2016, a portion of the imported machinery (value one-third) got out of order and was sold for ₹ 1,34,800. Another machinery was purchased to replace the same for ₹ 50,000. Depreciation is to be calculated at 20% p.a on cost. Show the machinery account for 2014, 2015, and 2016. Exchange rate is ₹ 80 per pound.

Solution:

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
2014			2014		
Jul-01	To Bank A/c	6,40,000	Dec-31	By Depreciation A/c for ½ yr.	78,000
Jul-01	To Bank A/c	80,000	Dec-31	By balance c/d	7,02,000
Jul-01	To Bank A/c	60,000			
		7,80,000			7,80,000
2015			2015		
Jan-01	To balance b/d	7,02,000	Dec-31	By Depreciation A/c	1,56,000
Jan-01	To Bank A/c	1,00,000	Dec-31	By balance c/d	6,46,000
		8,02,000			8,02,000

Date	Particulars	Amount	Date	Particulars	Amount
2016			2016		
Jan-01	To balance b/d	6,46,000	Jul-01	By Bank A/c	1,34,800
	To Bank A/c	50,000	Jul-01	By Depreciation A/c (On machinery sold)	26,000
			Jul-01	By Profit & Loss A/c (Loss on sale of machinery)	21,200
			Dec-31	By Depreciation A/c	1,24,000
			Dec-31	By balance c/d	3,90,000
		6,96,000			6,96,000

Working Note:

1. In the absence of information about depreciation method to be used, Straight line method of depreciation has been used. Alternatively, written down value method of depreciation may be assumed.
2. The method of machinery sold as on 1.7.2016 may be obtained as follow:

	₹
Cost of machinery sold as on 1.7.2014	2,60,000
Less: Depreciation for 2014 (for ½ year)	(26,000)
	2,34,000
Less: Depreciation for 2015	(52,000)

	1,82,000
Less: Depreciation for 2016 (for ½ year)	(26,000)
	1,56,600
Less: Amount received	(1,34,800)
	21,200

22. RTP Nov 2018

M/s. Green Channel purchased a second-hand machine on Ist January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1st July, 2015.

On Ist July, 2017, the machine installed on Ist January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017. Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Solution:

In the books of M/s. Green Channel Co.

Machinery Account

			₹				₹
1.1.2015	To	Bank A/c	1,60,000	31.12.2015	By	Depreciation A/c	24,000
	To	Bank A/c	40,000			(₹ 20,000 + ₹4,000)	
	(Erection charges)			31.12.2015	By	Balance c/d	2,56,000
1.7.2015	To	Bank A/c	80,000			(₹ 1,80,000 + ₹76,000)	-------
			2,80,000				2,80,000
1.1.2016	To	Balance b/d	2,56,000	31.12.2016	By	Depreciation A/c (₹ 20,000 + ₹8,000)	28,000
				31.12.2016	By	Balance c/d	2,28,000
			-------			(₹ 1,60,000 + ₹68,000)	-------
			2,56,000				2,56,000

1.1.2017	To	Balance b/d	2,28,000	1.7.2017	By	Bank A/c	1,00,000
30.9.2017	To	Bank A/c	30,000		By	Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
				31.12.2017	By	Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹750)	18,750
					By	Balance c/d	89,250
1.1.2018			--------	31.12.2018		(₹ 60,000 + ₹ 29,250)	--------
			2,58,000				2,58,000
	To	Balance b/d	89,250		By	Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
					By	Balance c/d	75,862.5
			------			(₹ 51,000 + ₹ 24,862.5)	------
			89,250				89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

23.Mock test 2

M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

Solution:

Quarry Lease Account

Dr.					Cr.
2016		**Rs.**	**2016**		**Rs.**
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c	2,00,000
				[(4,000/4,00,000) ×	
				Rs. 2,00,00,000]	
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
2017		1,98,00,000	2017		
Jan. 1	To Balance b/d		Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018		1,88,00,000	2018		
Jan. 1	To Balance b/d		Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.					Cr.
2016		**Rs.**	**2016**		**Rs.**
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000

2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

24. RTP MAY 20

A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

Solution:

In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4)= ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

25. RTP NOV 20

M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019. Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Solution:

Machinery Account in the books of M/s. Green Channel Co.

			₹				₹
1.1.2017	To	Bank A/c	1,60,000	31.12.2017	By	Depreciation A/c	24,000
	To	Bank A/c	40,000			(₹ 20,000 + ₹4,000)	
(Erection charges)				31.12.2017	By	Balance c/d	2,56,000
1.7.2017	To	Bank A/c	80,000			(₹ 1,80,000 + ₹76,000)	-------
			2,80,000				2,80,000
1.1.2018	To	Balance b/d	2,56,000	31.12.2018	By	Depreciation A/c (₹ 20,000 + ₹8,000)	28,000
				31.12.2018	By	Balance c/d	2,28,000
			-------			(₹ 1,60,000 + ₹68,000)	-------
			2,56,000				2,56,000
1.1.2019	To	Balance b/d	2,28,000	1.7.2019	By	Bank A/c	1,00,000
30.9.2019	To	Bank A/c	30,000		By	Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
				31.12.2019	By	Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
					By	Balance c/d	89,250
			-------			(₹ 60,000 + ₹29,250)	-------
			2,58,000				2,58,000
1.1.2020	To	Balance b/d	89,250	31.12.2020	By	Depreciation A/c (₹ 9,000 + ₹4,387.5)	13,387.5

					By	Balance c/d	75,862.5
			------			(₹ 51,000 + ₹24,862.5)	------
			89,250				89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017	20,000	4,000	
Written down value as on 31.12.2017	1,80,000	76,000	
Depreciation for 2018	20,000	8,000	
Written down value as on 31.12.2018	1,60,000	68,000	
Depreciation for 2018	10,000	8,000	750
Written down value as on 31.12.2019	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

26.QP JAN 21

M.s Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October,2019, one of the trucks is involved in an accident and completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company Writes off 20% of the original cost per annum. The company observed the calendar year as its financial year.

Give the motor truck account for two years ending 31st December, 2020.

Solution:

Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		

Jan-01	To balance b/d	35,000,000	Oct-01	By bank A/c	35,00,000
Oct-01	To Profit & Loss A/c Profit on settlement of Truck (W.Note 1)	7,50,000	Oct-01	By Depreciation on lost assets	7,50,000

Date	Particulars	Amount	Date	Particulars	Amount
Oct-01	To Bank A/c	60,00,000	Dec-31	By Depreciation A/c (W Note 3)	93,00,000
			Dec-31	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
2020			2020		
Jan-01	To balance b/d	2,82,00,000	Dec-31	By Depreciation A/c (W Note 3)	1,02,00,000
			Dec-31	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of truck

Original cost as on 1.7.2017	50,00,000
Less: Depreciation for 2017 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2017	10,00,000
	35,00,000
Less: Depreciation for 2019 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.01.2018

	Amount
WDV of 1 truck as on 31.12.2017 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.01.2018	3,50,00,000

3. Calculation for Depreciation for 2018 and 2019

	Amount
Depreciation for 2018	
On 9 trucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000

	93,00,000
Depreciation for 2019	
On 9 tucks (₹ 50,00,000 x 9 x 20%)	
On new truck (Rs 60,00,000 x 1 x 20%)	90,00,000
	12,00,000
	1,02,00,000

27.RTP MAY 21

M/s Roxy purchased a brand new machinery on 1st January 2017 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2017 for ₹ 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for ₹ 2,50,000. Another machinery was purchased and installed on 30th September 2019 for ₹ 60,000.

Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year.

Solution:

In the books of M/s Roxy

Machinery A/c

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.2019	To Balance b/d	4,56,000	01.07.2019	By Bank A/c	2,50,000
				By P&L A/c – Loss on Sale By	50,000
30.09.2019	To Bank A/c	60,000	31.12.2019	Depreciation By	37,500
				Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.2020	To Balance b/d	1,78,500	31.12.2020	By Depreciation	26,775
			31.12.2020	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in ₹)	(in ₹)	(in ₹)
Date of Purchase	01.01.2017	01.07.2017	30.09.2019
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2017 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2017	3,60,000	1,52,000	
Depreciation for 2018 (SLM)	(40,000)	(16,000)	
WDV on 31.12.2018	3,20,000	1,36,000	
Depreciation for 2019 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2019 (30th June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2020 (WDV @ 15%)	-	(18,000)	(8,775)
WDV on 31.12.2020	-	**1,02,000**	**49,725**

28. RTP NOV 21

The M/s Nishant Transport purchased 10 Buses at ₹ 15,00,000 each on 1st April 2017. On October 1st, 2019, one of the Buses is involved in an accident and is completely destroyed and ₹ 7,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 18,00,000. The company write off 10% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the buses account for two year ending 31 Dec, 2020.

Solution:

Buses A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	1,23,75,000	Oct-01	By bank A/c	7,00,000
Oct-01	To Bank A/c	18,00,000	Oct-01	By Depreciation	

				on lost assets	1,12,500
			Oct-01	By Profit & Loss A/c (Loss on	4,25,000
				settlement of Bus)	
			Dec-31	By Depreciation A/c	13,95,000
			Dec-31	By balance c/d	1,15,42,500
		1,41,75,000			1,41,75,000
2020			2020		
Jan-01	To balance b/d	1,15,42,500	Dec-31	By Depreciation A/c	15,30,000
			Dec-31	By balance c/d	1,00,12,500
		1,15,42,500			1,15,42,500

Working Note:

1. To find out loss/Profit on settlement of Bus ₹

Original cost as on 1.4.2017	15,00,000
Less: Depreciation for 2017	1,12,500
	13,87,500
Less: Depreciation for 2018	1,50,000
	12,37,500
Less: Depreciation for 2019 (9 months)	1,12,500
	11,25,000
Less: Amount received from Insurance company	7,00,000
Loss on Settlement of Bus	4,25,000

29.QP July 21

The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54;000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

Solution:

Calculation of depreciation for the year ended 31.3.21

	Machine	Machine	Machine	Depreciation on sold machine
	I (28,54,000 - 2,16,000)	II Purchased on 1st July	III Purchased on 1st Nov	IV
	₹	₹	₹	₹
Book value as on 1st April, 2020	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @ 15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 4,92,800

30. QP Dec 21

On 1st January, 2019 Kohinoor Transport Company Purchased a bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in Full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.

The company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March 2021 and gain or loss on the destroyed Bus.

Solution:

Calculation of Gain/Loss on Bus damaged by Fire

Particulars	₹
Original cost as on 1.1.2019	8,00,000
Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March, 2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)

WDV as on 31st March,2020	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

Calculation of depreciation for the year ended 31st March,2021

	Machine	Machine
	I damaged on 1st July,2020 (8,00,000)	II Purchased on 1st July,2020 (10,00,000)
	₹	₹
Book value as on 1st April,2020 Purchased on 1st July,2020	6,08,000	10,00,000
Depreciation @ 20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)

Total depreciation ₹ 1,80,400

31. Mock Test Oct 21 (series I)

A Plant & Machinery costing ₹ 50,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 2,00,000. The remaining useful life was reassessed at 8th year. Calculate Depreciation for the fifth year.

Solution:

Calculation of depreciation for 5th year

Depreciation per year charged for four years = ₹ 50,00,000 / 10 = ₹ 5,00,000

WDV of the machine at the end of fourth year = ₹ 50,00,000 – ₹ 5,00,000 × 4 = ₹ 30,00,000.

Depreciable amount after revaluation = ₹ 30,00,000 + ₹ 2,00,000 = ₹ 32,00,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 32,00,000 / 8 = ₹ 4,00,000.

32.Mock Test Nov 21

Anirudh and Associates purchased an old Machinery for Rs. 74,000 on 1st January, 2017 and spent Rs. 6,000 on its overhauling. On 1st July 2018, another machine was purchased for Rs. 20,000. On 1st July 2019, the machinery which was purchased on 1st January 2017, was sold for Rs. 56,000 and the same day a new machinery costing Rs. 50,000 was purchased. On 1st July, 2020, the machine which was purchased on 1st July, 2018 was sold for Rs. 4,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2018 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2017.

Solution:

In the books of Anirudh and Associates

Machinery Account

			₹				₹
1.1.2017	To	Bank A/c	74,000	31.12.2017	By	Depreciation A/c	8,000
	To	Bank A/c (overhauling charges)	6,000	31.12.2017	By	Balance c/d	72,000
			80,000				80,000
1.1.2018	To	Balance b/d	72,000	31.12.2018	By	Depreciation A/c	12,300
						(₹ 10,800 + ₹ 1,500)	
1.7.2018	To	Bank A/c	20,000	31.12.2018	By	Balance c/d	79,700
						(₹. 60,400+₹ 18,500)	
			92,000				92,000
1.1.2019	To	Balance b/d	79,700	1.7.2019	By	Bank A/c(sale)	56,000
1.7.2019	To	Bank A/c	50,000	1.7.2019	By	Profit and Loss A/c-(Loss on Sale – W.N.1)	610
				31.12.2019	By	Depreciation A/c	11,115
						(₹ 4,590 + ₹ 2,775 + ₹ 3,750)	

					By	Balance c/d (₹ 15,725 +₹46,250)	61,975
			1,29,700				1,29,700
1.1.2020	To	Balance b/d	61,975	1.7.2020	By	Bank A/c (sale)	4,000
				1.7.2020	By	Profit and Loss A/c (Loss on Sale – W.N.1)	10,545
				31.12.2020	By	Depreciation A/c (₹ 1,180 + Rs. 6,938)	8,118
				31.12.2020	By	Balance c/d	39,312
			61,975				61,975

Working Note:

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery	80,000	20,000	50,000
(Machinery cost for 2017)			
Depreciation for 2017	8,000	-	
Written down value as on 31.12.2017	72,000		
Purchase 1.7.2018 (6 months)		20,000	
Depreciation for 2018	10,800	1500	-
Written down value as on 31.12.2018	61,200	18,500	
Depreciation for 6 months (2019)	4,590	-	
Written down value as on 1.7.2019	56,610		
Sale proceeds	56,000	-	
Loss on sale	610	-	
Purchase 1.7.2019			50,000
Depreciation for 2019 (6 months)		2,775	3,750
Written down value as on 31.12.2019		15,725	46,250
Depreciation for 6 months in 2020		1180	-
Written down value as on 1.7.2020		14,545	
Sale proceeds		4,000	-
Loss on sale		10,545	₹-
Depreciation for 2020			6,938
Written down value as on 31.12.2020			39,312

33.RTP Nov 22

A Firm purchased an old Machinery for ₹ 37,000 on Ist January,2019 and spent ₹ 3,000 on its overhauling. On Ist July 2020, another machine was purchased for ₹ 10,000. On Ist July 2021, the machinery which was purchased on Ist January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On Ist July,2022, the machine which was purchased on Ist July,2020 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from Ist January,2020 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from Ist January,2019

Solutions

In the books of Firm

Machinery Account

			₹				₹
1.1.2019	To	Bank A/c	37,000	31.12.2019	By	Depreciation A/c	4,000
	To	Bank A/c (overhauling charges)	3,000	31.12.2019	By	Balance c/d	36,000
			40,000				40,000
1.1.2020	To	Balance b/d	36,000	31.12.2020	By	Depreciation A/c (5,400 + ₹750)	6,150
1.7.2020	To	Bank A/c	10,000	31.12.2020	By	Balance c/d	39,850
						(₹ 30,600 + ₹ 9,250)	
			46,000				46,000
1.1.2021	To	Balance b/d	39,850	1.7.2021	By	Bank A/c(sale)	28,000
1.7.2021	To	Bank A/c	25,000	1.7.2021	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	305
				31.12.2021	By	Depreciation A/c (₹ 2,295 + ₹ 1,388 +₹ 1,875)	5,558
					By	Balance c/d	30,987

						(₹ 7,862 + ₹ 23,125)	
			64,850				64,850
1.1.2022	To	Balance b/d	30,987	1.7.2022	By	Bank A/c (sale)	2,000
				1.7.2022	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
				31.12.2022	By	Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
				31.12.2022	By	Balance c/d	19,656
			30,987				30,987

Working Note:

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery	40,000	10,000	25,000
(Machinery cost for 2019)			
Depreciation for 2019	4,000		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	1,875
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

34.ICAI Exam May 22

The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on Ist April,2020. The Books of Accounts Depreciation is written off of the Factory are closed on 31st March every year and @ 10% per annum under the Diminishing Balance Method. On Ist September,2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On Ist September,2020 a machine which had cost ₹ 21,87,000 on Ist April,2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on Ist April,2019 was scrapped on Ist September,2020 and it realized nothing.

Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

Solution

Plant and Machinery Account for the year ended 31st March,2021

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
				By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2020		₹
	Cost on 1-4-2018		21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
	W.D.V. on 31-03-2019		19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
	W.D.V. on 31-03-2020		17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2020		(3,75,000)
	Loss		13,22,659
(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2019		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2020		19,66,500
	Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
	Loss		18,84,562
(iii)	Depreciation		
	Balance of machinery account on 1-4-2020		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

35.MTP Nov 22 Series I

The Plant and Machinery Account of a Factory shed showed a balance of ₹21,15,250 on IstApril, 2020. Its accounts were made up on 31st March every year and depreciation is written off @ 10% p.a. under the Diminishing Balance Method.

On IstJuly, 2020 a new machinery was acquired at a cost of ₹4,35,000 and installation charges incurred in erecting the machine works out to ₹9,800 on the same date. On Ist July,2020, a machine which had cost ₹4,16,200 on Ist April 2017, having become obsolete, was sold off for

₹90,000. Another machine which had cost ₹2,38,000 on IstApril, 2018 was scrapped on the same date and it realized nothing. On 1st September,2020, a new machinery was purchased for ₹2,50,000.

Write a plant and machinery account for the accounting year 2020-21, allowing the same rate of depreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

Solution

Plant and Machinery Account

Date (2020-21)	Particulars	Amount (₹)	Date (2020-21)	Particulars	Amount (₹)
Apr-01	To Balance b/d	21,15,250	Jul -01	By Bank (Sales)	90,000
Jul -01	To Bank (4,35,000 + 9800)	4,44,800		By Deprecation (on machine sold)	7,585
Sep -01	To Bank	2,50,000		By Loss on sale	2,05,825
				By Depreciation on Scrapped machine	4,820
				By loss on scrapping the machine	1,87,960
			Mar-31	By Deprecation	2,09,849
			Mar-31	By Balance c/d	21,04,011
		28,10,050			28,10,050

Working Notes:

1. **Calculation of loss on sale of machine**

Cost on 1-4-2017	4,16,200
Less: Depreciation @ 10% on ₹ 4,16,200	(41,620)
W.D.V. on 31.3.2018	3,74,580
Less: Depreciation @10% on ₹ 3,74,580	(37,458)
W.D.V. on 31.3.2019	3,37,122
Less: Depreciation @10% on ₹ 3,37,122	(33,712)
W.D.V on 31.3.2020	3,03,410
Less: Depreciation @ 10% on ₹ 3,03,410 for 3 months	(7,585)
	2,95,825

Less: Sale proceeds on 1-7-2020	(90,000)
Loss on sale of machine	2,05,825

2. Calculation of loss on scrapped machine

Cost on 1-4-2018	2,38,000
Less: Depreciation @ 10%	(23,800)
W.D.V. on 31.3.2019	2,14,200
Less: Depreciation @ 10%	(21,420)
W.D.V. on 31.3.2020	1,92,780
Less: Depreciation @ 10% for 3 months	(4,820)
Loss on scrapping the machine	1,87,960

3. Calculation of Depreciation

Balance of Machinery A/c on 1.4.2020	21,15,250
Less: W.D.V. of Machinery Sold	(3,03,410)
Less: W.D.V of Machinery Scrapped	(1,92,780)
W.D.V of other Machinery on 1.4.2020	16,19,060
Depreciation @ 10% on ₹ 16,19,060 for 12 Months	1,61,906
Depreciation @ 10% on ₹ 4,44,800 for 9 Months	33,360
Depreciation @ 10% on ₹ 2,50,000 for 7 Months	14,583
Total Depreciation to be charged on 31.3.2021	2,09,849

36. MTP Nov 22 Series 2

M/s Avneet took lease of a quarry on 1-4-2019 for ₹ 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019 -20	4,000 tonnes
2020-21	20,000 tonnes
2021 -22	30,000 tonnes

Show the Quarry Lease Account and Depreciation Account for each year from 2019-20 to 2021-22.

Solution

Quarry Lease Account

Dr.		₹			Cr. ₹
01.04.2019	To Bank A/c	2,00,00,000	31.03.2019	By Depreciation A/c	2,00,000
				[(4,000/4,00,000) × 2,00,00,000]	
			31.03.2019	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
01.04.2020	To Balance b/d	1,98,00,000	31.03.2021	By Depreciation A/c	10,00,000
			31.03.2021	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
01.04.2021	To Balance b/d	1,88,00,000	31.03.2022	By Depreciation A/c	15,00,000
			31.03.2022	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		₹			Cr. ₹
31.03.2020	To Quarry lease A/c	2,00,000	31.03.2020	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
31.03.2021	To Quarry lease A/c	10,00,000	31.03.2021	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
31.03.2022	To Quarry lease A/c	15,00,000	31.03.2022	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

37. ICAI Exam Nov 22

A purchase a machinery for ₹ 1, 30,000 on 1st April, 2019 and paid ₹ 20,000 for freight and installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold machinery for ₹ 1,00,000. The machine purchased no 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a on the original cost. However. From 1st April, 2021 it decided to adopt. WDV method and charges depreciations @ 15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

Solution

In the books of A
Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
01.04.2019	To Bank	1,50,000	31.03.2020	By Depreciation	30,000
	(1,30,000+20,000)		31.03.2020	By Balance c/d	1,20,000
		1,50,000			1,50,000
01.04.2020	To Balance b/d	1,20,000	31.03.2021	By Depreciation	30,000
			31.03.2021	By Balance c/d	90,000
		1,20,000			1,20,000
01.04.2021	To Balance b/d	90,000	01.10.2021	By Bank A/c	1,00,000
01.10.2021	To Bank	50,000	01.10.2021	By Depreciation	6,750
01.10.2021	To Profit on Sale	16,750	31.03.2022	By Depreciation	1,875
			31.03.2022	By Balance c/d	48,125
		1,56,750			1,56,750

Alternative: Calculation of Book Value of Machines

	Machine 1 (in ₹)	Machine 2 (in ₹)
Date of Purchase	01.04.2019	01.10.2021
Original Cost	1,50,000	
Depreciation for (2019-20) (SLM)	(30,000)	
WDV on 31.03.2020	1,20,000	
Depreciation for (2020-21) (SLM)	(30,000)	
WDV on 31.03.2021	90,000	
Depreciation for (2021-22) (WDV)	(6,750)	
WDV (original cost of Machine 2) on 1.10.2021	83,250	50,000
Sale Proceeds	(1,00,000)	
Profit on Sale	16,750	
Depreciation for 2021-22 (WDV @ 15%) (3 months)	-	(1,875)
WDV on 31.03.2022	-	48,125

38.ICAI Exam Nov 22

"The cost of property, plant and Equipment comprises of any cost directly attributable to bring assets to the location and conditions necessary for it to be capable of operating in a manner intended by the enterprise" Given any five examples of such 'directly attributable costs'.

Solution

Cost of Property, Plant and Equipment comprise of 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.

Examples of directly attributable costs are:

(a) cost of employee 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, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g., engineers hired for helping in installation of a machine

(g) transportation cost

(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset.

39. RTP May 23

A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

Solution

In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4) = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

40. QP June 23

The following balance appear in the book of Dheeraj Enterprises :

	₹
Machinery account as on 01.04.2021	12.00.000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October 2021 the Machinery which was purchases on 1st April 2018 for ₹ 2,00,000 was sold for ₹1,10,000 and on the same date another Machinery was purchased for ₹4,80,000. The firm has been charging depreciations at 10% p.a. on written down value of the machinery every year ending 31st March 2022.

Solution

Dr. Machinery Account (at original Cost) Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Disposed Machinery A/c	2,00,000
01.10.2021	To Bank A/c	4,80,000	31.03.2022	By Balance c/d	14,80,000
		16,80,000			16,80,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Disposed Machinery A/c	61,490	01.04.2021	By Balance b/d	4,65,000
31.03.2022	To Balance c/d	4,93,720	1.10.2021	By Depreciation	7,290
			31.03.2022	By Depreciation A/c	82,920
		5,55,210			5,55,210

Dr. Disposed Machinery Account Cr

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Machinery A/c	2,00,000	01.10.2021	By Provision for Depreciation A/c	61,490
				By Bank A/c	1,10,000
				By Profit and Loss A/c	28,510
		2,00,000			2,00,000

Working Notes:

1. **Calculation of Profit/Loss on Sale of Machinery**

Particulars	₹
A. Original Cost	2,00,000
B. Less: Depreciation @ 10% WDV p.a. for 3½ years Year Cost/WDV Depreciation @ 10% 1 2,00,000 20,000 2. 1,80,000 18,000 3 1,62,000 16,200 4 1,45,800 7,290 (6 Months)	61,490
C. Book Value as on date of Sale (A – B)	1,38,510
D. Less: Sale proceeds	1,10,000
E. Loss on Sale (C – D)	28,510

2. WDV of Remaining Machine

Cost of Machinery on 01.04.2021			12,00,000
Less: Cost of machinery sold			2,00,000
			10,00,000
Less: Depreciation			
Provision for depreciation	4,65,000		
Less: Depn. on machinery sold	54,200	4,10,800	
WDV of remaining machine		5,89,200	

3. **Calculation of Depreciation for Current Year on Machines**

Particulars	₹
A. On WDV of Old Machines of ₹ 5,89,200 for 1 year (10% WDV)	58,920
B. On New Machine of ₹ 4,80,000 for ½ year	24,000
	82,920
C. Depreciation on machinery sold (Rs.1,45,800 @ 10% for 6months	7,290
	90,210

41. RTP Dec 23

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2019 and spent ₹ 3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹ 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2022, the machine which was purchased on 1st July, 2020 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2020 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January, 2019.

Solution

In the books of Firm

Machinery Account

			₹				₹
1.1.2019	To	Bank A/c	37,000	31.12.2019	By	Depreciation A/c	4,000
	To	Bank A/c (overhauling charges)	3,000	31.12.2019	By	Balance c/d	36,000
			40,000				40,000
1.1.2020	To	Balance b/d	36,000	31.12.2020	By	Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2020	To	Bank A/c	10,000	31.12.2020	By	Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
			46,000				46,000
1.1.2021	To	Balance b/d	39,850	1.7.2021	By	Bank A/c(sale)	28,000
1.7.2021	To	Bank A/c	25,000	1.7.2021	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	305
				31.12.2021	By	Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
					By	Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
			64,850				64,850
1.1.2022	To	Balance b/d	30,987	1.7.2022	By	Bank A/c (sale)	2,000
				1.7.2022	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
				31.12.2022	By	Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
				31.12.2022	By	Balance c/d	19,656

		30,987				30,987

Working Note:

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery	40,000	10,000	25,000
(Machinery cost for 2019)			
Depreciation for 2019	4,000		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	1,875
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

42. QP Dec 23

From the following transactions of a concern, prepare the machinery account for the year ending 31st dec, 2022:

01-01-21	Purchased a second-hand machinery for ₹ 2,00,000
01-01-21	Spent ₹ 50,000 on repair for making it serviceable
30-06-21	Purchased additional new machinery for ₹ 3,50,000
30-06-21	Installation charge of new machine ₹ 15,000
01-04-22	Repairs & maintenance of machinery ₹ 30,000
30-06-22	Sold second-hand machinery purchase on 01-01-21 for ₹ 1,55,00
31-12-22	Depreciate the machinery at 10% per annum by WDV method

True & false

1. Increase in market value of a fixed asset is one of the reasons for depreciation being charged.
   Ans:- False : It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.

2. Depreciation is a cash expenditure like other normal expenses..
   Ans:- False: Depreciation is not a cash expenditure like other normal expenses as it does not result in any cash outflow.

3. Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.
   Ans:- False : Non refundable taxes & duties form part of the cost.

4. Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.
   Ans:- False : Inauguration costs shouldn't be part of cost.

5. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.
   Ans:- True : SLM method results in same amount and diminishing method involves same rateof depreciation.

6. In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.
   Ans:- True : Revaluation should be done for the whole class of the asset.

7. In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.
   Ans:= False : Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account.

8. Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years and scrap value is ₹ 1,00,000. Depreciation for the first year using sum of the years digit methodshall be ₹ 2,00,000.
   Ans:- True : Sum of years digit method depreciation is calculated as 10/55 x (12,00,000 −1,00,000) = 2,00,000

9. Depreciation cannot be provided in case of loss, in a financial year.
   Ans:- False: Depreciation is a charge against profit and not an appropriation of profit.

Therefore, depreciation has to be provided for, even in case of loss in a financial year.

10. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.
    Ans:- True : Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.

11. If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.
    Ans:- False : WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000

12. Sum of the years digit method is an example of accelerated method of charging depreciation.
    Ans:- True : Higher depreciation is charged in earlier years under sum of the years digit method.

13. Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.
    Ans:- False : It is vice versa as under diminishing balance method; higher depreciation ischarged in beginning.

14. While depreciating land cost, Straight line method shall give more depreciation than the written down value.
    Ans:- False : Land is not depreciated.

15. Provision for depreciation account is debited at the time of recording the depreciationon an asset.
    Ans:- False : Provision for Depreciation account is credited while charging the depreciation.

16. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.
    Ans:- False : Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.

17. When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited and any gain or loss is recorded to profit and loss account.
    Ans:- True : At the time of sale of an asset, respective asset account is credited with provision for depreciation account being debited and any resulting gain or loss being chargedto profit & loss account.

18. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost.

    Ans:- False: Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.

19. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.

    Ans:- True : Any change in useful life of an asset is accounted for as a change in estimate.

20. An intangible asset is a non identifiable, non monetary asset.

    Ans:- False : An intangible asset is an identifiable non-monetary asset, held for use in production and supply of goods and services.

Multiple choice questions

1. Original cost = ₹ 12,60,000; Salvage value = Nil; Useful life = 6 years. Depreciation forthe first year under sum of years digits method will be

   a) ₹ 3,60,000

   b) ₹ 1,20,000

   c) ₹ 1,80,000

   Ans:- a

2. 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

   Ans:- c

3. The number of production of 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

   Ans:- b

4. If a concern proposes to discontinue its business from March 2018 and decides to disposeof all its plants within a period of 4 months, the Balance Sheet as on March 31, 2018should indicate the plants at their
   a) Historical cost
   b) Net realizable value
   c) Cost less depreciation
   Ans:- b

5. In the case of downward revaluation of a plant which is for the first time revalued, the account to be debited is
   a) Plant account
   b) Revaluation Reserve
   c) Profit & Loss account
   Ans:- c

6. The portion of the acquisition cost of the tangible asset, yet to be allocated is known as
   a) Written down value
   b) Accumulated value
   c) Realisable value
   Ans:- a

7. The main objective of providing depreciation is to
   a) Create secret reserve
   b) Reduce the book value of assets
   c) Allocate cost of the assets
   Ans:- c

8. Original cost of a machine was ₹ 25,20,000 salvage value was ₹ 1,20,000, useful life was 6 years. Annual depreciation under Straight Line Method
   a) ₹ 4,20,000
   b) ₹ 4,00,000
   c) ₹ 3,00,000
   Ans:- b

9. The cost of a machine is ₹ 20,00,000. Two years later the book value is ₹ 10,00,000. The Straight-line percentage depreciation is
   a) 50%
   b) 33-1/3%

c) 25%

Ans:- c

10. A machinery with original cost of ₹ 10,00,000 and Nil Salvage value acquired on 1st April 2019 with 4 years useful life was depreciated using Straight Line Method. It was decidedto sell the machinery on 1st October 2021 for ₹ 1,20,000. What shall be the gain or (loss) on the sale of Machinery?

a) Loss of ₹ 1,30,000

b) Gain of ₹ 1,20,000

c) Loss of ₹ 5,000

Ans:- c

11. Which of the following assets does not depreciate?

a) Machinery and equipment

b) Patents

c) Land

Ans:- c

12. A company purchased a machinery on April 01, 2017, for ₹ 15,00,000. It is estimated thatthe machinery will have a useful life of 5 years after which it will have no salvage value. The depreciation charged during the year 2021-22 was

a) ₹ 5,00,000

b) ₹ 4,00,000

c) ₹ 3,00,000

Ans:- c

13. If the equipment account has a balance of ₹ 22,50,000 and the accumulated depreciation account has a balance of ₹ 14,00,000, the book value of the equipment is

a) ₹ 36,50,000

b) ₹ 8,50,000

c) ₹ 14,00,000

Ans: b

14. A plant with original cost of ₹ 50,00,000 was revalued after 2 years resulting in credit to Revaluation Surplus account of ₹ 4,00,000. Towards the year end of 2019-20, due to COVID-19 the plan value had gone down by ₹ 5,00,000 and accordingly management decided to revalue

the same. What shall be the impact of this downwards revaluation on the Profit & Loss Account ?

a) Debit of ₹ 5,00,000

b) Debit of ₹ 1,00,000

c) Credit of ₹ 5,00,000

Ans:- b

15. In respect of intangible assets, there is a presumption that the useful life of an intangible asset will not exceed

a) 2 years

b) 3 years

c) 10 years

Ans:- c

16. A company developed a technology to enhance the battery life of mobile phones. The cost of development have been capitalized as an intangible asset at ₹ 5,00,000. The company estimates the life of the technology developed to be 3 years. The company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in third year?

a) ₹ 2,50,000

b) ₹ 75,000

c) ₹ 1,75,000

Ans:- b

17. An intangible asset is an asset

a) with no physical existence

b) generated internally by the business

c) cannot be sold

Ans:- a

Theory questions

1. Distinguish between Straight line method of depreciation and Written down valuemethod of depreciation.

Answer:

Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fixed percentageis charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows:

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced overthe years as the asset grows old.

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.

Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the assetwill not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset.

2. Write short note on Depletion method of depreciation.

Answer:

Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.

Depletion per unit is calculated as

Acquisition cost-Residual Value Estimate life in terms of production units

3. What factors are considered for calculation of depreciation of a plant?

Answer:

The factors considered for calculation of depreciation are as:

i) Cost of asset including expenses for installation, commissioning, trial run etc.

ii) Estimated useful life of the asset and

iii) Estimated scrap value (if any) at the end of useful life of the asset.

4. What are intangible assets. Explain with the help of examples.

Answer:

Refer para 8

Bills of Exchange and Promisory Notes

Q. No.		R1	R2	R3	Special Point
	CLASS WORK				
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4/ RTP Nov 18				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI practical Question 1				
12	ICAI practical Question 2				
13	ICAI practical Question 3				
14	Additional Question				
15	RTP May 18				
16	QP May 19				
17	RTP Nov 19				
18	RTP May 20				
19	RTP Nov 20				
20	QP Nov 20				
21	RTP May 21				
22	RTP Nov 21				
23	ICAI Illustration 11				
24	QP Dec 21				
25	RTP May 22				
26	RTP Nov 22				
27	MTP Nov 22 (series 2)				
28	QP Nov 22				
29	RTP May 23				

30	QP Jun 23				
31	RTP Dec 23				
32	QP Dec 23				
TEST IN TIME PASS IN TIME					
1	Additional Question 1				
2	Additional Question 2				
3	Additional Question 3				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2022 for 2 months. The first bill is for 10,200 and the second bill is for Rs. 15,000. The second bill was endorsed in favour or Mr. Sree on 3rd January 22. And the First bill is discounted immediately with the bank for Rs. 10,000. Pass the necessary journal entries in the books of Ms. Sujata.

Solution:

In the books of Sujata Journal Entries

Date	Particulars		L.F.	Dr. (in`)	Cr. (in`)
1-1-2022	Bills receivables A/c	Dr.		25,200	
	To Aruna A/c (Being 2 bills receivable from Aruna)				25,200
1-1-2022	Bank A/c	Dr.		10,000	
	Discount charges A/c	Dr.		200	
	To Bills receivable A/c (Being the bills receivable discounted with the bank at acharge of ₹ 200)				10,200
3-1-2022	Sree A/c	Dr.		15,000	
	To Bills receivables A/c (Being the bill endorsed in favour of Mr. Sree) (Being bill discounted with bank)				15,000

2. ICAI Illustration 2

Vijay sold goods to Pritam on 1st September, 2022 for Rs.1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

Solution:

Books of Vijay Journal

2022			₹	₹
1-Sept.	Pritam	Dr.	1,06,000	
	To Sales Account			1,06,000
	(Sales of goods to Pritam as per Invoice No...)			
	Bills Receivable Account	Dr.	1,06,000	
	To Pritam			1,06,000
	(3 months acceptance received from Pritam for the amount due from him)			
Dec. 4	Pritam	Dr.	1,06,000	
	To Bills Receivable Account			1,06,000
	(Pritam acceptance cancelled because of renewal)			
	Pritam	Dr.	1,590	
	To interest			1,590
	(Interest @ 9% on ₹1,06,000 due from Pritam for 2months because of renewal)			
	Bills Receivable Account	Dr.	1,06,000	
	Cash Account	Dr.	1,590	
	To Pritam			1,07,590
	[New acceptance for 2 months for ₹106,000 and Cash (for interest) received from Pritam]			
2023				
Feb. 7	Cash Account	Dr.	1,06,000	
	To Bills Receivable Account			1,06,000
	(Cash received against Pritam's second acceptance)			

Books of Pritam Journal

2022			₹	₹
1-Sept.	Purchase Account	Dr.	1,06,000	
	To Vijay A/c			1,06,000
	(Purchase of goods from Vijay as per Invoice No...)			
	Vijay A/c	Dr.	1,06,000	
	To Bills Payables Account			1,06,000
	(3 months acceptance given to Vijay for the amount)			
Dec. 4	Bills Payable Account	Dr.	1,06,000	
	To Vijay A/c			1,06,000
	(Cancellation of bill because of renewal)			
	Interest Account	Dr.	1,590	
	To Vijay			1,590
	(Interest @ 9% on ₹1,06,000 due to Vijay for 2 months because of renewal)			
	Vijay Account	Dr.	1,07,590	
	To Cash Account			1,590
	To Bills Payable Account			1,06,000
	[New acceptance for 2 months for ₹106,000 and Cash (for interest) paid to Vijay]			
2023				
Feb. 7	Bills Payable Account	Dr.	1,06,000	
	To Cash Account			1,06,000
	(Cash paid against second bill)			

3. ICAI Illustration 3

On Ist January, 2022, Ankita sells goodsfor Rs.5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On Ist March, 2022, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

Solution:

Journal Entries in the books of Ankita

Date 2022	Particulars		₹	₹
Jan. 1	Bhavika's account	Dr.	5,00,000	
	To Sales account			5,00,000
	(Being the goods sold to Bhavika on credit)			
	Bills receivable account To	Dr.	5,00,000	
	Bhavika's account			5,00,000
	(Being the acceptance of bill received)			
Mar.1	Bank account	Dr.	4,95,000	
	Rebate on bills account	Dr.	5,000	
	To Bills receivable account			5,00,000
	(Being retirement of bill by Bhavika one month before maturity, the rebate being given to her at 12% p.a.)			

Journal Entries in the books of Bhavika

Date 2022	Particulars		₹	₹
Jan. 1	Purchases account	Dr.	5,00,000	
	To Ankita account			5,00,000
	(Being the goods purchased from Ankita on credit)			
	Ankita Account	Dr.	5,00,000	
	To Bills Payable Account(Being the acceptance of bill)			5,00,000
Mar .1	Bills Receivable Account	Dr.	5,00,000	
	To Rebate Income Account			5,000
	To Bills receivable account			4,95,000
	(Being retirement of bill one month before maturity, the rebate being received at 12% p.a.)			

4. ICAI Illustration 4 / RTP Nov 18

Prepare Journal entries for the following transactions in K. Katrak's books.

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

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

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

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

Solution:

Books of K. Katrak

Journal Entries

			Dr.	Cr.
			₹	₹
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)			
	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
	Bills Payable Account	Dr.	5,000	

	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

5. ICAI Illustration 5

On 1st January, 2022, Vilas draws a bill of exchange for Rs.10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2022 Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath.

Solution:

Journal entries in the books of Eknath

Date 2022	Particulars	L.F.	Debit ₹	Credit ₹
Jan. 1	Vilas A/c	Dr.	10,000	
	To Bills Payable A/c			10,000
	(Being the bill draws by him accepted)			
Mar. 4	Bills Payable A/c	Dr.	10,000	
	To Bank A/c			9,900
	To Interest A/c (Discount A/c)			100
	(Being retirement of acceptance 1 month before maturity, interest allowed at 12% p.a.)			

6. ICAI illustration 6

On 1st January, 2022, Vilas draws a Bill of Exchange for Rs.10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2022. Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Vilas.

Solution:

Journal entries in the books of Vilas

Date 2022	Particulars		Debit ₹	Credit ₹
Jan. 1	Bills Receivable A/c	Dr.	10,000	
	To Eknath A/c			10,000
	(Being bill of exchange no_____ drawn on Eknath due forpayment on 4th April 2020)			
Mar. 4	Bank A/c	Dr.	9,900	
	Interest A/c (Discount) A/c	Dr.	100	
	To Bills Receivable A/c			10,000
	(Being retirement of bill of exchange due for maturity on 4th April, 2020 by Eknath 1 month before maturity, the rebate being given to him at 12% p.a.)			

7. ICAI Illustration 7

Mr. David draws two bills of exchange on 1.1.2022 for Rs.6,000 and Rs.10,000. The bills of exchange for Rs.6,000 is for two months while the bill of exchange for Rs.10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2022, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2022, Mr. Thomas retires the acceptance for Rs.10,000, the interest rebate i.e. discount being Rs.100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.
You are to give the journal entries in the books of Mr. David.

Solution:

Journal Entries in the books of Mr. David

2022			(₹)	(₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	6,000	
	Bills receivable (No. 2) A/c	Dr.	10,000	
	To Mr. Thomas's A/c			16,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2022 and bills receivable No. 2 due for maturity on 4.4.2022)			
4-Mar	Mr. Thomas's A/c	Dr.	6,000	

	To Bills receivable (No.1) A/c			6,000
	(Being the reversal entry for bill No.1 on agreed renewal)			
4-Mar	Bills receivable (No. 3) A/c	Dr.	6,180	
	To Interest A/c			180
	To Mr. Thomas's A/c			6,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2022 together with interest at 18%p.a. in lieu of the original acceptance of Mr. Thomas)			
20-Mar	Bank A/c Discount A/c	Dr.	9,900	
	To Bills receivable (No. 2) A/c	Dr.	100	
	(Being the amount received on retirement of bills No.2 before the due date)			10,000
7-May	Mr. Thomas's A/c	Dr.	6,180	
	To Bills receivable (No. 3) A/c			6,180
	(Being the amount due from Mr. Thomas on dishonour of his acceptance on presentation on the due date)			
7-May	Bank A/c	Dr.	3,090	
	To Mr. Thomas's A/c			3,090
	(Being the amount received from official assignee of Mr. Thomas at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	3,090	
	To Mr. Thomas's A/c			3,090
	(Being the balance 50% debt in Mr. Thomas's Account arising out of dishonoured bill written as bad)			

8. ICAI Illustration 8

Rita owed Rs.1,00,000 to Siriman. On 1st October, 2021, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for Rs.99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that Rs.50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman.

Solution:

In the books of Siriman Journal Entries

Particulars	L.F.	₹	₹
Bills Receivable A/c	Dr.	1,00,000	
To Rita			1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)			
Bank A/c	Dr.	99,000	
Discount A/c	Dr.	1,000	
To Bills Receivable A/c			1,00,000
(Being the bill discounted)			
Rita	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)			
Rita	Dr.	1,500	
To Interest A/c			1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)			
Bank A/c	Dr.	51,500	
To Rita			51,500
(Being the receipt of a portion of the amount due on the bill together with			
interest)			
Bills Receivable A/c	Dr.	50,000	
To Rita			50,000
(Being the new bill drawn for the balance)			
Rita	Dr.	50,000	
To Bills Receivable A/c			50,000
(Being the dishonour of the bill due to Rita's insolvency)			
Bank A/c	Dr.	20,000	
Bad Debts A/c	Dr.	30,000	
To Rita			50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)			

9. ICAI Illustration 9

On 1st July, 2022 Gorge drew a bill for Rs.1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth Rs.1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2022, Jack purchased goods worth Rs.1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid Rs. 9,000 in full settlement of the amount due to Harry. On 1st October, 2022, Harry purchased goods worth Rs.2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

Solution:

In the books of Harry Journal Entries

Date	Particulars		₹	₹
1.7.2022	Gorge's account	Dr.	1,80,000	
	To Bills payable account (Acceptance of bill drawn by Gorge)			1,80,000
1.9.2022	Jack's account	Dr.	1,90,000	
	To Sales account (Sales made to Jack)			1,90,000
1.9.2022	Bills receivable account	Dr.	1,80,000	
	Bank account	Dr.	9,000	
	Discount account	Dr.	1,000	
	To Jack's account (Acceptance received from Jack's endorsement of bill received from Gorge for ₹ 1,80,000 and ₹ 9,000 received in full settlement of the amount due)			1,90,000
1.9.2022	Bills payable account	Dr.	1,80,000	
	To Bills receivable account (Own acceptance received from Jack's endorsement, cancelled)			1,80,000
1.10.2022	Purchase account	Dr.	2,00,000	
	To Gorge's account (Purchases made from Gorge)			2,00,000

	Gorge's account	Dr.	20,000	
	To Bank account			20,000
	(Amount paid to Gorge after adjusting ₹180,000 for accommodation extended to him)			

In the books of Gorge Journal Entries

Date	Particulars		₹	₹
1.7.2022	Purchases Account To Jack	Dr.	1,81,000	
	Account			1,81,000
	(Purchase of goods from Jack)			
1.7.2022	Bills Receivable AccountTo	Dr.	1,80,000	
	Harry Account			1,80,000
	(Acceptance by Harry of bill drawn on him)			
1.7.2022	Jack's account	Dr.	1,81,000	
	To Rebate Account			1,000
	To Bills Receivable Account(Harry's bill endorsed to Jack)			1,80,000
1.10.2022	Harry Account	Dr.	2,00,000	
	To Sales account(Sales to Harry)			2,00,000
1.10.2022	Bank Account	Dr.	20,000	
	To Harry account			20,000
	(Amount received from Gorge after adjusting ₹180,000 for accommodation extended by him)			

10. ICAI Illustration 10

For the mutual accommodation of 'X' and 'Y' on 1st April, 2022, 'X' drew a four months' bill on 'Y' for Rs.4,000. 'Y' returned the bill after acceptance of the same date. 'X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'Y'. On due date 'X' is unable to send the amount due and therefore 'Y' draws a bill for Rs.7,000, which is duly accepted by 'X'. 'Y' discounts the bill for Rs.6,600 and sends Rs.1,300 to 'X'. Before the bill is due for payment 'X' becomes insolvent. Later 25 paise in a rupee received from his estate. Record Journal entries in the books of 'X'.

Solution:

In the books of X Journal Entries

Date 2022	Particulars		Debit ₹	Credit ₹
1-Apr	Bills receivable account	Dr.	4,000	
	To Y's account			4,000
	(Acceptance received from Y for mutual accommodation)			
1-Apr	Bank account	Dr.	3,920	
	Discount account	Dr.	80	
	To Bills receivable account			4,000
	(Bill discounted for ₹ 3,920)			
	Y's account	Dr.	2,000	
	To Cash account			1,960
	To Discount account			40
	(Half of proceeds remitted to Y)			
Aug. 4	Y's account	Dr.	7,000	
	To Bills payable account			7,000
	(Acceptance given to Y, being unable to remit the due amount)			
	Bank account	Dr.	1300	
	Discount account {[(2,000+1,300)/6,600]x 400}	Dr.	200	
	To Y's account			1500
	(Amount received from Y and discount amount credited to him)			
	Bills payable account	Dr.	7,000	
	To Y's account			7,000
	(Acceptance to Y dishonoured because of insolvency)			
	Y account	Dr.	3,500	
	To Bank account			875
	To Deficiency account			2,625
	(Amount paid @ 25 paise in a rupee and balance credited to deficiency account as being unable to pay)			

II. ICAI Practical Question 1

On 1st January, 2022, A sells goods for ₹10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2022, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

Solution:

Journal Entries in the books of B

Date	Particulars		Debit	Credit
2022			₹	₹
Jan. 1	Purchases account	Dr.	10,000	
	To A's account			10,000
	(Being the goods purchased from A on credit)			
	A's account	Dr.	10,000	
	To Bills payable account (Being the acceptance of bill given to A)			10,000
1-Mar	Bills payable account	Dr.	10,000	
	To Bank account			9,900
	To Rebate on bills account			100
	(Being the bill discharged under rebate @ 12% p.a.)			

Working Note :

Calculation of rebate:

₹ 10,000 x 12/100 x 1/12 = ₹ 100

12. ICAI Practical Question 2

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

Give the necessary journal entries recording the above transactions in the books of A.

Solution:

Journal of A

		₹	₹
Bills Receivable A/c	Dr.	6,000	
To B			6,000
(Three bills for ₹3,000, ₹2,000 and ₹1,000 drawn on B and duly accepted by him received)			
B	Dr.	3,000	
To Bills Receivable A/c			3,000
(Bill received from B cancelled for renewal)			
Cash Account	Dr.	1,500	
Bill Receivable Account	Dr.	1,600	
To B			3,000
To Interest Account			100
(Amount received on cancellation of the first bill, 50% along with a new bill for 50% of the amount plus interest ₹100)			
C	Dr.	1,600	
To Bills Receivable A/c			1,600
(A's acceptance endorsed in favour of C)			
Bank A/c	Dr.	1,900	
Discount A/c	Dr.	100	
To Bills Receivable A/c			2,000
(Second Bill for ₹ 2,000 discounted with the bank @ 5%)			
B	Dr.	2,030	
To Bank A/c			2,030
(Second Bill for ₹ 2,000 discounted with the Bank dishonoured, noting charges ₹ 30 paid by the Bank)			

Bank A/c	Dr.	1,000	
To Bills Receivable A/c			1,000
(Amount received on maturity of the third bill)			

Note: It is assumed that the bill for ₹1,600 has not yet fallen due for payment.

13. ICAI Practical Question 3

Journalize the following in the books of Don:

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

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

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

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

Solution:

Books of Don

			₹	₹
(i)(a)	Ray	Dr.	3,040	
	To Bob			3,040
	(Ray's acceptance endorsed to Bob dishonoured on due datenothing charges paid by Bob ₹40)			
(b)	Bob	Dr.	3,040	
	Interest	Dr.	51	
	To Cash			1,000
	To Bills Payable A/c			2,091
	(Amount payable to Bob ₹ 3,040 settled by cash payment ₹ 1,000 and issue of new bill for ₹ 2,091 including interest ₹ 51 forthree			

	months on ₹ 2,040 @ 10% p.a.)			
(c)	Bills Receivable A/c	Dr.	3,100.80	
	To Ray			3,040.00
	To Interest			60.8
	(Bill received from Ray for ₹3,040due against earlier acceptance dishonoured plus ₹ 60.80 interest for two months @ 12% p.a.)			
(ii)	Bills Payable A/c	Dr.	3,160	
	Discount A/c	Dr.	40	
	To James			3,200
	(Cancellation of bills payable to Ralph for ₹3,160 in settlement of ₹3,200 due from James)			
(iii)	Bills payable A/c	Dr.	4,500	
	To Bills Receivable A/c			4,450
	To Discount A/c			50
	(Settlement of acceptance issued to Mr. Singh by endorsement ofJohn's Acceptance for ₹4,450)			
(iv)	Bank A/c	Dr.	3,085.30	
	Discount A/c	Dr.	15.5	
	Total Bills Receivable A/c			3,100.80
	(Amount received from Ray in settlement of Bills Payable, retiredone month before due date)			

14. Anil draws a bill for Rs.9,000 on Sanjay on 5th April, 2019 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for Rs. 8,820 on 8th April, 2019 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for Rs.12,600 for three months, which Sanjay discounts it for Rs. 12,330 and remits Rs. 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2019.

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

Solution:

In the books of Anil Journal Entries

Date 2019	Particulars		Debit Amount ₹	Credit Amount ₹
5-Apr	Bills receivable account	Dr.	9,000	
	To Sanjay's account			9,000
	(Being acceptance received from Sanjay for mutual accommodation)			
8-Apr	Bank account	Dr.	8,820	
	Discount account	Dr.	180	
	To Bills receivable account (Being bill discounted with bank)			9,000
8-Apr	Sanjay's account	Dr.	3,000	
	To Bank account			2,940
	To Discount account			60
	(Being one-third proceeds of the bill sent to Sanjay)			
8-Jul	Sanjay's account	Dr.	12,600	
	To Bills payable account(Being Acceptance given)			12,600
8-Jul	Bank account	Dr.	2,220	
	Discount account {[(6,000+2,220)/12,330]x270}		180	
	To Sanjay's account			2,400
	(Being proceeds of second bill received from Sanjay)			
Oct.11	Bills payable account	Dr.	12,600	
	To Sanjay's account			12,600
	(Being bill dishonoured due to insolvency)			
Oct.15	Sanjay's account (6,000+2,400)	Dr.	8,400	
	To Bank account			4,200
	To Deficiency account			4,200
	(Being insolvent, only 50% amount paid to Sanjay)			

15. RTP May 18 / Similar As Mock Test Oct 21 (series 1)

Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

Solution:

Journal Entries in the Books of Mr. A

Date 2017		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
August	1	Bills Receivable A/c	Dr.	10,000	
		To B			10,000
		(Being the acceptance received from Bto settle his account)			
August	1	Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800from bank)			
November	4	B	Dr.	10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to berenewed)			
November	4	B	Dr.	240	
		To Interest Account			240
		(Being the interest due from B for 3months i.e., 8000x3/12 12%=240)			
November	4	Cash A/c	Dr.	2,240	

		Bills Receivable A/c	Dr.	8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c	Dr.	8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			
December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

16. QP May 19

On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate. Show the Journal Entries (with narrations) in the books of Akshay.

Solution:

Journal Entries in the books of Akshay

2018			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000

	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

17. RTP Nov 19

Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800. On the due date, B approached A for renewal of the bill. Mr. A agreed on con dition that₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. A

Solution:

Journal Entries in the Books of Mr. A

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2017					
August	1	Bills Receivable A/c	Dr.	10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B	Dr.	10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B	Dr.	240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12□ 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/cDr.		8,000	

		To B		10,240
		(Being amount and acceptance of new bill received from B)		
December	31	B A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

18. RTP MAY 20

On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate. Show the Journal Entries (with narrations) in the books of Akshay.

Solution:

Journal Entries in the books of Akshay

2018			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	

	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 onrenewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement ofbills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupeeagainst dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured billwritten off as bad debts)			

19. RTP NOV 20

Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate. Pass journal entries (with narration) in the books of Siriman

Solution:

In the books of Siriman

Journal Entries

Particulars	L.F.		Dr.	Cr.
			₹	₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	

To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

20. QP NOV 20

Suresh draws a bill for ₹ 15,000 on Anup on 15th April,2020 for 3 months, Which Anup returns to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but accept a bill of ₹ 17,500 for n 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% Was realized from his estate on 31st October,2020. Pass necessary Journal entries for the above transaction in the books of Suresh.

Solution:

In the books of Suresh

Journal Entries

Date	Particulars		Debit Amount	Credit Amount
			₹	₹
2020				

April 15	Bills receivable account	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup formutual accommodation)			
April 18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100
	(Being one-third proceeds of the bill sent to Anup)			
July 18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received from Anup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50
	To Deficiency account			6,562.50
	(Being insolvent, only 50% amount paid to Anup)			

21. RTP MAY 21

Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.

(iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

Solution:

Books of S. Samarth

Journal Entries

			Dr.	Cr.
			₹	₹
(i)	Bills Payable Account	Dr.	1,250	
	Interest Account	Dr.	25	
	To Cash A/c			500
	To Bills Payable Account			775
	(Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 asinterest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To Sahni			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to Sahnidishonoured, ₹ 20 paid by Sahni as noting charges)			
	(b) Sahni	Dr.	4,020	
	To Bank Account			4,020
	(Payment to Sahni on withdrawal of bill earlier receivedfrom Mr. G. Gupta)			
(iii)	Bank Account	Dr.	4,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			5,000
	(Payment received from Harshad against hisacceptance for ₹ 5,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	19,000	

	To Bills Receivable Account			19,000
	(Bills Receivable from Patel endorsed to Sandeep insettlement of bills payable issued to him earlier)			

22. RTP NOV 21

Prepare Journal entries for the following transactions in David's books.

i) David's acceptance to Samuel for ₹ 5,000 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 100 for interest.

ii) Samantha's acceptance for ₹ 8,000 which was endorsed by David to Flex was dishonoured. Flex paid ₹ 50 noting charges. Bill withdrawn against cheque.

iii) Simon retires a bill for ₹ 2,000 drawn on him by David for ₹ 20 discount.

iv) David's acceptance to Ralph for ₹ 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

Solution:

Books of David

Journal Entries

			Dr.	Cr.
			₹	₹
(i)	Bills Payable Account	Dr.	5,000	
	Interest Account	Dr.	100	
	To Cash A/c			1,000
	To Bills Payable Account			4,100
	(Bills Payable to Samuel discharged by cash payment of ₹ 1,000 and a new bill for ₹4,100 including ₹ 100 asinterest)			
(ii)	(a) Samantha	Dr.	8,050	
	To Flex			8,050
	(Samantha's acceptance for ₹ 8050 endorsed to Flexdishonoured, ₹ 20 paid by Flex as noting charges)			

	(b) Flex	Dr.	8,050	
	To Bank Account			8,050
	(Payment to Flex on withdrawal of bill earlier receivedfrom Mr. Samantha)			
(iii)	Bank Account	Dr.	1,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			2,000
	(Payment received from Simon against his acceptancefor ₹ 2,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	20,000	
	To Bills Receivable Account			20,000
	(Bills Receivable from Kent endorsed to Ralph insettlement of bills payable issued to him earlier)			

23. ICAI Illustration 11

X draws on Y a bill of exchange for ₹ 30,000 on 1st April, 2020 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹ 28,800. X immediately remits ₹ 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹ 42,000 for three months which is discounted by Y for ₹ 40,110. Y sends

₹ 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

Solution:

In the books of X

Journal Entries

Date	Particulars		L.F.	DR. (in ₹)	CR. (in ₹)
01/04/2020	Bills receivables A/cTo Y	Dr.		30,000	
	A/c (Being bill of exchange drawn on Mr. Y)				30,000
1/4/2020	Bank A/c	Dr.		28,800	

	Discount charges A/c	Dr.		1,200	
	To Bills receivable A/c				30,000
	(Being the bills receivable discounted with the bank at a charge of ₹ 1,200)				
1/4/2020	Y A/c	Dr.		10,000	
	To Bank A/c				9,600
	To Discount charges				400
	(Being the amount remitted to Y along with his share of the bank charges)				
04/7/2020	Y A/c	Dr.		42,000	
	To Bills payable A/c				42,000
	(Being the bills drawn by Y, due to non-payment of				
	earlier bill)				
04/7/2020	Bank A/ c	Dr.		6,740	
	Discount charges A/cTo Y	Dr.		1,260	
	A/c				8,000
	(Being the amount discounted and sent it by Y to X)				
	Bills payable A/cTo Y's A/c	Dr.			42,000
	(Being the bill due dishonoured due to bankruptcy)				
	Y A/c	Dr.		28,000	
	To Bank A/c				14,000
	To Deficiency account				14,000
	(Being the amount due to Y discharged by paymentof 50 paise in a rupee)				

In the books of Y Journal Entries

Date	Particulars		L.F.	DR. (in ₹)	CR. (in ₹)
01/04/2020	X A/c	Dr.		30,000	
	To Bills payable A/c				30,000
	(Being bill of exchange accepted and sent to Mr. X)				
1/4/2020	Bank A/c	Dr.		9,600	
	Discount charges A/c	Dr.		400	
	To X A/c				10,000
	(Being the amount received from X on account of the bills receivable)				

04/7/2020	Bills receivable A/c Dr.		42,000	
	To X A/c			42,000
	(Being the bills accepted by X)			
04/7/2020	Bank A/c Dr.		40,110	
	Discount charges A/c Dr.		1,890	
	To Bills receivable A/c			42,000
	(Being X acceptance discounted with bank)			
	Bills payable A/c Dr.		30,000	
	To Bank A/c			30,000
	(Being the amount met on the due date)			
	X A/c Dr.		8,000	
	To Bank A/c			6,740
	To Discount account			1,260
	(Being the amount received and the discount debited to X)			
	X A/c Dr.		42,000	
	To Bank A/c			42,000
	(Being X's acceptance which was discounted dishonoured due to X's bankruptcy)			
	Bank A/c Dr.		14,000	
	Bad debts A/c Dr.		14,000	
	To X A/c			28,000
	(The amount received from X and the balance being written off as debt)			

24. QP Dec 21

On 12th May, 2020 A sold goods to b for ₹ 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honor the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

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

You are Required to pass journal entries of all the above transaction in the books of A

Solution:

Journal Entries in the books of Mr. A

2020			(₹)	(₹)
May,12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May,12	Bills receivable (No. 1) A/c	Dr.	16,470	
	Bills receivable (No. 2) A/c	Dr.	20,000	
	To B's A/c			36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)			
	OR Bills receivable A/c	Dr.	36,470	
	To B's A/c			36,470
	(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at3 months)			
June,5	Bills for Collection A/c	Dr.	36,470	
	To Bills receivable (No.1) A/cTo Bills receivable (No.2) A/c			16,470 20,000
	(Being both the bills sent to bank for collection)			
	OR			
	Bills for Collection A/c To Bills receivables A/c	Dr.	36,470	36,470
	(Being B's acceptances sent for collection ondue dates)			
June,15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470

	(Being amount received on retirement of Billsreceivable No. 1)		
Aug,14	B's A/c Dr. To Bills for Collection a/c To Noting Charges or Bank Charges (Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)	20,020	20,000 20
Aug,16	B's A/c Dr. To Interest a/c (Being interest due)	480	480
Aug,16	Bank/Cash A/c Dr. To B's A/c (Being cash received)	8,020	8,020
Aug,16	Bills receivable (No. 3) A/c Dr. To B's A/c (Being Bills receivable (No. 3) drawn accepted by B)	12,480	12,480
	OR Alternatively combined entry may be given for the above two entries: Bank/Cash a/c Dr. Bills receivable a/c Dr. To B's A/c (Being cash and new acceptance at 3 months received from B)	8,020 12,480	2,500
Aug,16	Bills for Collection A/c Dr. To Bills receivable (No.3) A/c (Being Bills receivable (No.3) sent to bank for collection)	12,480	12,480
	OR Bills for collection A/c Dr. To Bills receivable A/c (Being new acceptance sent to bank for collection on due date)	12,480	12,480
Oct, 1	Bank A/c Dr. Rebate A/c Dr. To Bills for Collection (Being amount received on retirement of Billsreceivable (No.3))	12,240 240	12,480

Alternately combined entry may be given for the first three entries of Aug,16:

Aug,16	Bank/ Cash A/c Dr. Bills Receivable (No. 3) A/c Dr.	8,020 12,480	

	To B's A/c			20,020
	To interest A/c			480
	(Being the ₹ 8,020 paid in cash and new bill(Bills receivable No. 3) accepted for 3 months)			

25. RTP May 22

On 1st January 2021, Swapnil draws two bills of exchange for ₹ 32,000 and ₹ 50,000. The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Swapnil.

Solution

Journal Entries in the books of Swapnil

2021		Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c Dr.	32,000	
	Bills receivable (No. 2) A/c Dr.	50,000	
	To Vishal A/c		82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)		
March 4	Vishal's A/c Dr.	32,000	
	To Bills receivable (No.1) A/c		32,000
	(Being the reversal entry for bill No.1 onrenewal)		
March 4	Bills receivable (No. 3) A/c Dr.	32,800	
	To Interest A/c		800
	To Vishal 's A/c		32,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together		

	with interest at 15%p.a. in lieu of the original acceptance of Vishal)		
March 25	Bank A/c Dr.	49,500	
	Discount A/c Dr.	500	
	To Bills receivable (No. 2) A/c		50,000
	(Being the amount received on retirementof bills No.2 before the due date)		
May 7	Vishal's A/c Dr.	32,800	
	To Bills receivable (No. 3) A/c		32,800
	(Being the amount due from Vishal ondishonor of his acceptance on presentation on the due date)		
May 7	Bank A/c Dr.	16,400	
	To Vishal's A/c		16,400
	(Being the amount received from officialassignee of Vishal at 50 paise per rupee against dishonoured bill)		
May 7	Bad debts A/c Dr.	16,400	
	To Vishal's A/c		16,400
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured billwritten off as bad debts)		

26. RTP Nov 22

Mr. Tanu accepted a bill for ₹ 1,00,000 drawn on him by Mr. Manu on 1st August,2021 for 3 months. This was for the amount which Tanu owed to Manu. On the same date Mr. Manu got the bill discounted at his bank for ₹ 98,000.

On the due date, Tanu approached Manu for renewal of the bill. Mr. Manu agreed on condition that ₹ 20,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Tanu should accept a new bill for 3 months. These arrangements were carried through. On 31st December,2021, Tanu became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. Manu.

Solution

Journal Entries in the Books of Mr. Manu

Date	Particulars	L.F	Dr. Amount ₹	Cr. Amount ₹
2021				
Aug.1	Bills Receivable A/c Dr.		1,00,000	
	To Tanu			1,00,000
	(Being the acceptance received from			
	Tanu to settle his account)			
Aug.1	Bank A/c Dr.		98,000	
	Discount A/c Dr.		2000	
	To Bills Receivable			1,00,000
	(Being the bill discounted for ₹ 98,000from bank)			
Nov.4	Tanu Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being the Tanu's acceptance is to berenewed)			
Nov.4	Tanu's A/c Dr.		2400	
	To Interest A/c			2400
	(Being the interest due from Tanu for 3months i.e., 80,000x3/12 12%=240)			
Nov.4	Bank A/c Dr.		22,400	
	Bills Receivable A/c Dr.		80,000	
	To Tanu A/c			1,02,400
	(Being amount and acceptance of new billreceived from Tanu)			
Dec.31	Tanu A/c Dr.		80,000	
	To Bills Receivable A/c			80,000
	(Being Tanu became insolvent)			
Dec.31	Bank A/c Dr.		32,000	
	Bad debts A/c Dr.		48,000	
	To Tanu			80,000
	(Being the amount received and writtenoff on Tanu's insolvency)			

27. MTP Nov 22 Series 2

Mr. Y accepted a bill for ₹ 50,000 drawn on him by Mr. X on Ist August, 2021 for 3 months. This was for the amount which Y owed to X. On the same date Mr. X got the bill discounted at his bank for ₹ 49,000.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2021, Y became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. X

Solution

Journal Entries in the Books of Mr. X

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2021 August	1	Bills Receivable A/c Dr.		50,000	
		To Y			50,000
		(Being the acceptance received from B to settle hisaccount)			
August	1	Bank A/c Dr.		49,000	
		Discount A/c Dr.		1,000	
		To Bills Receivable A/c			50,000
		(Being the bill discounted for ₹ 49,000 from bank)			
November	4	Y Dr.		50,000	
		To Bank A/c			50,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y Dr.		1,200	
		To Interest Account			1,200
		(Being the interest due from Y for 3 months i.e., 40,000 x 3/12 X 12% = 1,200)			
November	4	Bank A/c Dr.		11,200	
		Bills Receivable A/c Dr.		40,000	
		To Y			51,200
		(Being amount and acceptance of new billreceived from Y)			
December	31	Y A/c Dr.		40,000	
		To Bills Receivable A/c			40,000
		(Being Y became insolvent)			
December	31	Bank A/c Dr.		16,000	

	Bad debts A/c Dr.	24,000	
	To Y		40,000
	(Being the amount received and written off on Y'sinsolvency)		

28. QP Nov 22

T draws on J a bill of exchange for ₹ 1, 80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted form his banker for ₹ 1, 72,800. T immediately remits ₹57,600 to J. on the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2, 52,000 for the three months, which is discounted by J form his banker for ₹ 2, 40,660. J sent ₹40,440 to T. before the maturity of the bill. T becomes bankrupt and his estate paying fifty paise in rupee.
Given the journal entries in the book of T and J.

Solution

In the books of T

Journal Entries

Date 2022	Particulars	Debit Amount ₹	Credit Amount ₹
1-Apr	Bills receivable A/c Dr. To J's A/c (Being acceptance received from J for mutualaccommodation)	1,80,000	1,80,000
1-Apr	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Being bill discounted with bank)	1,72,800 7,200	1,80,000
1-Apr	J's A/c Dr. To Bank A/c To Discount A/c (Being ₹ 57,600 sent to J)	60,000	57,600 2,400
4-Jul	J's A/c Dr. To Bills payable A/c (Being Acceptance given)	2,52,000	2,52,000
4-Jul	Bank A/c Dr. Discount A/c [1,20,000 + 40,440/2,40,660 X 11,340] Dr. To J's A/c	40,440 7,560	48,000

	(Being proceeds of second bill received from J)		
7-Oct	Bills payable A/c Dr. To J's A/c (Being bill dishonored due to insolvency)	2,52,000	 2,52,000
7-Oct	J's A/c (1,20,000+48,000) Dr. To Bank A/c To Deficiency A/c * (Being insolvent, only 50% amount paid to J)	1,68,000	 84,000 84,000

In the books of J Journal Entries

Date 2022	Particulars	Debit Amount ₹	Credit Amount ₹
1-Apr	T A/c Dr. To Bills Payable A/c (Being bill of exchange accepted and send to Mr. T)	1,80,000	1,80,000
1-Apr	Bank A/c Dr. Discount Charges A/c Dr. To T A/c (Being the amount received from T on account of the bill receivable)	57,600 2,400	 60,000
4-Jul	Bills Receivable A/c Dr. To T A/c (Being the bills accepted by T)	2,52,000	 2,52,000
4-Jul	Bank A/c Dr. Discount Charges A/c Dr. To Bills Receivable A/c (Being T's acceptance discounted with bank)	2,40,660 11,340	 2,52,000
4-Jul	Bills Payable A/c Dr. Bank A/c (Being the amount met on the due date)	1,80,000	 1,80,000
4-Jul	T A/c Dr. To Bank A/c To Discount A/c (Being the amount received and discount debited to T account) [1,20,000, + 40,400/2,40,660 X 11,340] = 7560	48,000	 40,440 7,560
7-Oct	T A/c Dr. To Bank A/c (Being T's acceptance dishonored due to T's bankruptcy)	2,52,000	 2,52,000
7-Oct	Bank A/c Dr. Bad Debts A/c* Dr. To T A/c (Being the amount received from T and the balance being written off as bad debts)	84,000 84,000	 1,68,000

29. RTP May 23

Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹ 2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Pratika.

Solution

In the books of Pratika

Journal Entries

	Particulars		Dr.	Cr.
			₹	₹
01-10-2022	Bills Receivable A/c	Dr.	5,00,000	
	To Priya A/c			5,00,000
	(Being a 3 month's bill drawn on Priya for the amount due)			
03-10-2022	Bank A/c	Dr.	4,95000	
	Discount A/c	Dr.	5,000	
	To Bills Receivable A/c			5,00,000
	(Being the bill discounted)			
04-01-2023	Priya A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the bill cancelled up due to Priya's inability to pay it)			
04-01-2023	Priya A/c	Dr.	6,250	
	To Interest A/c			6,250

	(Being the interest due on ₹ 2,50,000 @ 10% for 3 months)		
04-01-2023	Bank A/c Dr. To Priya A/c (Being the receipt of a portion of the amount due on the bill together with interest)	2,56,250	2,56,250
04-01-2023	Bills Receivable A/c Dr. To Priya A/c (Being the new bill drawn for the balance)	2,50,000	2,50,000
07-03-2023	Priya A/c Dr. To Bills Receivable A/c (Being the dishonour of the bill due to Priya's insolvency)	2,50,000	2,50,000
07-03-2023	Bank A/c Dr. Bad Debts A/c Dr. To Priya A/c (Being the receipt of 60% of the amount due on the bill from Priya's estate)	1,50,000 1,00,000	2,50,000

30. QP June 23

Journalise the following transactions in the books of Karthik:

(i) Karthik accepted a bill to Balu for ₹3,500 discharged by a cash payment of ₹1,500 and a new bill for the balance plus ₹ 75 for interest.

(ii) Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Moban was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.

(iii) Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.

(iv) Kathie's acceptance to Prem for ₹ 6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount.

Solution

Books of Karthik

Journal Entries

		`	`
(i)	Bills Payable Account	Dr.	3,500
	Interest Account Dr.	75	
	To Cash A/c		1,500
	To Bills Payable Account		2,075
	(Bills Payable to Balu discharged by cash payment of`1,500 and a new bill for ` 2,075 including`75 as interest)		
(ii)	(a) Gopal Account Dr.	4,550	
	To Mohan Account		4,550
	(Gopal's acceptance for` 4,500 endorsed to Mohan dishonoured,` 50 paid by Mohan as noting charges)		
	(b) Mohan Accout Dr.	4,550	
	To Bank Account		4,550
	(Payment to Mohan on withdrawal of bill earlierreceived from Mr. Gopal)		
(iii)	Bank Account Dr.	2,475	
	Discount Account Dr.	25	
	To Bills Receivable Account		2,500
	(Payment received from Doshi against hisacceptance for`2,500. Allowed him a discount of`25)		
(iv)	Bills Payable Account Dr.	6,500	
	To Bills Receivable Account		6,500
	(Bills Receivable from Ashok endorsed to Prem insettlement of bills payable issued to him earlier)		

31. RTP Dec 23

Mr. Y accepted a bill for ₹ 40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. A got the bill discounted at his bank for ₹ 39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. X

Solution

Journal Entries in the Books of Mr. X

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2022					
August	1	Bills Receivable A/c	Dr.	40,000	
		To Y			40,000
		(Being the acceptance received from Y tosettle his account)			
August	1	Bank A/c	Dr.	39,200	
		Discount A/c	Dr.	800	
		To Bills Receivable			40,000
		(Being the bill discounted for ₹ 39,200 frombank)			
November	4	Y	Dr.	40,000	
		To Bank Account			40,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y	Dr.	960	
		To Interest Account			960
		(Being the interest due from Y for 3 months i.e., 32,000x3/12X 12% = 960)			
November	4	Cash A/c	Dr.	8,960	
		Bills Receivable A/c	Dr.	32,000	
		To Y			40,960
		(Being amount and acceptance of new billreceived from Y)			
December	31	Y A/c	Dr.	32,000	
		To Bills Receivable A/c			32,000
		(Being Y became insolvent)			
December	31	Cash A/c	Dr.	12,800	
		Bad debts A/c	Dr.	19,200	
		To Y			32,000
		(Being the amount received and written offon Y's insolvency)			

32. QP Dec 23

R draws a bill of exchange on P for ₹ 2,00,000 on 1st July, 2022 for 4 months. P accepted the bill and sent it to R. R discounts the bill from his bankers for ₹ 1,88,000.

R immediately Remits ₹ 75,200 to P. on the due date, R, Being Unable to remit the amount due, accepts a bill for ₹ 2,50,000 for 4 months which is discounted by P for ₹ 2,36,500. P sends ₹ 56,700 to R. Before the bill is due for payment R becomes insolvent, his estate is paying fifty paise in the rupee.

Give the journal entries in the books of P. Also show R's account in P's books.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. On 1st January, 2016, Vilas draws a Bill of Exchange for Rs.10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2016. Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Vilas.

Solution:

Journal entries in the books of Vilas

Date	Particulars		Debit ₹	Credit ₹
2020				
Jan. 1	Bills Receivable A/cTo	Dr.	10,000	
	Eknath A/c (Being bill of exchange no . . . drawn on Eknath due for payment on 4th April 2020)			10,000
Mar. 4	Bank A/c	Dr.	9,900	
	Interest A/c (Discount) A/cTo	Dr.	100	
	Bills Receivable A/c (Being retirement of bill of exchange due for maturity on 4th April, 2020 by Eknath 1 month before maturity, the rebate being given to him at12% p.a.)			10,000

2. Rita owed Rs.1,00,000 to Siriman. On 1st October, 2016, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for Rs.99,000 on 3rd October, 2016. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that Rs.50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.
Pass journal entries (with narration) in the books of Siriman.

Solution:

In the books of Siriman
Journal Entries

Particulars	L.F.		Dr.	Cr.
			₹	₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	

Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

3. Anil draws a bill for Rs.9,000 on Sanjay on 5th April, 2016 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for Rs. 8,820 on 8th April, 2016 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for Rs.12,600 for three months, which Sanjay discounts it for Rs. 12,330 and remits Rs. 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2016.

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

Solution:

In the books of Anil Journal Entries

Date 2019	Particulars		Debit Amount ₹	Credit Amount ₹
5-Apr	Bills receivable account	Dr.	9,000	
	To Sanjay's account			9,000
	(Being acceptance received from Sanjay for mutual accommodation)			
8-Apr	Bank account	Dr.	8,820	
	Discount account	Dr.	180	
	To Bills receivable account			9,000
	(Being bill discounted with bank)			
8-Apr	Sanjay's account	Dr.	3,000	
	To Bank account			2,940
	To Discount account			60
	(Being one-third proceeds of the bill sent to Sanjay)			
8-Jul	Sanjay's account	Dr.	12,600	
	To Bills payable account			12,600
	(Being Acceptance given)			
8-Jul	Bank account	Dr.	2,220	
	Discount account (270 × 2/3)	Dr.	180	
	To Sanjay's account			2,400
	(Being proceeds of second bill received from Sanjay)			
Oct.11	Bills payable account	Dr.	12,600	
	To Sanjay's account			12,600
	(Being bill dishonoured due to insolvency)			
Oct.15	Sanjay's account (6,000+2,400)	Dr.	8,400	
	To Bank account			4,200
	To Deficiency account			4,200
	(Being insolvent, only 50% amount paid to Sanjay)			

True & False

1. Bills payable account is a nominal account.

Ans:- False: The bills payable account is a personal account that represents a liability.

2. Promise to pay is included in a bill of exchange.

Ans:- False: Bill of exchange contains an order to pay the required amount and not a mere promise to pay.

3. Days of rebate are added to the due date to arrive at the maturity date.

Ans:- False:3 Days of grace are added to the due date to arrive at the maturity date.

4. Discount at the time of retirement of a bill is a gain for the drawee.

Ans:- True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

5. Foreign bill is drawn in the country and payable outside the country.

Ans:- True: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

6. Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.

Ans:- True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

7. A has drawn a bill on B. B accepts the same and endorses the bill to C.

Ans:- False: B cannot endorse the bill to C as he is a drawee. Only A, the drawer can do so.

8. A bill given to a creditor is called bills payable.

Ans:- True: A bill given to a creditor is called Bills Payable as the debtor commits to pay by giving a bill to creditor.

Multiple choice questions

1. On 1.1.2022, A draws a bill on B for ₹1,20,000 for 3 months' maturity date of the bill willbe:
   a) 1.4.2022
   b) 3.4.2022
   c) 4.4.2022
   Ans:- c

2. On 16.6.2022 P draws a bill on Q for ₹1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:
   a) 19th July
   b) 18th July
   c) 17th July
   Ans:- b

3. PQ draws a bill on XY for ₹130,000 on 1.1.2022. XY accepts the same on 4.1.2022 forperiod of 3 months after date. What will be the maturity date of the bill:
   a) 4.4.2022
   b) 3.4.2022
   c) 7.4.2022
   Ans:- a

4. A draws a bill on B. A endorsed the bill to C. The payee of the bill will be
   a) A
   b) B
   c) C
   Ans:- c

5. A bill of ₹ 120,000 was discounted by Saras with the banker for ₹1,18,800. At maturity, the bill returned dishonoured, noting charges ₹ 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?
   a) ₹1,20,000
   b) ₹1,18,800
   c) ₹1,20,200
   Ans:- c

6. X draws a bill on Y for ₹300,000 on 1.1.2022 for 3 months after sight, date of acceptanceis 6.1.2022. Maturity date of the bill will be:
   a) 8.4.2022
   b) 9.4.2022
   c) 10.4.2022
   Ans:- b

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

a) ₹ 98,000

b) ₹ 68,000

c) ₹ 68,600

Ans:- c

8. On 1.1.2022, X draws a bill on Y for ₹ 5,00,000 for 3 months. X got the bill discounted 4.1.2022 at 12% rate. The amount of discount on bill will be:

a) ₹ 15,000

b) ₹ 16,000

c) ₹ 18,000

Ans:- a

9. Mr. Jay draws a bill on Mr. John for ₹ 3,00,000 on 1.1.2022 for 3 months. On 4.2.2022,John got the bill discounted at 12% rate. The amount of discount will be:

a) ₹ 9,000

b) ₹ 6,000

c) ₹ 3,000

Ans:- b

10. XZ draws a bill on YZ for ₹ 2,00,000 for 3 months on 1.1.2022. The bill is discounted with banker at a charge of ₹1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:

a) ₹199,000

b) ₹ 200,000

c) ₹ 201,000

Ans:- b

11. On 1.1.2022, XA draws a bill on YB for ₹ 1,00,000. At maturity YB request XA to renewthe bill for 2 months at 12% p.a. interest. Amount of interest will be:

a) ₹ 2,000

b) ₹ 1,500

c) ₹ 1,800

Ans:- a

12. A bill of exchange is drawn by a
   a) Creditor
   b) Debtor
   c) Debenture holder
   Ans:- a

13. At the time of drawing a bill, the drawer credits
   a) Bills Receivables A/c
   b) Bills Payable A/c
   c) Debtor's A/c
   Ans:- c

14. A promissory note is made by a
   a) Seller
   b) Purchaser
   c) Endorsee
   Ans:- b

15. A bill of exchange contains
   a) An unconditional order
   b) A promise
   c) A request to deliver the goods
   Ans:- a

16. A promissory note contains
   a) An unconditional order
   b) A promise
   c) A request to deliver the goods
   Ans:- b

17. The rebate on the bill shows that
   a) It has been endorsed
   b) It has been paid after the date of maturity
   c) It has been paid before the date of maturity
   Ans:- c

18. Notary Public may charge his fee from the
   a) Holder of bill of exchange
   b) Drawer

c) None

Ans:- a

THEORETICAL QUESTIONS

1. Write short notes on:

(a) Accommodation bill.

(b) Renewal of bill.

(c) Noting charges.

Answer

(a) Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

(b) When the acceptor of a bill finds himself in financial straits to honour the billon the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new billin place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.

(c) The charges paid to Notary public for notify the dishonour are noting charges. Refer para 1.12 for details.

2. What is bill of exchange? How does it differ from Promissory Note?

Answer

A bill of exchange has been defined as "an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certainsum of money only to or to the order of certain person or to the bearer of the instrument". When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, orto the bearer of the instrument.

A promissory note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.

FINAL ACCOUNT OF NON-MANUFACTURING ENTITIES

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI Illustration 12				
13	ICAI Illustration 13				
14	ICAI practical Question 1				
15	ICAI practical Question 2				
16	ICAI practical Question 3				
17	ICAI practical Question 4				
18	ICAI practical Question 5				
19	Additional Question				
20	ICAI Illustration 1 (Manufacturing Entities)				
21	ICAI Illustration 2 (Manufacturing Entities)				
22	ICAI Illustration 3 (Manufacturing Entities)				
23	ICAI PQ 1 (Manufacturing Entities)				
24	ICAI PQ 2 (Manufacturing Entities)				
25	ICAI PQ 3 (Manufacturing Entities)				
26	RTP May 18 / RTP Nov 19				
27	RTP Nov 18				
28	QP May 18 / RTP May 20				
29	QP Nov 18				

30	Mock Test 1				
31	Mock Test 2				
32	QP May 19				
33	RTP May 19				
34	RTP Nov 20				
35	QP Nov 20				
36	QP Nov 20				
37	RTP May 21				
38	RTP Nov 21				
39	QP July 21				
40	QP July 21				
41	QP Dec 21				
42	Mock test Nov 21				
43	RTP May 22				
44	RTP Nov 22				
45	ICAI Exam May 22				
46	MTP Nov 22 Series 1				
47	MTP Nov 22 Series 1				
48	MTP Nov 22 Series 2				
49	MTP Nov 22 Series 2				
50	ICAI Exam Nov 22				
51	RTP May 23				
52	RTP Dec 23				
53	QP Dec 23				
TEST IN TIME PASS IN TIME					
1	Additional Question 1				
2	Additional Question 2				
3	Additional Question 3				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Trial Balance for financial the year (FY) ended 31st March 2022 of M/s Deepakshi shows following details:

Particulars	Debit (₹)	Credit (₹)
Purchase & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	4,00,000
Opening Stock	2,00,000	
Closing Stock	3,00,000	
Other Expenses & Incomes	7,00,000	9,00,000
Fixed Assets & Long Term Liabilities	25,00,000	6,00,000
Capital		21,00,000
	52,00,000	52,00,000

Additional Information: Creditors balance as on 1st April, 2021 is ₹ 3,00,000.

You are required to calculate cost of goods sold and amount paid to creditors during the year.

Solution:

i) Calculation of Cost of Goods sold:

Particulars	₹
Opening Stock	2,00,000
Add: Purchases (Closing stock already adjusted)*	10,00,000
Cost of Goods Sold	12,00,000

*Since, closing stock appears in Trial Balance, it means following entry has already been passed in books:

Closing Stock A/c	Dr.	3,00,000	
To Purchases A/c			3,00,000

So, we can see purchases have already been reduced by the amount of unsold stock, therefore no more adjustment needs to be made on account of closing stock for computing Cost of goods sold (COGS).

ii) Calculation of amount paid to creditors:

Date	Particulars	₹	Date	Particulars	₹
31.3.22	To Bank A/c (Balancing Figure)	12,00,000	1.4.21	By Balance b/d	3,00,000
31.3.22	To Balance c/d	4,00,000		By Purchases A/c (Note:1)	13,00,000
		16,00,000			16,00,000

Note: 1) Purchases made during the year can be computed as:

Particulars	₹
Purchases as per Trial Balance	10,00,000
Add: Closing Stock already adjusted	3,00,000
Purchases made during the year	13,00,000

2. ICAI Illustration 2

Particulars	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns Inward	1,00,000
Returns Outward	72,000
Closing Inventory	2,00,000

From the Above information, prepare a Trading Accounts of M/s ABC Traders for the year ended 31st March, 2022 . and Pass necessary closing entries in the journal proper of M/s. ABC Traders

Solution:

In the books of M/s. ABC Traders

Trading Account for the year ended 31st March, 2022

Particulars	₹	Amount ₹	Particulars	₹	Amount ₹
To Opening Inventory		1,00,000	By Sales	11,00,000	
To Purchases	6,72,000		Less: Returns Inward	(1,00,000)	10,00,000
Less: Returns outward	(72,000)	6,00,000			2,00,000

To Carriage Inwards		30,000	By Closing Inventory		
To Wages		50,000			
To Gross profit		4,20,000			
		12,00,000			12,00,000

Journal Proper in the Books of M/s. ABC Traders

Date 2022	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c To	Dr.	72,000	
	Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening Inventory, purchases and wages accounts)			
	Closing Inventory A/cTo	Dr.	2,00,000	
	Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

3. ICAI Illustration 3

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2022 were as follows:

Particulars	Amount(Rs.)

Gross Profit	4,20,000
Salaries	1,10,000
Discount (Cr.)	18,000
Discount (Dr.)	19,000
Bad Debts	17,000
Depreciation	65,000
Legal Charges	25,000
Consultancy Fees	32,000
Audit Fees	1,000
Electricity Charges	17,000
Telephone Postage and Telegrams	12,000
Stationery	27,000
Interest paid on Loans	70,000

Required

Prepare Profit & Loss A/c of M/s ABC Traders for the year ended on 31st March 2022.Show necessary closing entries in the journal proper of M/s. ABC Traders also.

Solution:

In the Books of M/s. ABC Traders
Profit and Loss Account
For the year ended 31st March, 2022

Particulars	Amount₹	Particulars	Amount₹
To Salaries	1,10,000	By Gross Profit	4,20,000
To Legal Charges	25,000	By Discount received	18,000
To Consultancy Fees	32,000		
To Audit Fees	1,000		
To Electricity Charges	17,000		
To Telephone, Postage &Telegrams	12,000		
To Stationery	27,000		
To Depreciation	65,000		
To Discount Allowed	19,000		

To Bad Debts	17,000		
To Interest	70,000		
To Net Profit	43,000		
	4,38,000		4,38,000

Journal Proper in the Books of M/s. ABC Traders

Date 2022	Particulars		Amount ₹	Amount ₹
March 31	Profit & Loss AccountTo	Dr.	3,95,000	
	Salaries A/c			1,10,000
	To Legal Charges A/c			25,000
	To Consultancy Fees A/cTo			32,000
	Audit Fees A/c			1,000
	To Electricity Charges A/c			17,000
	To Telephone, Postage & Telegrams A/cTo			12,000
	Stationery A/c			27,000
	To Depreciation A/c			65,000
	To Discount Allowed A/cTo			19,000
	Bad Debts A/c			17,000
	To Interest A/c (Being the transfer of balances of various expenses accounts)			70,000
	Discount Received A/c To	Dr.	18,000	
	Profit & Loss A/c (Being the transfer of discount received account balance)			18,000
	Gross Profit A/c	Dr.	4,20,000	
	To Profit & Loss A/c (Being the transfer of gross profit from Trading Account)			4,20,000
	Profit & Loss A/c	Dr.	43,000	
	To Net Profit A/c (Being the ascertainment of net profit)			43,000
	Net Profit A/c	Dr.	43,000	
	To Capital A/c (Being the transfer of net profit to Capital A/c)			43,000

4. ICAI Illustration 4

On 1st April .2021 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.12.2021 were 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Show how you would compute the amount debited to the Profit and Loss Account.

Solution:

PARTICULARS	₹
Opening Provision (Cr.)	40,000
Bad Debts written off (Dr.)	1,00,000
Short Provision	60,000
Provision required (Dr.) (5% of ₹14,00,000)	70,000
Additional amount required for debit to the Profit and Loss Account (Dr.)	1,30,000

The account will appear as follows:

Provision for Doubtful Debts Account

		₹			₹
March 31 2022	To Bad Debts Account To Balance c/d (required)	1,00,000 70,000	April 1 2021 March 31 2022	By Balance b/d By Profit and Loss A/c(Balancing Figure)	40,000 1,30,000
		1,70,000	April 1 2022	By Balance b/d	1,70,000 70,000

5. ICAI Illustration 5

The following is the Trial Balance of C. Wanchoo on 31st Dec 2022.

Trial Balance On 31st December,2022

Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital Account		10,00,000
Inventory Account	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	

Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade Receivables)	8,50,000	
Sundry Creditors (Sums owing to suppliers)		3,70,000
Total	**64,00,000**	**64,00,000**

Value of Closing Stock on 31st Dec 2020 was Rs. 2,70,000.

Prepare closing entries for the above items and prepare Trading and Profit and Loss Account.

Solution:

Date 2022	**Particulars**	**L.F.**	₹	₹
March 31	Trading Account	Dr.	30,20,000	
	To Inventory AccountTo			2,00,000
	Purchase A/c			18,20,000
	To Wages A/c (Being the accounts in the Trial Balance which have to betransferred to the Trading Account debit side)			10,00,000
March 31	Sales Account To	Dr.	50,00,000	
	Trading A/c (Being the amount of Sales transferred to the credit of Trading Account)			50,00,000
March 31	Inventory (Closing) A/cTo	Dr.	2,70,000	
	Trading A/c (Being the value of Inventory on hand on 31st Dec. 2016)			2,70,000
March 31	Trading A/c	Dr.	22,50,000	
	To Profit and Loss A/c (Being the transfer of gross profit.)			22,50,000
March 31	Profit and Loss A/c	Dr.	16,50,000	
				50,000

	To Discount Allowed AccountTo			10,00,000
	Salaries A/c			6,00,000
	To Sundry Office Expenses A/c (Being the various expense accounts transferred to the P& L Account)			
March 31	Discount Received A/cTo P	Dr.	30,000	
	& L Account (Being the credit balance of discount received transferredto Profit and Loss A/c)			30,000
March 31	Profit and Loss A/cTo	Dr.	6,30,000	
	Capital A/c (Being the transfer to Net Profit to the Capital Account)			6,30,000
			1,28,50,000	1,28,50,000

C. WANCHOO

Trading Account of the year ended March 31, 2022

Particulars	₹	**Particulars**	₹
To Inventory A/c	2,00,000	By Sales A/c	50,00,000
To Purchases	18,20,000	By Inventory (Closing)	2,70,000
To Wages	10,00,000		
To Gross profit trfd. to P & L A/c	22,50,000		
	52,70,000		52,70,000

Profit and Loss Account for the year ended March 31, 2022

Particulars	₹	**Particulars**	₹
To Salaries	10,00,000	By Gross profit trfd. From	
To Discount Allowed	50,000	the Trading Account	22,50,000
To Sundry Office Expenses	6,00,000	By Discount Received	30,000
To Net Profit transferred to			
Capital A/c	6,30,000		
	22,80,000		22,80,000

6. ICAI Illustration 6

Given the below Trial Balance of M/s Dayal Bros as on 31st March, 2022:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital Account		7,00,000
Land & Building	3,00,000	
14% Term Loan		4,00,000
Loan from M/s D. & Co		4,60,000
Sundry Debtors	4,20,000	
Cash in hand	20,000	
Stock in trade	6,00,000	
Furniture	2,00,000	
Sundry Creditors		40,000
Advances to Suppliers	1,00,000	
Net Profit		1,00,000
Drawings	60,000	
Total	**17,00,000**	**17,00,000**

Required:

Prepare Balance Sheet as on 31st March, 2022.

Solution:

In the Books of M/s Dayal Bros.

Balance Sheet as on 31st March, 2022

Liabilities	₹	Amount ₹	Assets	Amount ₹
Capital: Balances	7,00,000		Land & Building	3,00,000
Add: Net Profit			Furniture	2,00,000
	8,00,000			
			Inventories in Trade	6,00,000
Less: Drawings	(60,000)	7,40,000	Trade receivables	4,20,000
14% Term Loan		4,00,000	Advances to Suppliers	1,00,000
Loan from M/s D & Co.		4,60,000	Cash in Hand	20,000
Trade payables				
		16,40,000		16,40,000

7. ICAI Illustration 7

The balance sheet of Thapar on 1st April, 2021 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,000
	66,50,000		66,50,000

During 2021-22, his Profit and Loss Account revealed a net profit of ₹18,30,000. This was after allowing for the following :

(a) Rent Received from property let out ₹ 3,00,000.

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2022.

But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹1,80,000 and

(2) prepaid insurance to the extent of ₹20,000.

His current assets and liabilities on 31st March, 2022 were : Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.

During the year he withdrew ₹6,00,000 for domestic use.

Required

Draw up his Balance Sheet at the end of the year.

Solution:

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,80,000	By Balance b/d	15,30,000
To Net profit	13,70,000	By Prepaid insurance	20,000
	15,50,000		15,50,000

Balance Sheet of Thapar as on 31st March, 2020

Liabilities		₹	Assets	₹	₹
Capital	50,00,000		Cash at Bank		10,35,000
Add: Net Profit	13,70,000		Trade receivables	20,00,000	
	63,70,000		Less: Provision for doubtful debts	(1,00,000)	19,00,000
Less: Drawings	(6,00,000)		Plant and Machinery	30,00,000	
	57,70,000		Less: Depreciation	(3,00,000)	27,00,000
Add: Interest on capital	3,00,000	60,70,000	Furniture & Fixtures		
Outstanding expenses		1,80,000	Less: Depreciation	3,00,000	2,85,000
Trade payables		11,40,000	Inventories	(15,000)	14,50,000
			Prepaid insurance		20,000
		73,90 000			73,90,000

8. ICAI Illustration 8

Balance Sheet As at 31st December, 2022

Liabilities	₹	Assets	₹
Mahendra & Sons	5,60,000	Cash in hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery and Equipment	6,00,000
	25,60,000		25,60,000

From the above given balance sheet prepare the relevant opening entry.

Solution:

The Opening Entry :01-04-2022

		Dr. ₹	Cr. ₹
Cash A/c	Dr.	43,000	
Bank A/c	Dr.	2,67,500	

Trade receivables	Dr.	7,49,500	
Inventory A/c	Dr.	9,00,000	
Machinery and Equipment A/c	Dr.	6,00,000	
To Mahendra & Sons A/c			5,60,000
To Capital A/c			20,00,000
(Being the balances brought forward)		25,60,000	25,60,000

Posting the Opening Entry

All the assets show debit balance. Such accounts are opened and the relevant amounts written on the debit side as "To Balance b/d". Following is the cash account arising from the entry given above.

Cash Account

Date 2022	Particulars	Amount ₹	Date	Particulars	Amount ₹
April 1	To Balance b/d	43,000			

Similarly account should be opened for all other assets and relevant amount should be posted on the Dr. side.

The accounts of liabilities show credit balances. An account for each liability is opened and the relevant account is written on the credit side as "By Balance b/d". This is shown below by opening the accounts of Mahendra & Sons mentioned in the entry given above.

Mahendra & Sons

Date	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
			April 1	To Balance b/d	5,60,000

By posting the opening entry completely all the accounts of assets and liabilities in the beginning are opened. We illustrate below a complete cycle of journalising, posting and trial balance.

Students should work through the following illustration given by way of practice on the method of making adjustments in some of the accounts contained in a Trial Balance and afterwards preparing the final Account.

9. ICAI Illustration 9

Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2022

Particulars	Dr. ₹	Cr. ₹
Capital		8,70,000
Purchases and Sales	6,05,000	12,10,000
Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000

14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	5,000	
	25,92,000	25,92,000

Closing Inventory on 31st March, 2022 was valued at ₹1,00,000.

Required

Prepare final accounts of Shri Mittal for the year ended 31st March, 2022.

Solution:

In the books of Shri Mittal Trading Account

for the year ended 31st March, 2022

Particulars		Amount ₹	Particulars		Amount ₹
To Opening inventory		72,000	By Sales	12,10,000	
To Purchases	6,05,000		Less: Returns	(40,000)	11,70,000
Less: Returns	(30,000)	5,75,000	By Closing inventory		1,00,000
To Gross Profit		6,23,000			
		12,70,000			12,70,000

Profit and Loss Account

For the year ended 31st March, 2022

Particulars	Amount ₹	Particulars	Amount ₹
To Salaries	2,70,000	By Gross profit	6,23,000
To Advertisement	1,10,000		

To Other expenses	60,000		
To Net profit	1,83,000		
	6,23,000		6,23,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	**Amount** ₹	**Assets**	**Amount** ₹
Capital	8,70,000		Building	8,90,000
Add: Net profit	1,83,000	10,53,000	Furniture	4,50,000
14% Bank Loan		2,00,000	Trade receivables	90,000
Trade payables		1,70,000	Closing inventory	1,00,000
Overdrafts		1,12,000	Cash in hand	5,000
		15,35,000		15,35,000

Note: As loan and overdraft taken at year end so no interest shown.

10. ICAI Illustration 10

Mr. Mohan gives you the following trial balance and some other information.

Trial Balance as on 31st March, 2022

Particulars	**Dr Rs.**	**Cr. Rs.**
Capital		650,000
Sales		970,000
Purchases	430,000	
Opening Inventory	110,000	
Freight Inward	40,000	
Salaries	210,000	
Other Administration Expenses	150,000	
Furniture	350,000	
Trade receivables and Trade payables	210,000	190,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	100,000	
Cash in hand & Cash at Bank	187,000	
	1,831,000	**1,831,000**

Other Information:

i) Closing Stock was Rs. 1,80,000;

ii) Depreciate Furniture at 10% p.a.

Required

prepare Trading and Profit & Loss A/c for the year ended on 31.3.2022 and Balance Sheet of Mr. Mohan as on that date.

Solution:

In the books of Mr. Mohan

Trading Account

for the year ended 31st March, 2022

Particulars		Amount ₹	Particulars		Amount ₹
To Opening Inventory		1,10,000	By Sales	9,70,000	
To Purchases	4,30,000		Less: Returns	(20,000)	9,50,000
Less: Returns	(12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross profit		5,62,000			
		11,30,000			11,30,000

Profit and Loss Account

for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Depreciation	35,000	By Gross profit	5,62,000
To Salaries	2,10,000	By Discount received	9,000
To Administration expenses	1,50,000		
To Discount allowed	19,000		
To Bad debts	5,000		
To Net profit	1,52,000		
	5,71,000		5,71,000

Balance Sheet

as on 31st March, 2022

Liabilities		Amount ₹	Assets		Amount ₹
Capital	6,50,000		Furniture	3,50,000	
Add: Net profit	1,52,000	8,02,000	Less: Depreciation	(35,000)	3,15,000
Trade payables		1,90,000	Closing Inventory		1,80,000

			Trade receivables		2,10,000
			Investment in Govt		
			Securities		1,00,000
			Cash in Hand and		
			Cash at Bank		1,87,000
		9,92,000			9,92,000

II. ICAI Illustration II

The Balance Sheet of Mr. Popatlal, a merchant on 31st March, 2022 stood as below:

Liabilities	₹	Assets		₹
Capital	2,40,000	Fixed Assets		1,25,600
Trade payables	1,64,000	Inventories		2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000	
		Less: Provision	(6,200)	1,81,800
		Cash		36,200
	5,50,000			5,50,000

Required

Show opening journal entry on 1st April, 2022 in the books of Mr. Popatlal.

Solution:

Opening entry

			(Dr.) ₹	(Cr.) ₹
1.4.2022	Fixed Assets A/c	Dr.	1,25,600	
	Inventories A/c	Dr.	2,06,400	
	Trade receivables A/c	Dr.	1,88,000	
	Cash A/c	Dr.	36,200	
	To Trade payables A/c			1,64,000
	To Bank Overdraft A/c			1,46,000
	To Provision for Doubtful Debts A/c			6,200
	To Capital A/c			2,40,000

12. ICAI Illustration 12

The following is the schedule of balances as on 31.3.22 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messer's Gavaskar Viswanath & Co., at Bombay:

Particulars	Dr. ₹	Cr. ₹
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2019	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2022 and the Balance Sheet as at that date after making provision for the following:

- Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
- Value of stock at the close of the year was ₹ 4,40,000.
- Two month's rent for godown is outstanding.
- Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2021.
- Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.
- Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2021 to 30.6.22

Solution:

M/s Gavaskar Viswanath & Co.

Trading for the year ended 31st March 2022

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To opening Stock		6,20,000	By Sales	23,00,000	
To Purchases	14,00,000		Less: Sale of furniture included in sale	14,000	
Less: Typewriter included in purchases	40,000		Less: Sales Returns	42,000	22,44,000
Less: Purchase Returns	26,000	13,34,000	By Closing Stock		4,40,000
To Freight on purchase		12,000			
To Gross Profit c/d		7,18,000			
		26,84,000			26,84,000

M/s Gavaskar Viswanath & Co.

Profit/Loss Account for the year ended 31st March 2022

Particular	Details	Amount ₹	Particular	Details	Amount ₹
To Salaries		1,10,000	By Gross profit b/d		7,18,000
To Rent for Godown	55,000				
Add: Outstanding	11,000	66,000	By Discount received		16,000
To provision for doubtful debts(4)		33,000			
To Rent and Taxes		21,000			
To Discount Allowed		24,000			
To Carriage outwards		20,000			
To printing and stationery		18,000			
To Electricity charges		22,000			
To Insurance premium (1)		12,000			
To Depreciation (2)		1,20,000			
To general office expenses		30,000			
To Bank Charges		16,000			
To interest on loan	27,000				
Add: Outstanding (3)	6,000	33,000			
To Motor car expenses		36,000			
To Net Profit transferred to Capital a/c		1,73,000			
		7,34,000			

Balance Sheet of M/s Gavaskar Vishwanath & Co.

as at 31st March 2022

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	16,20,000		Building	6,00,000	
Add: Net Profit	1,73,000		Less: Dep.	(30,000)	5,70,000
Less: Drawings	(1,20,000)				
Less: Insurance Premium	(40,000)	16,33,000	Motor Car	2,00,000	
			Less: Dep.	(40,000)	1,60,000
Loan from Vishwanath	3,00,000				
Add: Outstanding	6,000	3,06,000	Office equipment	2,00,000	
			Less: Dep.	(30,000)	1,70,000
Sundry Creditors		4,30,000			

Outstanding rent		11,000	Furniture & Fixture	2,00,000	
			Less: Dep.	(20,000)	1,80,000
			Stock in Trade		4,40,000
			Sundry Debtors	8,60,000	
			Less: Provision for doubtful debts	(43,000)	8,17,000
			Cash at hand		26,000
			Cash in bank		14,000
			Prepaid insurance (1)		3,000
		23,80,000			23,80,000

Working Notes :

(1). Insurance premium

Insurance premium as given in trial balance	55,000
Less: Personal premium	(40,000)
Less: Prepaid for 3 months [(1500 / 15) x 3]	(3,000)
Transfer to P/L a/c	12,000

(2). Depreciation

Building @ 5% on 6,00,000	30,000
Motor Car @ 20% on 2,00,000	40,000
Furniture & Fittings @ 10% on 2,00,000(2,14,000-14,000)	20,000
Office Equipment @ 15% on 2,00,000 (1,60,000 + 40,000)	30,000
Total	1,20,000

(3). Interest on Loan

Interest on Loan (3,00,000 x 12% x 11/12)	= 33,000
Less : interest as per Trial Balance	(27,000)
P/L account (Outstanding)	6,000

(4)

Provision for bad debts a/c

Particulars	Amount ₹	Particulars	Amount ₹
To bad debts a/cTo balance c/d	20,000 43,000	By balance b/d By P&L a/c	30,000 33,000
	63,000		63,000

13. ICAI Illustration 13

Crimpson Ltd.'s profit and loss account for the year ended 31st March, 2022 includes the following information:

Particulars	₹
(i) Depreciation	57,500
(ii) Bad debts written off	21,000
(iii) Increase in provision for doubtful debts	18,000
(iv) Proposed dividend	15,000
(v) Retained profit for the year	20,000
(vi) Liability for tax	4,000

Required

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

Solution:

(a) Transfer to provisions - (i), (iii) (vi)

(b) Transfer to reserves - (v)

(c) Neither related to provisions nor reserves - (ii), (iv).

A summary of all adjustments are as follows:

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
1. Closing stock	Balance Sheet – Asset Side	(a) Trading A/c – Credit Side
		(b) Balance Sheet – Asset Side
2. Outstanding Expenses	Balance Sheet – Liability Side	(a) Trading/Profit & Loss A/c Debit Side. Add to the concerned expenses.
		(b) Balance Sheet – Liability Side
3. Prepaid Expenses	Balance Sheet – Asset Side	(a) Trading/Profit & Loss A/c Debit Side. Deduct from the concerned expense.
		(b) Balance Sheet - Asset
4. Income Outstanding	Balance Sheet – Asset Side	(a) Profit & Loss A/c – Credit Side. Add tothe concerned income.

		(b) Balance Sheet – Asset Side.
5. Incomes Received in Advance	Balance Sheet – Liability Side	(a) Profit & Loss A/c – Credit Side. Deduct from concerned income.
		(b) Balance Sheet – Liability Side
6. Bad Debs	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side.
		Deduct from debtors.
7. Provision for Bad or Doubtful debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side.
		Deduct from Debtors after
		additional bad debts, if any.
9. Depreciation	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side.
		Deduct from Respective Asset.
10. Interest on Capital	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Liability Side.
		Add to Capital.
11. Interest on Drawings	Profit & Loss A/c – Credit Side	(a) Profit & Loss A/c – Credit Side.
		(b) Balance Sheet – Liability Side. Deduct from Capital.
12. Loss by Fire	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side (with fullamount of loss)
		(b) Profit & Loss A/c – Debit Side (Actualloss, if any)
		(c) Balance Sheet – Asset Side (with insurance claim admitted by Insurance Co.)
13. Goods withdrawn for personal use	Trading A/c - Credit Side	(a) Trading A/c – Credit Side or Deduct from Purchases.
		(b) Balance Sheet – Liability Side (Deductfrom Capital as Drawings)
14. Goods Distributed as free Samples	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side or Deduct from Purchases
		(b) Profit & Loss A/c – Debit Side

15. Sale of Goods on Approval Basis, approval not yet received	Usually it is not given in Trial Balance	(a) Trading A/c – Credit Side. Deduct from Sales the selling price of goods sold and add to stock at cost price.
		(b) Balance Sheet – Asset Side. Deduct from Debtors the selling price of such sales and show the cost price of such sales along with closing stock.

14. ICAI Practical Question 1

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2022 after making the necessary adjustments:

Ganguli's capital account (Cr.)	5,40,500	Interest received	72,500
Stock on 1.4.2021	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2021	25,000
Purchases	12,15,500	Furniture as on 1-4-221	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2021 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments

(1) Value of stock as on 31st March, 2022 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2022 to the value of ₹15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2022 for ₹10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

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

31.3.2022	To Balance c/d	1,00,000	1.4.2021	By Balance b/d	50,000
			31.3.2022	By Bank	50,000
		1,00,000			1,00,000

(5) Sundry debtors include ₹ 20,000 due from Robert and sundry creditors include ₹ 10,000 due to

him.

(6) Interest paid include ₹ 3,000 paid to Dena bank.

(7) Interest received represents ₹ 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

Solution:

In the books of Ganguli
Trading and Profit & Loss Account
for the year ended 31-3-2022

	₹	₹		₹	₹
To Opening stock		2,34,000	By Sales	14,48,000	
To Purchases	12,15,500		Less: Returns	(58,000)	13,90,000
Less: Transfer to furniture A/c	(10,000)		By Closing stock		3,93,000
	12,05,500				
Less: Returns	(29,000)	11,76,500			
To Carriage inwards		93,000			
To Gross profit c/d		2,79,500			
		17,83,000			17,83,000
To Salaries		46,500	By Gross profit b/d		2,79,500
To Rent		28,500	By Interest		17,250
To Advertisement		56,000	By Discount received		14,950
To Printing & stationery		17,000			
To Interest		7,500			
To Discount allowed		37,700			
To General expenses		19,600			
To Travelling expenses		11,650			
To Fire insurance premium		3,000			

To Postage & telegrams		4,350			
To Provision for doubtful debts (W.N.1)		4,750			
To Depreciation on furniture		1,150			
To Audit fees		3,500			
To Capital A/c (Net profit transferred)		70,500			
		3,11,700			3,11,700

Balance Sheet as on 31-3-2022

Liabilities	₹	₹	Assets	₹	₹
Capital account:			Furniture	9,000	
Balance on 1-4-2019	5,40,500		Additions during the year	10,000	
Add: Net profit	70,500			19,000	
	6,11,000		Less: Depreciation	(1,150)	17,850
Less: Drawings	(50,000)	5,61,000	Investments		25,000
Loan from Dena Bank Ltd.		1,00,000	Deposits		1,50,000
Insurance accrued on bank loan (W.N.2)		3,000	Interest accrued on investment & deposits (W.N.3)		10,000
Sundry creditors		64,000	Stock in trade		3,93,000
			Sundry debtors	95,000	
			Less: Provision	(4,750)	90,250
			Cash with Traders Bank Ltd.		40,000
			Cash in hand		1,900
		7,28,000			7,28,000

Working Note

1. **Calculation of provision for doubtful debts**	₹
Sundry debtors as per trial balance	1,20,000
Less: Sales returns not recorded	(15,000)
	1,05,000
Less: Cancellation against sundry creditors	(10,000)
Adjusted balance of sundry debtors	95,000
Provision for doubtful debts @ 5%	4,750
2. **Accrued interest on bank loan**	

Annual interest @ 12%	6,000
Less: Interest paid to Dena bank	(3,000)
Accrued interest	3,000
3. **Interest accrued on investments and deposits**	
Annual interest on investments @ 5%	1,250
Annual interest on deposits @ 10%	15,000
	16,250
Less: Interest received on investments and deposits	(6,250)
Accrued interest	10,000

15. ICAI Practical Question 2

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st December, 2021. At the start of financial year 2021-2022, the company raised salaries by 10% to ₹33,000 per month each.

On Oct 1, 2021 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

1. Amount of salaries which would be charged to the profit and loss for the year ended 31st March 2022.
2. Amount actually paid as salaries during 2021-22
3. Outstanding Salaries as on 31st March, 2022.

Solution:

(i) Salaries to be charged to profit and loss account for the year	
ended 31st March, 2022:	
Salaries of 8 employees for full year @ ₹33,000 per month each	31,68,000
Salaries of 2 trainees for 6 months @ ₹21,000 p.m.	2,52,000
	34,20,000
(ii) Salaries actually paid in 2021-22	
March, 2019 salaries paid in April, 2021 (8 x 30,000)	2,40,000

Salaries of 8 employees for April 2021 to March, 2022 paid in May 2021 to March 2022 @ ₹33,000 for 11 months	29,04,000
Salaries of 2 trainees for October 2021 to February 2022 paid in November 2021 to March 2022 @ ₹21,000 for 5 months	2,10,000
	33,54,000
(iii) Outstanding salaries as at 31st March, 2022	
8 employees @ ₹33,000 each for 1 month	2,64,000
2 trainees @ ₹21,000 each for 1 month	42,000
	3,06,000

16. ICAI Practical Question 3

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2022 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	**₹**	**Particulars**	**₹**
Debit Balance:			
Trade receivables	3,50,000	Salaries	2,20,000
Inventory 1st April, 2021*	5,00,000	Purchases	12,50,00
Cash in Hand	5,60,000	Plant and Machinery	15,70,000
Wages	3,00,000	Credit Balance:	
Bad Debts	50,000	Capital	25,00,000
Furniture and Fixtures	1,50,000	Trade payables	9,00,000
Depreciation	1,50,000	Sales	17,00,000

On 31st March, 2022 the Inventory was valued at ₹10,00,000.

Solution:

Trading and Profit and Loss Account for the year ending 31st March, 2022

Particulars	**₹**	**Particulars**	**₹**
To Opening Inventory	5,00,000	By Sales	17,00,000
To Purchases	12,50,000	By Closing Inventory	10,00,000
To Wages	3,00,000		
To Gross Profit	6,50,000		
	27,00,000		27,00,000

To Bad Debts	50,000	By Gross Profit	6,50,000
To Depreciation	1,50,000		
To Salaries	2,20,000		
To Net Profit transferred. to Capital A/c	2,30,000		
	6,50,000		6,50,000

Balance Sheet as at 31st March, 2022

Liabilities	₹	₹	Assets	₹	₹
Trade payables		9,00,000	Cash in Hand	5,60,000	
Capital:			Trade receivables	3,50,000	
Previous Balance	25,00,000		Closing Inventory	10,00,000	19,10,000
Add: Net Profit	2,30,000	27,30,000			
			Furniture & Fixtures	1,50,000	
			Plant & Machinery	15,70,000	17,20,000
		36,30,000			36,30,000

17. ICAI Practical Question 4

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2022 has been given below:

On 1.4.2021 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of ₹ 5,00,000. You are required to compute:

i) Total income for the year 2021-22.

ii) Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

Solution:

i) Computation of Income for the year 2021-22:	₹
Money received during the year related to 2021-22	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2021-22	6,50,000

ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c	1,50,000	1.4.2021	By Balance b/d	2,00,000
	(Advance related to current year transferred to sales)			By Bank A/c (Balancing Figure)	1,20,000
31.3.22	To Balance c/d	1,70,000			
		3,20,000			**3,20,000**

So, total money received during the year is

	₹
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	6,20,000

18. ICAI Practical Question 5

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Prot c/d	D		E
	E	By Gross Profit b/d	D
To Rent A/c	26,00,000	By Miscellaneous Income	E
To Office Expenses	13,00,000		
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

Solution:

A) Computation of Net Profit:

Commission Manager = Rate of Commission X Net Profit before charging such commission So,

Commission to manager = 10/100 X Net Profit before charging such commission

=> ₹ 2,00,000 = 10/100 X Net Profit before charging such commission

=> Net Profit before charging such commission = ₹ 20,00,000

=> Net Profit (A) = ₹ (20,00,000 - 2,00,000) = ₹18,00,000

B) Computation of Selling Expenses:

Total income appearing in P&L A/c = ₹ 60,00,000

Total expenses other than selling expenses = ₹(26,00,000 + 13,00,000 + 2,00,000)

= ₹ 41,00,000

So,

Selling Expenses + Remaining Expenses + Net Profit = Total Income

=> Selling Expenses = ₹ 60,00,000 -₹ 41,00,000 - ₹ 18,00,000

=> Selling Expenses = ₹ 1,00,000

C) Computation of Sales:

We have been given selling expenses amount to 1% of Sales

So, Sales = (Selling Expenses / 1) 100

= (1,00,000 / 1) 100

= ₹ 100,00,000

D) Computation of Gross Profit:

In Trading A/c

Particulars	₹	Particulars	₹
To COGS	45,00,000	By Sales (from C above)	100,00,000
To Gross Profit (Balancing Figure)	55,00,000		
Total (F)	100,00,000	Total (F)	100,00,000

So, Gross Profit (D) = ₹ 55,00,0

E) Miscellaneous Income = Total Income in P&L - Gross Profit

= ₹ (60,00,000 - 55,00,000)

= ₹ 5,00,000

F = ₹ 100,00,000 (As computed in D above)

G = ₹ 60,00,000 (Total of both sides of P&L is equal after balancing has been done)

19. From the following trial balance and additional information, prepare Trading and Profit and Loss Account of Mr. Charat Tulsian for the year ended 31st March, 20X2 and Balance Sheet as at that date:

Particulars	Debit Balance	Credit Balance
Capital / Drawings	10,000	1,70,000
Plant & Machinery	1,10,000	-
Sales/Purchases	84,000	1,65,000
Returns	5,000	4,000
Bad Debts/ Bad Debts Recovered	5,000	26,450
Freight Inward	5,000	-
Freight Outward	7,000	-
Discount	2,000	1,000
Commission	4,000	3,000
Rent	3,000	4,000
Interest	2,500	3,000
Office & Administrative Expenses	6,000	-
Selling & Distribution Expenses	10,000	-
Creditors/ Debtors	2,15,000	2,02,000
Bills Payable / Bills Receivable	10,000	5,600
Loan	20,000	50,000
Investments	50,000	-
Opening Stock	54,000	-
Cash in hand	5,000	-
Cash at Dena Bank	45,550	-
Bank Overdraft at Canara Bank	-	20,000
Wages & Salaries	1,000	-
	6,54,050	6,54,050

Additional Information:

a) Closing Stock at market price as at 31st March, 20X2 was Rs. 61,500. However its cost was Rs. 80,000

b) Provide for depreciation on Plant & Machinery at 10% p.a.

c) Provide Interest on Capital at 6% p.a. and an additional capital of Rs. 10,000 was introduced on 1st Oct, 20X2.

d) Charge Interest on Drawings at 9% p.a.

e) Goods costing Rs. 10,000 were destroyed due to fire on 30th March, 20X2 the insurance company accepted claim to the extent of 60% only and paid the claim money on 10th April 20X2.

f) Goods worth Rs. 10,000 were sent out to a customer on approval basis and have been recorded in the books as actual sale. These goods remained unsold on 31st March, 20X2. The cost of such goods was Rs. 8,000.

g) Received credit purchase invoice of Rs. 10,500 on 27th March, 20X2 and recorded in the books but the goods were not received till the end of the accounting year.

h) Manager is entitled to a commission of 5% of net profit after charging his commission.

Refer – (P.C Tulsian)- Pg. No 16.80 (Illustration No 35)

Solution:

Trading, Profit & Loss Account
For the year ending 31st March, 20X2

	Particulars		Rs		Particulars		Rs
To	Opening Stock		54000	By	Sales	165000	
To	Purchases	84000			Less: Returns	5000	
	Less - Returns	4000	80000		Less: Goods sent for		
To	Freight Inwards		5000		approval basis	10000	150000
To	Wages & Salaries		1000	By	Closing Stock	61500	
To	Gross Profit		100000		Add : Goods sent for		
					approval basis	8000	
					Add: Goods in transit	10500	80000
				By	Loss of stock due to fire		10000
			240000				240000
To	Freight Outwards		7000	By	Gross Profit b/d		100000
To	Rent		3000	By	Commission		3000
To	Interest		2500	By	Interest		3000
To	Commission		4000	By	Rent Received		4000
To	Discount		2000	By	Bad debts recovered		26450
To	Office & Admin Expenses		6000	By	Discount		1000
To	Selling and distribution exp		10000	By	Interest on drawings		450

To	Bad debts		5000		[Rs. 10,000 *9%*6/12]		
To	Dep on Plant & Machinery		11000				
To	Loss of stock due to fire		4000				
To	Interest on capital						
	[Rs. 1,60,000* 6%*12/12]	9600					
	[Rs. 10,000 *6%*6/12]	300	9900				
To	Manger's Commission		3500				
	[Rs. 73,500*5/105]						
To	Net Profit t/f to capital A/c		70000				
			137900				137900

Balance Sheet as at 31st March, 20X2

	Liabilities		Rs		Assets		Rs
	Capital				**Fixed Assets**		
	Opening Balance	######			Machinery	######	
	Add: Net Profit	70,000			Less: Depreciation	11,000	99,000
	Less: Drawings	10,000					
	Less: Interest on drawing	450			Investments		50,000
	Add: Additional capital	10,000					
	Add: Interest on capital	9,900	######				
	Loans		50,000		**Current Assets:**		
					Debtors	######	
					Less Dep for goods sent	10,000	######
					B/R		10,000
	Current liabilities				Loan		20,000
	Creditors		######		Closing Stock		
	Bills Payable		5,600		Stock in hand with	61,500	

	Bank Overdraft		20,000		customer		
	Managers commission				On approval	8,000	
	outstanding		3,500		in transit	10,500	80,000
					Insurance co claim due		6,000
					Cash in hand		5,000
					Cash in bank		45,550
			######				######

20. ICAI Illustration 1 (Manufacturing Entities)

1,00,000 units were produced in a factory. Per unit material cost was ₹10 and per unit labour cost was ₹5. That apart it was agreed to pay royalty @ ₹ 3 per unit to the Japanese collaborator who supplied technology.

Required

Calculate Manufacturing Cost.

Solution:

In this case Manufacturing Cost comprises of –

Raw Material consumed	(1,00,000 × ₹ 10)	₹ 10,00,000
Direct Wages	(1,00,000 × ₹ 5)	₹ 5,00,000
Direct Expenses	(1,00,000 × ₹ 3)	₹ 3,00,000
		₹ 18,00,000

21. ICAI Illustration 2 (Manufacturing Entities)

Mr.Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2022:

Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000

Hire charges of machine @ ₹ 0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-Contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of	
Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2022.

Solution:

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 31.3.2022

Particulars		**Units**	**Amount** ₹	**Particulars**	**Units**	**Amount** ₹
To Opening Work- in-Process		10,000	16,000	By Closing Work- in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,00,800
Opening	1,70,000					
inventory						
Add: Purchases	8,20,000					
	9,90,000					
Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages						
– W.N.(1)			4,04,800			
To Direct expenses:						
Hire charges						
on Machinery						
– W.N. (2)			3,00,000			
To Indirect expenses:						

Hire charges of						
Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			19,20,800

Working Notes :

(1) Direct Wages – 5,00,000 units @ ₹ 0.80 = ₹ 4,00,000

12,000 units @ ₹ 0.40 = ₹ 4,800

₹ 4,04,800

(2) Hire charges on Machinery – 5,00,000 units @ ₹ 0.60 = ₹ 3,00,000

22. ICAI Illustration 3 (Manufacturing Entities)

On 31st March, 2020 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2020

Particulars	**Dr. ₹**	**Particulars**	**Cr. ₹**
Stock on 1st April 2019			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2020 were:

Raw Materials ₹16,200 Finished goods ₹18,100 Semi-finished goods ₹ 7,800

Salaries and wages unpaid for March 2020 were respectively, ₹ 900 and ₹ 2,000 Machinery is to be depreciated by 10% and office furniture by 71/2 %

Provision for doubtful debts is to be maintained @ 1% of sales Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2020.

Solution:

In the books of Mr. White

Manufacturing Account for the year ended 31st March, 2020

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in ProgressBy	7,800
To Opening Stock of Raw Materials	21,000		Sale of Scrap By Cost of goods Manufactured	2,500
Add: Purchases	85,000		(Transferred to Trading Account)	1,19,000
Less: Closing Stock	16,200	89,800		
To Opening Stock of WIP		9,500		
To Wages	13,000			
Add: Outstanding Wages	2,000	15,000		
To Carriage on Purchases		1,500		
To Repairs to Plant		1,100		
To Rent (3/4)		4,500		
To Lighting (2/3)		900		
To Depreciation of Plant		7,000		
		1,29,300		1,29,300

Trading Account for the year ended 31st March, 2020

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	15,500	By Sales	1,67,200
To Cost of goods transferred from Manufacturing A/c	1,19,000	By Closing Stock	18,100

To Gross Profit c/d	50,800		
	1,85,300		1,85,300

Profit and Loss Account for the year ended 31st March, 2020

Particulars		₹	Particulars	₹
To Salaries	10,000		By Gross Profit b/d	50,800
Add: Outstanding	900	10,900	By Commission	450
To Telephone & Postage		1,000		
To Repairs to Furniture		350		
To Depreciation of furniture		750		
To Rent (1/4)		1,500		
To Lighting (1/3)		450		
To General Expenses		1,500		
To Provision for doubtful Debts: Required (1 % of ₹1,67,200)	1,672			
Less: Existing Provision	1,650	22		
To Net Profit		34,778		
		51,250		51,250

Balance Sheet as on 31st March, 2020

Capital and Liabilities		₹	Assets		₹
Capital Account	1,00,000		Plant & Machinery	70,000	
Add: Net Profit	34,778	1,34,778	*Less:* Depreciation	7,000	63,000
Bank Loan		8,500	Office Furniture	10,000	
Sundry Creditors		15,000	*Less:* Depreciation	750	9,250
Bills Payable		7,500	Closing Stock		
Salary Payable		900	Raw Materials		16,200
Wages Payable		2,000	Work in Progress		7,800
			Finished Goods		18,100
			Sundry Debtors	24,000	
			Less: Provision for Bad& Doubtful Debts	1,672	22,328
			Bills Receivable		15,000
			Cash at Bank		17,000
		1,68,678			1,68,678

23. ICAI PQ 1 (Manufacturing Entities)

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.

Solution:

In the Books of Mr. Pankaj Manufacturing Account
for the year ended on 31.3.2022

Particulars	₹	Amount	Particulars	Amount
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By – products	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished goods transferred	
	15,12,000			
Less: Return	(18,000)			

	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses: Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

24. ICAI PQ 2 (Manufacturing Entities)

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2019-20. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	-
	To Creditors A/c	-		By Closing Stock A/c	-

Creditors A/c

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount(₹)	Particulars	Amount(₹)
To Raw Material Consumed		By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1. Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2. Wages include the following

   Paid to Factory Workers - ₹ 3,00,000

   Paid to labor at office - ₹ 50,000
3. Direct Expenses include following:

- Electricity charges of ₹ 80,000 of which 30% pertained to office.
- Fuel Charges of ₹ 20,000
- Freight Inwards of ₹ 35,000
- Delivery charges to customers - ₹ 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

Solution:

Manufacturing A/c

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To Raw Material Consumed (Balancing Figure)	10,00,000	By Trading A/c (W.N. 4)	18,00,000
To Wages (W.N. 2)	3,00,000		
To Depreciation (W.N. 1)	3,00,000		
To Direct Expenses (W.N. 3)	2,00,000		
	18,00,000		**18,00,000**

Raw Material A/c

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
		₹			₹
	To Opening Stock A/c	1,00,000		By Raw Material Consumed(from Trading A/c above)	10,00,000
	To Creditors A/c (W.N. 5)	13,00,000		By Closing Stock A/c (Balancing Figure)	4,00,000
		14,00,000			**14,00,000**

Working Notes:

1) Since purchase of Machinery worth ₹ 10,00,000 has been omitted. So, depreciation omitted from being charged = ₹ 10,00,000 X 10%

= ₹1,00,000

Correct total depreciation expense = ₹ (2,00,000 + 1,00,000)

= ₹ 3,00,000

2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 30%) 24,000

Delivery Charges to Customers 20,000

Total expenses not part of Direct Expenses 44,000

=> Revised Direct Expenses = ₹ (2,44,000 - 44,000)

= ₹ 2,00,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

Revised Balance to be transferred to Trading A/c:

Particulars	**Amount** ₹
Current Balance transferred	17,94,000
Add: Depreciation charges not recorded earlier	1,00,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(44,000)
Revised balance to be transferred	18,00,000

Creditors A/c

Date	**Particulars**	**Amount** ₹	**Date**	**Particulars**	**Amount** ₹
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000		By Raw Materials A/c (Bal.figure)	13,00,000
		28,00,000			28,00,000

25. ICAI PQ 3 (Manufacturing Entities)

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:

Trial Balance as on 31st March 2022

Particulars	**Dr. ₹**	**Particulars**	**Cr.₹**
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000

Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts is to be credited at 5% on Sundry Debtors. Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided.

Accrued commission ₹ 12,500 is also to be received for the year. Interest has accrued on investment ₹ 15,000.

Salary Outstanding ₹ 2,000 and Prepaid Interest ₹ 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022.

Solution:

In the books of Mr. Pandit

Manufacturing Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		1,50,000	By Cost of Manufactured goods transferred to Trading A/c	8,08,000
To Purchase	5,00,000			
Less: Purchase Return	5,000	4,95,000		
To Carriage Inwards		15,000		
To Direct Wages		80,000		
To Power		30,000		
To Coal and fuel		15,000		
To Factory Rent and Rates		20,000		
To Depreciation on Machinery		3,000		
		8,08,000		8,08,000

Trading Account for the year ended 31st March, 2022

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	75,000	By Sales	8,50,000	
To Cost of goods transferred from Manufacturing A/c	8,08,000	Less: Sales Return	10,000	8,40,000
		By Closing Stock		1,00,000
To Gross Profit c/d	57,000			
	9,40,000			9,40,000

Profit and Loss Account for the year ended 31st March 2022

Particulars		₹	Particulars	₹
To Carriage Outward		7,000	By Gross Profit b/d	57,000
To Discount Allowed		3,000	By Accrued Commission	12,500
To Commission Paid		5,000	By Accrued Interest	15,000
To Dividend Paid		4,000		
To General Expenses		4,000		
To Advertisement		5,000		

To Salaries	20,000			
Add: Outstanding	2,000	22,000		
To Interest Paid	7,000			
Less: Prepaid	1,500	5,500		
To Provision for Bad & Doubtful Debts	2,000			
Add: Bad Debts	4,000			
Less: Old Provision for Doubtful Debts	2,000	4,000		
To Depreciation on Building		1,000		
To Net Profit c/d		24,000		
		84,500		84,500

Balance Sheet as on 31st March, 2022

Capital and Liabilities		₹	Assets		₹
Capital	1,00,000		Plant & Machinery	30,000	
Add: Net Profit	24,000		*Less:* Depreciation	3,000	27,000
	1,24,000		Land & Building	1,00,000	
Less: Drawings	20,000	1,04,000	*Less:* Depreciation	1,000	99,000
Bills Payable		24,000	Furniture & Fixtures		15,000
Sundry Creditors		50,000	Investments		25,000
Salary Outstanding		2,000	Closing Stock		1,00,000
Long-Term Loans		2,00,000	Loose Tools		30,000
Bank Overdraft		23,000	Sundry Debtors	40,000	
			Less: Provision for Bad & Doubtful Debts	2,000	38,000
			Bills Receivable		15,000
			Accrued Commission		12,500
			Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at Bank		5,000
		4,03,000			4,03,000

26.RTP May 2018 / RTP Nov 19

The following are the balances as at 31st March, 2019 extracted from the books of Mr.XYZ.

Particulars	₹	**Particulars**	₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550

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

Additional Information:

1. Purchases include sales return of ₹2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

Solution:

Rectification Entries

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	3,500	
	To Purchases account			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	450	
	To Wages account			450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	825	
	To Purchases account			825
	(Being free samples distributed for publicity out of purchases, now rectified)			

Trading and Profit and Loss Account of Mr. XYZ
for the year ended 31st March, 2019

Dr. **Cr.**

			Amount				Amount
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			Less: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		
To To To	Carriage inward Wages Gross profit c/d		1,125 11,715		₹ 80,000 x (100 / 80) x		1,25,000

		1,39,535		(100 / 80)		
		3,36,000				3,36,000
To	Salaries	22,550	By	Gross profit b/d		1,39,535
To	Rent	4,300	By	Bad debts recovered		450
To	Advertisement expenses	4,175				
To	Printing and stationery	1,250				
To	Bad debts	1,100				
To	Carriage outward	1,350				
To	Provision for doubtful debts					
	5% of ₹ 1,20,000 6,000					
	Less: Existing provision 3,200	2,800				
To	Provision for discount on debtors					
	2.5% of ₹ 1,14,0002,850					
	Less: Existing provision 1,375	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit					
	(Transferred to capital account)	83,800				-------
		1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2019

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		Less: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less:	11,500	1,37,300	Less: Depreciation	1,025	9,225
Drawings					

Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	Less: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
		———	Cash at bank		3,125
		2,67,250			2,67,250

27.RTP Nov 18

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

Particulars	**Dr.**	**Cr.**
Particulars	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-

Travelling expenses	870	-
Drawings	30,000	
Total	**5,11,330**	**5,11,330**

The following adjustments are to be made:

1. Included amongst the debtors is ₹3,000 due from Ram and included among the creditors ₹ 1,000 due to him.
2. Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
3. Depreciation on furniture & fittings @ 10% shall be written off.
4. Personal purchases of Hari amounting to ₹600 had been recorded in the purchases day book.
5. Interest on bank loan shall be provided for the whole year.
6. A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
7. Credit purchase invoice amounting to ₹400 had been omitted from the books.
8. Stock on 31.12.2017 was ₹78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Solution:

Trading and Profit and Loss Account of Mr. Hari for the year ended 31st December, 2017

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

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

Balance Sheet of Hari as at 31st December, 2017

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

		Bank balance	8,000
	--------	Cash balance	380
	1,16,493		1,16,493

Working Notes:

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

28. QP May 18 / RTP May 20

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

Particulars	**Dr.(₹)**	**Cr.(₹)**
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	

Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

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

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

b) Value of stock at the close of the year was ₹ 4,10,000.

c) One month rent for godown is outstanding.

d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017

e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01 04.2017 to 30.06.2018.

Solution:

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

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

M/s Raghuram & Associates

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

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

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

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

Working Notes:

(1) Insurance premium ₹

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months	
6000 / 15 x 3	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

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

(3) Interest on Loan

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

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

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

29.QP Nov 18

Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P & L account is as follows:

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

Particulars	₹	Particulars	₹
To cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	?		
	?		45,00,000
To Salaries paid	12,00,000	By Gross Profit b/d	?
To General Exp.	6,00,000	BY Other Income	45,000
To Selling Exp.	?		
To Commission to Manager (On Net profit before charging such commission)	1,00,000		
To Net Profit	?		
	?		?

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

Solution:

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

Dr.			Cr.
Particulars	₹	Particulars	₹

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

30. Mock test 1

Calculate the missing amount for the following.

S.No.	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

Solution:

Using the Accounting Equation: Assets = Capital + Liabilities

(i)	25,00,000
(ii)	4,50,000
(iii)	1,50,000
(iv)	1,19,60,000

31. Mock test 2

The trial balance of Kumar as at 31st December, 2017 is as follows:

Particulars	Dr.	Cr.
	₹	₹
Kumar's capital account	-	38,345
Stock 1st January, 2017	23,400	-
Sales	-	1,94,800
Returns inward	4,300	-
Purchases	1,60,850	-
Returns outward	-	2,900
Carriage inwards	9,800	-
Rent & taxes	2,350	-
Salaries & wages	4,650	-
Sundry debtors	12,000	-
Sundry creditors	-	7,400
Bank loan @ 14% p.a.	-	10,000
Bank interest	550	-
Printing and stationary expenses	7,200	-
Bank balance	4,000	-
Discount earned	-	2,220
Furniture & fittings	2,500	-
Discount allowed	900	-
General expenses	5,725	-
Insurance	650	-
Postage & telegram expenses	1,165	-
Cash balance	190	-
Travelling expenses	435	-
Drawings	15,000	-
	2,55,665	2,55,665

The following adjustments are to be made:

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

(2) Personal purchases of Kumar amounting to ₹ 300 had been recorded in the purchases day book.

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

(4) Included amongst the debtors is ₹ 1,500 due from Dyal and included among the creditors ₹ 500 due to him.

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

(6) Credit purchase invoice amounting to ₹ 200 had been omitted from the books.

(7) Stock on 31.12.2017 was ₹ 39,300.

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

You are required to prepare Trading & profit and loss account for the year ended 31.12.2017.

Solution:

Trading and Profit and Loss Account of Mr. Kumar for the year ended 31st December, 2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		Less: Returns	4,300	1,90,500
Add: Omitted	200		By Closing stock		39,300
invoice	1,61,050				
Less: Returns	2,900				
	1,58,150				
Less: Drawings	300	1,57,850			
To Freight & carriage		9,800			
To Gross profit c/d		38,750			
		2,29,800			2,29,800
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220
To Bank interest	550				
Add: Due	850	1,400			
To Printing and stationary	7,200				
Less: Prepaid (1/4)	1,800	5,400			
To Discount allowed		900			
To General expenses		5,725			
To Insurance		650			
To Postage & telegram expenses		1,165			
To Travelling expenses		435			

To Provision for bad debts [W.N.]		575			
To Provision for discount on debtors [W.N.]		219			
To Depreciation on furniture & fittings		250			
To Net profit		17,251			
		40,970			40,970

Working Note:

Provision for bad & doubtful debts:	
@ 5% on Rs. 11,500	575
Provision for discount:	
2% on Rs. 10,925 (11,500 -575)	219

32.QP May 19

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

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

Other information:

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

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

(iii) Commission received in advance is ₹100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

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

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

You are required to prepare the final accounts after making above adjustments.

Solution:

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

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

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	

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

33. RTP May 19

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

Particulars	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	**31,19,000**

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

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

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

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

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

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

Solution:

Journal Entries

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

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

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

Balance Sheet as on 31st March, 2018

Liabilities		₹	Assets		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	Less: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors Investments		2,50,000 2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses		11,000

			(6000+5000)		
		______	Bank		1,69,000
		13,30,000			13,30,000

34.RTP NOV 20

The following is the Trial Balance of T on 31st March, 2019:

Particulars	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

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

ii. Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.

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

iv. Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Solution:

Journal Entries

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

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

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

Balance Sheet as on 31st March, 2018

Liabilities		₹	**Assets**		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	Less: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000

			Prepaid Expenses (6000+5000)		11,000
		______	Bank		1,69,000
		13,30,000			13,30,000

35.QP NOV 20

Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.

On 1st July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

i. Amount of salaries which would be charged to the profit and loss for the year ended 31st December,2019.
ii. Amount actually paid as salaries during 2019.
iii. Outstanding salaries as on 31st December,2019.

Solution:

Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2019

Employees	= 9 x ₹ 44,000 x 12	=	₹47,52,000
Trainees	= 2 x ₹ 21,000 x 6	=	₹ 2,52,000

Salaries charged to P & L A/c ₹50,04,000

(ii) Amount actually paid as salaries during 2019

Employees = 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000 = ₹ 47,16,000

Trainees = 2 x ₹21,000 x 5 = ₹ 2,10,000

Amount paid as salaries ₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees = 9 x ₹ 44,000 = ₹ 3,96,000

Trainees = 2 x ₹ 21,000 = ₹ 42,000

Outstanding salaries ₹ 4,38,000

36.QP NOV 20

Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing from these accounts.

Raw Material A/c.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock A/c	1,27,000	By Raw Material Consumed	-
To Creditors A/c	-	By Closing Stock	-

Creditors A/c.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By balance b/d	15,70,000
To Balance c/d	6,60,000		

Manufacturing A/c.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c.	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
To Direct Expenses	2,49,000		

Additional Information:

i. Purchase of Machinery worth ₹ 12,00,000 on 1st April, 2019 has been omitted. Machinery are chargeable at a depreciation rate of 15%

ii. Wages include the following:

Paid to factory workers - ₹ 3,15,000

Paid to Labour at office - ₹ 50,000

iii. Direct expenses including following:

Electricity charges - ₹ 80,000 of which 25% pertained to office

Fuel charges - ₹ 25,000

Freight inwards - ₹ 32,000

Delivery charges to customers - ₹ 22,000

You are required to prepare revised Manufacturing A/c and raw Material A/c.

Solution:

Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c(Balancing Figure)	6,52,000
	15,67,000		15,67,000

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted. So, depreciation omitted from being charged = 12,00,000 X 15%

= ₹ 1,80,000

Correct total depreciation expense = ₹ (2,15,000 + 1,80,000)

= 3,95,000

(2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)

= ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(42,000)
Revised balance to be transferred	18,32,000

(5) Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c(Bal. figure)	14,40,000
	30,10,000		30,10,000

37. RTP MAY 21

The following is the trial balance of Manan as at 31st March 2020:

	Dr.	Cr.
	₹	₹
Manan's capital account	-	1,53,380
Stock 1st April, 2019	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-
Discount earned	-	8,880
Furniture & fittings	10,000	-

Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1740	-
Drawings	60,000	-------
	10,22,660	10,22,660

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 6,000 due from Rahul and included among the creditors ₹ 2,000 due to him.

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

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

(4) Personal purchases of Manan amounting to ₹ 1200 had been recorded in the purchases day book.

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

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

(7) Credit purchase invoice amounting to ₹ 800 had been omitted from the books.

(8) Stock on 31st March 2020 was ₹ 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2020 and (ii) Balance sheet as on 31st March, 2020.

Solution:

Trading and Profit and Loss Account of Mr. Manan
for the year ended 31st March,2020

Particulars	₹	Amount ₹		Amount ₹	₹
To Opening stock		93,600	By Sales	7,79,200	
To Purchases	6,43,400		Less: Returns	17,200	7,62,000
Add: Omitted invoice	800		By Closing stock		1,57,200

	6,44,200				
Less: Returns	11,600				
	6,32,600				
Less: Drawings	1,200	6,31,400			
To Carriage		39,200			
To Gross profit c/d		1,55,000			
		9,19,200			9,19,200
To Rent and taxes		9,400	By Gross profit b/d		1,55,000
To Salaries and wages		18,600	By Discount		8,880
To Bank interest	2,200				
Add: Due	3,400	5,600			
To Printing and stationary	28,800				
Less: Prepaid (1/4)	7,200	21,600			
To Discount allowed		3,600			
To General expenses		22,900			
To Insurance		2,600			
To Postage & telegram expenses		4,660			
To Travelling expenses		1,740			
To Provision for bad debts [W.N.(2)]		2,300			
To Provision for discount on debtors [W.N.(2)]		874			
To Depreciation on furniture & fittings		1,000			
To Net profit		69,006			------
		1,63,880			1,63,880

Balance Sheet of Manan as at 31st March,2020

Liabilities	₹	₹	Assets	₹	₹
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	69,006		Less: Depreciation	1000	9,000
	2,22,386		Sundry debtors (W.N.1)	46,000	
Less: Drawings:			Less: Provision for bad		
Cash 60,000			& doubtful debts (W.N.2)	2,300	

Goods 1,200	61,200	1,61186		43,700	
Bank loan		40,000	Less: Provision for		
Bank interest due		3,400	discount (W.N.2)	874	42,826
Sundry creditors (W.N.3)		28,400	Stock		1,57,200
			Prepaid expenses:		
			Printing & stationary		7,200
			Bank balance		16,000
		--------	Cash balance		760
		2,32,986			2,32,986

Working Notes:

(1) **Sundry debtors** Balance as per trial balance	48,000
Less: Due to Rahul	2,000
	46,000
(2) **Provision for bad & doubtful debts:** @ 5% on ₹ 46,000	2,300
Provision for discount: 2% on ₹ 43,700 (46,000 -2,300)	874
(3) **Sundry creditors** Balance as per trial balance	29,600
Less: Set off in respect of Rahul	2,000
	27,600
Add: Purchase invoice omitted	800
	28,400

38.RTP NOV 21

The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200
Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400

Wages	48,660	Sales	8,61,200
Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Solution:

Rectification Entries

	Particulars		Dr.	Cr.
			Amount	Amount
			₹	₹
(i)	Returns inward account	Dr.	10,300	
	Sales account	Dr.	6,900	

	To Purchases account		10,300
	To Returns outward account		6,900
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings account Dr.	14,000	
	To Purchases account		14,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery account Dr.	1,800	
	To Wages account		1,800
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account Dr.	3,300	
	To Purchases account		3,300
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. Satendra
for the year ended 31st March, 2021

Dr. **Cr.**

			Amount				Amount
		₹	₹			₹	₹
To	Opening stock		1,29,000	By	Sales	8,54,300	
To	Purchases	6,12,400			Less: Sales return	10,300	8,44,000
	Less: Purchases return	6,900	6,05,500	By	Closing stock		
To To To	Carriage inward Wages Gross profit c/d		4,500 46,860 5,58,140		$₹\ 3,20,000 \times \frac{100}{80} \times \frac{100}{80}$		5,00,000
			13,44,000				13,44,000
To	Salaries		90,200	By	Gross profit b/d		5,58,140
To	Rent		17,200	By	Bad debts recovered		1800
To	Advertisement expenses		16,700				
To	Printing and stationery		5,000				

To	Bad debts		4,400				
To	Carriage outward		5,400				
To	Provision for doubtful debts						
	5% of ₹ 4,80,000	24,000					
	Less: Existing provision	12,800	11,200				
To	Provision for discount on debtors						
	2.5% of ₹ 4,56,000	11,400					
	Less: Existing provision	5,500	5,900				
To	Depreciation:						
	Plant and machinery	16,000					
	Furniture and fittings	4,100	20,100				
To	Office expenses		40,640				
To	Interest on loan		12,000				
To	Net profit						
	(Transferred to capital account)		3,31,200				-------
			5,59,940				5,59,940

Balance Sheet of Mr. Satendra as on 31st March, 2021

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,31,200		Less: Depreciation	16,000	64,000
	5,91,200		Furniture and fittings	41,000	
Less: Drawings	46,000	5,45,200	Less: Depreciation	4,100	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Sundry creditors		1,90,000	Sundry debtors	4,80,000	
Payable salaries		9,800	Less: Provision for doubtful debts	35,400	4,44,600
			Prepaid rent		1,200
			Cash in hand		5800
		-------	Cash at bank		12,500
		10,65,000			10,65,000

39. QP July 21

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020 - ₹ 15,000 principal+ ₹ 9,000 interest

30th September, 2020 - ₹ 15,000 principal+ ₹ 8,550 interest

31st December, 2020 - ₹ 15,000 principal+ ₹ 8,100 interest

31st March, 2021 - ₹ 15,000 principal+ ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

i. She withdrew ₹ 5,000 by cheque each month for her personal expenses.

ii. Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

iii. Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

Solution:

In the books of M/s Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2021

		₹			₹
To	Purchases	17,00,000	By	Sales	20,00,000
To	Gross profit	8,50,000	By	Closing stock	5,50,000
		25,50,000			25,50,000
To	Interest (9,000+8,550+8,100+7,650)	33,300	By	Gross profit	8,50,000
To	Telephone charges	50,000			
To	Travelling expenses	45,000			
To	Maintenance expenses	25,000			
To	Entertainment expenses	5,000			
To	Electricity exp 40,000				
	Add: outstanding 20,000	60,000			
To	Carriage outward	60,000			
To	Depreciation				
	Building 5% 30,000				
	Furniture 10% 1,000	31,000			
To	Misc. exp	15,000			
To	Net profit	5,25,700			
		8,50,000			8,50,000

Balance Sheet as on 31st March, 2021

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000
Bank Loan	3,00,000		Security deposit-Telephone		7,000
Less: repayment	60,000	2,40,000	Bank		89,700
outstanding electricity exp		20,000	Closing stock		5,50,000
		12,25,700			12,25,700

Working note:

Bank Account

	PARTICULARS	RS.		PARTICULARS	RS.
To	Capital	3,00,000	By	Building	6,00,000
To	Further capital	2,00,000	By	Furniture	10,000
To	Bank loan	3,00,000	By	Bank loan repaid	60,000
To	Sales	20,00,000	By	Interest	33,300
			By	Security deposit	7,000
			By	Drawings	60,000
			By	Purchase	17,00,000
			By	Telephone charges	50,000
			By	Travelling expenses	45,000
			By	Maintenance expenses	25,000
			By	Entertainment expenses	5,000
			By	Electricity	40,000
			By	Carriage outward	60,000
			By	Misc. expenses	15,000
			By	Balance c/d	89,700
		28,00,000			28,00,000

40. QP July 21

PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:

(1)	Liability for Income Tax	₹ 40,000
(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

Solution:

(a) Transfer to provisions - (i), (iv)

(b) Transfer to reserves - (ii)

(c) Neither related to provisions nor reserves - (iii), (v).

41. QP Dec 21

On 31st March, 2021 the Trial Balance of Mr. Black was as Follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020:		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payable	75,000
Work-in-Progress	95,000	Sale to Scrap	25,000
Finished Goods	1,55,000	Commission Received	4,500
Sundry Debtors	2,40,000	Provision for doubtful Debts	16,500
Carriages on Purchases	15,000	Capital Account	10,00,000
Bills Receivable	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to plant	11,000		
Purchases	8,50,000		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available:

Stocks on 31st March, 2021 were:

Raw material	₹1,62,000

Finished Goods	₹1,81,000
Work-in-progress	₹ 78,000

Salaries and Wages unpaid for the year ended 31st March 2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by 7 ½ %. A provision for doubtful debts is to be maintained @ 1% of Sales. Rent is to be charged as to ¾ to factory and ¼ to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March, 2021.

Solution:

In the books of Mr. Black

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap By Cost of goods Manufactured	25,000
Add: Purchases	8,50,000		(Transferred to Trading Account)	11,90,000
Less: Closing Stock	1,62,000	8,98,000		
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation of Plant		70,000		
		12,93,000		12,93,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		18,53,000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation offurniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of ₹1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		5,12,500

42. Mock Test Nov 21

Following particulars are extracted from the books of Mr. Vaid for the year ended 31st March, 2021.

Particulars	Amount	Particulars	Amount
Debit Balances:	Rs.	Credit Balances:	Rs.
Cash in hand	3,000	Capital	32,000
Purchase	24,000	Bank overdraft	4,000
Sales return	2,000	Sales	18,000
Salaries	5,000	Purchase return	4,000
Tax and Insurance	1,000	Provision for Bad debts	2,000
Bad debts	1,000	Creditors	4,000

Debtors	10,000	Commission	1,000
Investments	8,000	Bills payable	5,000
Opening stock	2,800		
Drawings	4,000		
Furniture	3,200		
Bills receivables	6,000		
	70,000		70,000

Other information:

(i) Closing stock was valued at Rs. 9,000.

(ii) Goods withdrawn by Mr. Vaid for own consumption Rs. 4000 included in purchases.

(ii) Salary of Rs. 200 and Tax of Rs. 400 are outstanding whereas insurance Rs. 100 is prepaid.

(iii) Commission received in advance is Rs. 200.

(iv) Interest accrued on investment is Rs. 420.

(v) Interest on overdraft is unpaid Rs. 600.

(vi) Provision for bad debts is to be kept at Rs. 2,000.

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

You are required to prepare the final accounts after making above adjustments.

Solution:

Trading & Profit and Loss Account of
Mr. Vaid for the year ended 31st March, 2021

	Particulars	₹	₹		Particulars	₹	₹
To	Opening Stock		2,800	By	Sales	18,000	
To	Purchase	20,000			Less: Sales return	(2,000)	16,000
	Less: Purchase return	(4,000)	16,000	By	Closing stock		9,000
To	Gross Profit		6,200				
			25,000				25,000
To	Salary	5,000		By	Gross Profit		6,200
	Add: Outstanding salary	200	5,200	By	Commission Less: Advance	1,000 (200)	800
To	Tax & Insurance	1000		By	Accrued interest		420

	Add: Outstanding	400		By	Net Loss		1,000
	Prepaid insurance	(100)	1,300				
To	Bad debt	1000					
	Opening provision	(2,000)					
	Closing provision	2,000	1,000				
To	Interest on overdraft		600				
To	Depreciation on furniture		320				
			8,420				8,420

Balance Sheet of Mr. Vaid as on 31.3.2021

Particulars	₹₹	₹	Particulars	₹₹	₹₹
Capital	32,000		By Furniture	3,200	
Less: drawing	(8,000)		Less: Depreciation	(320)	2,880
Net loss	(1,000)	23,000	Bill receivable		6,000
Bank overdraft	4,000		Investment	8,000	
Add: interest	600	4,600	Add: accrued interest	420	8,420
Creditors		4,000	Debtors	10,000	
Bills payable Outstanding expenses:		5,000	Less: Provision on baddebts	(2,000)	8,000
Salary	200		Closing stock		9,000
Tax	400	600	Cash in hand		3,000
Commission received inadvance		200	Prepaid insurance		100
		37,400			37,400

43.RTP May 22

Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-

Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	
	46,505	68,665

Adjustments:

a) Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.

b) Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.

c) Depreciation to be provided on furniture at 10% per annum.

Solution

Redrafted Trial Balance of Mr. Bansal as on 31st March,2021

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-

Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840
Carriage outward	725	-
Rent paid	800	-
Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	48,190

Trading and Profit and Loss Account of Mr. Bansal for the year ended 31st March, 2021

Dr.					Cr.
Particulars	₹	₹	Particulars	₹	₹
To Opening stock		17,500	By Sales	29,000	
To Purchases	13,000		Less: Returns inward	(550)	28,450
Less: Returns outward	(840)	12,160	By Stock destroyed by fire		2,000
To Wages		850	By Closing stock		18,790
To Carriage inward		1,240			
To Gross profit		17,490			
		49,240			49,240
To Carriage outward		725	By Gross profit		17,490
To Rent		800			
To Advertisement		950			
To Bad debts		600			
To Provision for doubtful debts (5% of ₹ 4,400)		220			
To Loss of stock by fire		500			

To Depreciation on furniture (10% of ₹1,500)		150			
To Net profit		13,545			17,490
		17,490			

Balance Sheet of Mr. Bansal as at 31st March, 2021

Liabilities		₹	Assets		₹
Capital	16,000				
Add: Net profit	13,545		Furniture	1,500	
	29,545		Less: Depreciation	150	1,350
Less: Drawings	3,305	26,240	Deposit with X		1,400
Sundry creditors		2,200	Closing Stock		18,790
Outstanding rent		150	Sundry debtors	5,000	
			Less: Bad debts	600	
				4,400	
			Less: Provision for Doubtful Debts	220	4,180
			Insurance claim receivable		1,500
		------	Cash		1,370
		28,590			28,590

44. RTP Nov 22

The following is the Trial Balance of Mr. T on 31st March, 2022:

	Dr. ₹	Cr. ₹
Capital	-	18,00,000
Drawings	2,10,000	-
Fixed Assets (Opening)	4,20,000	-
Fixed Assets (Additions 01.10.2022)	6,00,000	-
Opening Stock	1,80,000	-
Purchases	48,00,000	-
Purchases Returns	-	2,07,000
Sales	-	66,00,000
Sales Returns	2,97,000	-
Debtors	7,50,000	-
Creditors	-	6,60,000
Expenses	1,50,000	-

Fixed Deposit with Bank	6,00,000	-
Interest on Fixed Deposit	-	60,000
Cash	-	24,000
Suspense A/c	-	6,000
Depreciation	42,000	-
Rent (17 months upto 31.8.2022)	51,000	-
Investments 12% (01.8.2021)	7,50,000	-
Bank Balance	5,07,000	-
	93,57,000	93,57,000

Stock on 31st March,2022 was valued at ₹ 3,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

a) ₹ 60,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 36,000 was used in the business for day-to-day expenses.

b) Purchase of goods worth ₹ 48,000 was not recorded in the books of account upto 31.03.2022, but the goods were included in stock.

c) Purchase returns of ₹ 3,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

d) Expenses include ₹ 18,000 in respect of the period after 31st March,2022.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March,2022.

Solution

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	36,000	
	To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)			36,000
(ii)	Purchase A/c	Dr.	48,000	
	To Creditors (Entry for purchases not recorded)			48,000
(iii)	Suspense A/c	Dr.	6,000	

	To Purchase Returns A/c			3,000
	To Sales Returns A/c			3,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	18,000	
	To Expenses A/c			18,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of Mr. T for the year ending 31st March, 2022

Dr.			Cr.		
		₹			₹
To Opening Stock		1,80,000	By Sales	66,00,000	
To Purchases	48,00,000		Less: Sales Return		
Add: Amount not recorded	48,000		(2,97,000 – 3,000)	2,94,000	63,06,000
Less: Purchases Returns	48,48,000		By Closing Stock		3,00,000
(2,07,000+3,000)	210,000	46,38,000			
To Gross Profit c/f		17,88,000			
		66,06,000			66,06,000
To Expenses (1,50,000 – 18,000 + 36,000)		1,68,000	By Gross Profit		17,88,000
To Rent (51,000 – 15,000)		36,000	By Interest on Fixed Deposit		60,000
To Depreciation Add: Further Depreciation $(6,00,000 \times \frac{10}{100} \times \frac{6}{12})$	42,000 30,000	72,000	By Interest on Investments $(7,50,000 \times \frac{12}{100} \times \frac{8}{12})$		60,000
To Net Profit		16,32,000			
		19,08,000			19,08,000

Balance Sheet as on 31st March, 2022

Liabilities		₹	Assets		₹
Capital	18,00,000		Fixed Assets	4,20,000	
Add: Net Profit	16,32,000		Additions	6,00,000	
Less: Drawings				10,20,000	
(2,10,000–36,000)	1,74,000	32,58,000	Less: Depreciation	30,000	9,90,000
Creditors	6,60,000		Stock		3,00,000

Add: Purchases not recorded	48,000	7,08,000	Debtors Investments		7,50,000 7,50,000
Overdraft		24,000	Interest accrued		60,000
			Bank fixed deposit		6,00,000
			Prepaid Expenses (18,000+15,000)		33,000
			Bank		5,07,000
		39,90,000			39,90,000

45.ICAI Exam May 22

The following is the trial balance of Mr. B for the year ended 31st March,2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		

Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

(i) Stock of finished goods at the end of the year was ₹ 3,50,000.

(ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.

(iii) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.

(iv) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2021 and Balance Sheet as at that date.

Solution

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent and Rates		70,000		
To Depreciation on		10,500		

Machinery				
		28,28,000		28,28,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	35,000	29,40,000
		By Closing Stock		3,50,000
To Gross Profit c/d	1,99,500			
	32,90,000			32,90,000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	5,250	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	7,000	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		2,95,750		2,95,750

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

Balance Sheet as on 31st March, 2021

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	10,500	94,500
	4,34,000		Land & Building	3,50,000	

Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors		
				1,40,000	
			Less: Provision for Bad & Doubtful Debts	7,000	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

46.MTP Nov 22 Series I

Following particulars are extracted from the books of Mr. Purav for the year ended31st March, 2022.

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	**Credit Balances:**	₹
Cash in hand	15,000	Capital	1,60,000
Purchase	1,20,000	Bank overdraft	20,000
Sales return	10,000	Sales	90,000
Salaries	25,000	Purchase return	20,000
Tax and Insurance	5,000	Provision for Bad debts	10,000
Bad debts	5,000	Creditors	20,000
Debtors	50,000	Commission	5,000
Investments	40,000	Bills payable	25,000
Opening stock	14,000		
Drawings	20,000		
Furniture	16,000		
Bills receivables	30,000		
	3,50,000		3,50,000

Other information :

(i) Closing stock was valued at ₹ 45,000.

(ii) Salary of ₹ 1,000, and Tax of ₹ 2,000 are outstanding whereas insurance ₹ 500 is prepaid.

(iii) Interest accrued on investment is ₹ 2,100. Interest on overdraft is unpaid ₹ 3000.

(iv) Provision for bad debts is to be kept at ₹ 15,000.

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

You are required to prepare the final accounts after making above adjustments.

Solution

Trading & Profit and Loss Account of Mr. Purav for the year ended 31st March, 2022

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		14,000	By Sales	90,000	
To Purchase	1,20,000		Less: Sales return	(10,000)	80,000
Less: Purchase return	(20,000)	1,00,000	By Closing stock		45,000
To Gross Profit		11,000			
		1,25,000			1,25,000
To Salaries	25,000		By Gross Profit		11,000
Add: Outstanding salary	1,000	26,000	By Commission		5,000
To Tax & Insurance	5,000		By Accrued interest		2,100
Add: Outstanding	2,000		By Net Loss		29,000
Prepaid insurance	(500)	6,500			
To Provision for Bad debt (WN)		10,000			
To Interest on overdraft		3,000			
To Depreciation on furniture		1,600			
		47,100			47,100

Rounded off

Balance Sheet of Mr. Purav as on 31.3.2022

Particulars	₹	₹	Particulars	₹	₹
Capital	1,60,000		By Furniture	16,000	
Less: drawing	(20,000)		Less: Depreciation	(1,600)	14,400
Net loss	(29,000)	1,11,000	Bill receivable		30,000
Bank overdraft	20,000		Investment	40,000	

Add: interest	3000	23,000	Add: accrued interest	2,100	42,100
Creditors		20,000	Debtors	50,000	
Bills payable Outstanding expenses:		25,000	Less: Provision on bad debts	(15,000)	35,000
Salary	1,000		Closing stock		45,000
Tax	2,000	3,000	Cash in hand		15,000
			Prepaid insurance		500
		1,82,000			1,82,000

Working Note:

Provision for Bad Debts A/c

Particulars	₹	Particulars	₹
To Bad Debts	5,000	By bal b/d	10,000
To bal c/d	15,000	By P& L A/c (Bal fig.)	10,000
	20,000		20,000

47. MTP Nov 22 Series I

Following information is provided for M/s. Diana fiber for the year ended 31st March, 2022:

	₹
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000
Factory Rent	70,000

You are required to pass necessary closing entries in the journal proper of M/s. Diana fiber.

Solution

Journal Proper in the Books of M/s. Diana Fiber

Date	Particulars	Amount	Amount
2022		₹	₹

Mar. 31	Returns outward A/c Dr. To Purchases A/c (Being the transfer of returns to purchases account)	72,000	72,000
	Sales A/c Dr. To Returns Inward A/c Dr. (Being the transfer of returns to sales account)	1,00,000	1,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account totrading account)	10,00,000	10,00,000
	Trading A/c Dr. To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c To Factory Rent (Being the transfer of balances of opening inventory, purchases, wages, Carriage Inward and factory rent accounts)	8,50,000	 1,00,000 6,00,000 50,000 30,000 70,000
	Closing Inventory A/c Dr. To Trading A/c (Being the incorporation of value of closing Inventory)	2,00,000	2,00,000
	Trading A/c Dr. To Gross Profit (Being the amount of gross profit)	3,50,000	3,50,000
	Gross profit Dr. To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	3,50,000	3,50,000

48. MTP Nov 22 Series 2

From the following information provided by Mr. Shivam for the year ended 31st March,2022. Find the unknown figures for the certain items:

Particulars	Amount (₹)
Machinery	10,00,000
Trade Payables	70,000
Inventory	56,000
Total Liabilities including Capital	12,25,000
Cash at bank	75,000
Cash in hand	?
Trade Receivables	?

Opening Capital	7,50,000
Profit during the Year	45,000
Capital introduced during the Year	1,00,000
Closing Capital	?
Loans	?

Additional information: During the year sales of ₹ 13,75,000 was made of which ₹13,15,000 have been received.

Solution

Trade receivables= Sales- Amount received during the Year

= ₹ (13,75,000-13,15,000)

= ₹ 60,000

Since, we know Assets= Capital+ Liabilities

Therefore, balance of assets is also ₹ 12,25,000 and Cash balance will be computed as under:

Particulars	**Amount (₹)**
Total Assets	12,25,000
Less: Machinery	(10,00,000)
Less: Inventory	(56,000)
Less: Cash at bank	(75,000)
Less: Trade receivables	(60,000)
Cash in hand	34,000

Computation of Closing Capital:

Particulars	**Amount (₹)**
Opening Capital	7,50,000
Add: Introduced during the year	1,00,000
Add: Profit during the year	45,000
Closing Capital	8,95,000

Computation of Amount of Loans:

Loans= Total Liabilities and capital - Closing capital - Trade payables

= ₹ (12,25,000 - 8,95,000 - 70,000)

= ₹ 2,60,000

49.MTP Nov 22 Series 2

Ms. Veena is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2022 has been given below:

On 1.4.2021 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of ₹ 7,50,000. You are required to compute:

i. Total income for the year 2021-22.

ii. Total money received during the year if the closing balance in Advance from customers Account is ₹ 2,55,000.

Solution

i. Computation of Income for the year 2021-22:

	₹
Money received during the year related to 2021-22	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2021-22	9,75,000

ii. Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to currentyear transferred to sales)	2,25,000	1.4.2021	By Balance b/d	3,00,000
				By Bank A/c	1,80,000
31.3.22	To Balance c/d	2,55,000		(Balancing Figure)	
		4,80,000			4,80,000

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

50. ICAI Exam Nov 22

The balance sheet of on 1st April, 2022 was as follows

Particular	Amount	Particular	Amount
Trade payable	6,50,000	Furniture and Fixtures	6,50,000
Expenses payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade receivable	11,00,000
		Cash at bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2021-22, his profit and loss Account revealed a net profit of ₹ 6, 70,000. This was after allowing for the following.

i. Commission paid to selling agent ₹ 65,000
ii. Discount received from creditors ₹ 75,000
iii. Purchased a vehicle of ₹ 50,000 on 31st March, 2022.
iv. Depreciations on Furniture and Fixtures @ 10% and on Vehicle @ 20%.
v. A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022.

But while preparing the profit and Loss Account he had forgotten to provide for

1. Prepaid expenses ₹ 15,000 and
2. Outstanding commission ₹ 35,000.

His current assets and liabilities on 31st March, 2022 were. Inventories ₹ 6, 50,000. Trade Receivable 13, 00,000 (before provision for doubtful debts), cash at bank 5,50,000 and Trade Payable ₹ 1,46,000.

During the year he introduced further capital of ₹ 3, 00,000 into the business.

You are required to prepare the balance sheet as at March 31, 2022.

Solution

Balance Sheet of S as on 31st March, 2022

Liabilities		₹	Assets	₹
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables (WN. 2)	12,61,000
	28,50,000		Vehicles (WN. 3)	2,70,000
Add: Introduction of capital	3,00,000		Furniture & Fixtures (WN. 4)	5,85,000
		31,50,000	Inventories	6,50,000
Outstanding commission		35,000	Prepaid expenses	15,000

Trade payables		1,46,000		
		33,31,000		33,31,000

Working Note 1

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		6,85,000

Working Note 2

Trade Receivables

Particulars	₹	Particulars	₹
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
		By Balance c/d (b/f)	12,61,000
	13,00,000		13,00,000

Working Note 3

Vehicles A/c

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		3,25,000

Working Note 4

Furniture & Fixtures A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	6,50,000		6,50,000

51. RTP May 23

The following is the trial balance of Prakesh as at 31st December, 2022:

	Dr.	Cr.
	₹	₹
Prakesh's capital account		3,83,450
Stock 1st January, 2022	2,34,000	-
Sales	-	19,48,000
Returns inward	43,000	-
Purchases	16,08,500	-
Returns outward	-	29,000
Carriage inwards	98,000	-
Rent & taxes	23,500	-
Salaries & wages	46,500	-
Sundry debtors	1,20,000	-

Sundry creditors	-	74,000
Bank loan @ 14% p.a.	-	1,00,000
Bank interest	5,500	-
Printing and stationary expenses	72,000	-
Bank balance	40,000	-
Discount earned	-	22,200
Furniture & fittings	25,000	-
Discount allowed	9,000	-
General expenses	57,250	-
Insurance	6,500	-
Postage & telegram expenses	11,650	-
Cash balance	1,900	-
Travelling expenses	4,350	-
Drawings	1,50,000	-
	25,56,650	25,56,650

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 15,000 due from Ravi and included among thecreditors ₹ 5,000 due to him.

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

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

(4) Personal purchases of Prakash amounting to ₹ 3,000 had been recorded in the purchases day book.

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

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

(7) Credit purchase invoice amounting to ₹ 2,000 had been omitted from the books.

(8) Stock on 31.12.2022 was ₹ 3,93,000.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2022 and (ii) Balance sheet as on 31st December, 2022.

Solution

Trading and Profit and Loss Account of Mr. Prakash for the year ended 31st December, 2022

₹		₹	₹		₹
To Opening stock		2,34,000	By Sales	19,48,000	
To Purchases	16,08,500		Less: Returns	43,000	19,05,000
Add: Omitted invoice	2000		By Closing stock		3,93,000
	16,10,500				
Less: Returns	29,000				
	15,81,500				
Less: Drawings	3000	15,78,500			
To Carriage		98,000			
To Gross profit c/d		3,87,500			
		22,98,000			22,98,000
To Rent and taxes		23,500	By Gross profit b/d		3,87,500
To Salaries and wages		46,500	By Discount		22,200
To Bank interest	5,500				
Add: Due	8,500	14,000			
To Printing and stationary	72,000				4,09,700
Less: Prepaid (1/4)	18,000	54,000			
To Discount allowed		9,000			
To General expenses		57,250			
To Insurance		6,500			
To Postage & telegram expenses		11,650			
To Travelling expenses		4350			
To Provision for bad debts [W.N.(ii)]		5,750			
To Provision for discount on debtors [W.N.(iii)]		2185			
To Depreciation on furniture & fittings		2,500			
To Net profit		1,72,515			
		4,09,700			

Balance Sheet of Prakash as at 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital	3,83,450		Furniture & fittings	25,000	
Add: Net profit	1,72,515		Less: Depreciation	2,500	22,500
	5,55,965		Sundry debtors (W.N.1)	115,000	
Less: Drawings:			Less: Provision for bad		

Cash 1,50,000			& doubtful debts (W.N.2)	5,750	
Goods 3000	1,53,000	4,02,965		1,09,250	
Bank loan		1,00,000	Less: Provision for		
Bank interest due		8,500	Discount (W.N.2)	2,185	1,07,065
Sundry creditors (W.N.3)		71,000	Stock		3,93,000
			Prepaid expenses:		
			Printing & stationary		18,000
			Bank balance		40,000
		-------	Cash balance		1900
		5,82,465			5,82,465

Working Notes:

(1) Sundry debtors Balance as per trial balance	1,20,000
Less: Due to Ravi	5,000
	1,15,000
(2) Provision for bad & doubtful debts: @ 5% on ₹ 1,15,000	5,750
Provision for discount: 2% on ₹ 1,09,250 (1,15,000 -5,750)	2,185
(3) Sundry creditors Balance as per trial balance	74,000
Less: Set off in respect of Ravi	5,000
	69,000
Add: Purchase invoice omitted	2,000
	71,000

52. RTP Dec 23

The following are the balances extracted from the books of Shri Shrinivas as on 31.03.2023, who carries on business under the name and style of M/s Shrinivas and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	

Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

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

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Solution

M/s Shrinivas & Associates

Trading Account for the year ended 31st March 2023

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

M/s Shrinivas & Associates

Profit and Loss Account for the year ended 31st March 2023

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

Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Shrinivas & Associates as at 31st March 2023

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

Working Notes

(1) Insurance premium	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months (6,000 / 15 X 3)	(12,000)
Transfer to Profit and Loss A/c	4,800
(2) Depreciation	
Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000

Office Equipment @ 15% on 2,00,000	30,000
Total	80,000
(3) Interest on Loan	
Interest on Loan ₹ 60,000 X 10% X 9/12	4500
Less: interest as per Trial Balance	(4400)
Amount (Outstanding)	100

(4) Provision for bad debts A/c

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

53.QP Dec 2023

The following is schedule of balance as on 31-03-2023 extracted from the book of M/s RM & Co.

Particulars	Dr. ₹	Cr. ₹
Bank Charges	24,000	
Buildings	9,00,000	
Capital A/c		19,48,000
Carriage outwards	30,000	
Cash at Bank	39,000	
Cash in Hand	21,000	
Discount Allowed	36,000	
Discount Received		24,000
Drawings	1,80,000	
Electricity charges	33,000	
Freight on Purchases	18,000	
Furniture & fixtures	3,21,000	
General office expenses	45,000	
Insurance Premium	82,500	
Interest on Loan	35,000	
Loan		6,00,000
Printing & Stationery	27,000	
Purchase Returns		39,000

Purchases	21,30,000	
Rent For godown	82,500	
Salaries	1,65,000	
Sales		35,50,000
Sales returns	63,000	
Stock on 1-4-2022	9,30,000	
Sundry creditors		6,45,000
Sundry Debtors	12,90,000	
Vehicles	3,00,000	
Vehicles running expenses	54,000	
TOTAL	68,06,000	

Prepare Trading and profit & loss account for the year ended 31st March 2023 and the balance sheet as at that date after making provision for the following:

i. Value of stock as on 31-03-2023 is ₹ 4,10,000. This includes the goods returned by customers on 31st March, 2023 to the value of ₹ 22,000 for which no entry has been passed in the books.

ii. Purchases include furniture purchased on 01-10-2022 for ₹ 30,000.

iii. Depreciate:
   1) Building by 5%
   2) Furniture and fixtures by 10%
   3) Vehicles by 20%

iv. Sundry debtors include ₹ 35,000 due from Goku and sundry creditors include ₹ 25,000 due to him.

v. Provision for bad debts is to be maintained at 4% of sundry Debtors.

vi. Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1-05-2022 to 30-4-2023.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Following is the trial balance of Amar as on 31st March, 2011:

Particulars	Rs.	Rs.
Capital Account		80,000
Drawing Account	6,000	
Stock (1.4.2010)	45,000	
Purchases	2,60,000	
Sales		3,10,000
Furniture	10,000	
Sundry debtors	40,000	
Freight and Octroi	4,600	
Trade Expenses	500	
Salaries	5,500	
Rent	2,400	
Advertising Expenses	5,000	
Insurance Premium	400	
Commission		1,300
Discount	200	
Bad Debts	1,600	
Provision for bad debts		900
Creditors		20,000
Cash in hand	5,200	
Bank	5,800	
Goodwill (at cost)	20,000	
Total	**4,12,200**	**4,12,200**

Adjustments:

(a) Stock on 31st March, 2011 was valued at Rs 53,000

(b) Salaries have been paid only for 11 months.

(c) Unexpired insurance included in the figure of Rs. 400 appearing in trial balance is Rs. 100.

(d) Commission earned but not yet received amounting to Rs. 122 is to be recorded in books of account.

(e) Provision for bad debts is to be brought upto 3% of sundry debtors.

(f) Manger is to be allowed a commission of 10% of net profits after charging such commission.

(g) Furniture is depreciated @ 10% per annum.

(h) Only 1/4th of advertising expenses is to be written off.

Prepare trading and profit and loss account for the year ended 31st March, 2011 and balance sheet as on that date. Also show adjustments entries and closing entries.

Solution

2. The following is the schedule of balances as on 31.3.17 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messer's Gavaskar Viswanath & Co., at Bombay:

Particulars	**Dr. ₹**	**Cr. ₹**
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2016	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	

Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2017 and the Balance Sheet as at that date after making provision for the following:

- Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
- Value of stock at the close of the year was ₹ 4,40,000.
- Two month's rent for godown is outstanding.
- Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2016.
- Reserve for bad debts is to be maintained at 5 percent of Sundry Debtors.
- Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2016 to 30.6.17

Solution:

M/s Gavaskar Viswanath & Co.

Trading for the year ended 31st March 2020

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To opening Stock		6,20,000	By Sales	23,00,000	
To Purchases	14,00,000		*Less*: Sale of furniture included in sale	14,000	
Less: Typewriter included in purchases	40,000		*Less*: Sales Returns	42,000	22,44,000
Less: Purchase Returns	26,000	13,34,000	By Closing Stock		4,40,000
To Freight on purchase		12,000			
To Gross Profit c/d		7,18,000			
		26,84,000			26,84,000

M/s Gavaskar Viswanath & Co.

Profit/Loss Account for the year ended 31st March 2020

Particular	Details	Amount ₹	Particular	Details	Amount ₹
To Salaries		1,10,000	By Gross profit b/d		7,18,000
To Rent for Godown	55,000				
Add: Outstanding	11,000	66,000	By Discount received		16,000
To provision for doubtful debts(4)		33,000			
To Rent and Taxes		21,000			
To Discount Allowed		24,000			
To Carriage outwards		20,000			
To printing and stationery		18,000			
To Electricity charges		22,000			
To Insurance premium (1)		12,000			
To Depreciation (2)		1,20,000			
To general office expenses		30,000			
To Bank Charges		16,000			
To interest on loan	27,000				
Add: Outstanding (3)	6,000	33,000			
To Motor car expenses		36,000			
To Net Profit transferred to Capital a/c		1,73,000			
		7,34,000			

Balance Sheet of M/s Gavaskar Vishwanath & Co.

as at 31st March 2020

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	16,20,000		Building	6,00,000	
Add: Net Profit	1,73,000		Less: Dep.	(30,000)	5,70,000
Less: Drawings	(1,20,000)				
Less: Insurance Premium	(40,000)	16,33,000	Motor Car	2,00,000	
			Less: Dep.	(40,000)	1,60,000
Loan from Vishwanath	3,00,000				
Add: Outstanding	6,000	3,06,000	Office equipment	2,00,000	
			Less: Dep.	(30,000)	1,70,000
Sundry Creditors		4,30,000			

Outstanding rent		11,000	Furniture & Fixture	2,00,000	
			Less: Dep.	(20,000)	1,80,000
			Stock in Trade		4,40,000
			Sundry Debtors	8,60,000	
			Less: Provision for doubtful debts	(43,000)	8,17,000
			Cash at hand		26,000
			Cash in bank		14,000
			Prepaid insurance (1)		3,000
		23,80,000			23,80,000

Working Notes :

(1). Insurance premium

Insurance premium as given in trial balance	55,000
Less: Personal premium	(40,000)
Less: Prepaid for 3 months [(1500 / 15) x 3]	(3,000)
Transfer to P/L a/c	12,000

(2). Depreciation

Building @ 5% on 6,00,000	30,000
Motor Car @ 20% on 2,00,000	40,000
Furniture & Fittings @ 10% on 2,00,000(2,14,000-14,000)	20,000
Office Equipment @ 15% on 2,00,000 (1,60,000 + 40,000)	30,000
Total	1,20,000

(3). Interest on Loan

Interest on Loan (3,00,000 x 12% x 11/12)	= 33,000
Less : interest as per Trial Balance	(27,000)
P/L account (Outstanding)	6,000

(4) Provision for bad debts a/c

Particulars	Amount ₹	Particulars	Amount ₹
To bad debts a/c	20,000	By balance b/d	30,000
To balance c/d	43,000	By P&L a/c	33,000
	63,000		63,000

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

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

Required

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

Solution:

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 31.3.2020

Particulars		**Units**	**Amount** ₹	**Particulars**	**Units**	**Amount** ₹
To Opening Work- in-Process		10,000	16,000	By Closing Work- in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,70,000					
Add: Purchases	8,20,000					
	9,90,000					
Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages – W.N.(1)			4,04,800			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,00,000			

To Indirect expenses:						
Hire charges of						
Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			19,20,800

Working Notes :

(1) Direct Wages – 5,00,000 units @ ₹ 0.80 = ₹ 4,00,000

12,000 units @ ₹ 0.40 = ₹ 4,800

₹ 4,04,800

(2) Hire charges on Machinery – 5,00,000 units @ ₹ 0.60 = ₹ 3,00,000

Final account of manufacturing entities

True & False

1. By-products valued at cost or net realisable value whichever is lower.

   Ans:- False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.

2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced.

   Ans:- False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

3. If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.

   Ans:- True: Manufacturing account deals with the raw material and work in progress.

4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.

   Ans:- True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.

5. The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.

   Ans:- False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.

6. Overhead is defined as total cost of direct material, direct wages and direct expenses.

   Ans:- False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

7. Manufacturing A/c is prepared by an enterprise engaged in trading activities.

   Ans:- False: Manufacturing A/c is prepared by the entities engaged in manufacturing activities.

Multiple choice questions:

1. 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) Understate net income in that period.
   d) None of the three.

   Ans:- c

2. Sales is equal to
   a) Cost of goods sold – Gross profit.
   b) Cost of goods sold + Gross profit.
   c) Gross profit – Cost of goods sold.
   d) Net profit + cost of goods sold.

   Ans:- b

3. Indirect Manufacturing expenses are also called
   a) Manufacturing overhead.
   b) Production overhead.
   c) Works overhead.
   d) All the three.

   Ans:- d

4. Sale value of the by-product is credited to
   a) Manufacturing account.
   b) Capital account.
   c) Overheads account.
   d) Trading account.

   Ans:- a

5. Manufacturing account shows
   a) Total cost of manufacturing the finished products.
   b) It provides details of factory cost.
   c) It facilitates reconciliation of financial books with cost records.
   d) All the three.

   Ans:- d

Theoretical Questions

1. Write short note on by-products.

Answer

By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realisable value,** if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

2. Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses.

Answer

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

For detail, refer para 2.3

Final account of nan- manufacturing entities

True & false

1. The income statement shows either net profit or net loss for a particular period.

   Ans:- True: Profit and loss account shows either net profit or net loss for a particular period.

2. Gains from the sale or exchange of assets are not considered as the revenue of the business.

   Ans: False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.

3. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities.

   Ans:- True: The salary paid in advance is an asset it is not an expense because it neitherreduces assets or nor increase liabilities.

4. A loss is an expenditure which does not bring any benefit to the concern.

   Ans:- True: A loss is an expenditure of the business which does not bring any gain to the business.

5. All liabilities which become due for payment within the year are classified as long-term liabilities.

   Ans:- False: All liabilities which become due for payment within one year are classified ascurrent liabilities.

6. The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.

   Ans:- True: Current assets are all the assets which are expected to be realized or sold or consumed within one year.

7. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.

   Ans:- True: When an asset is purchase capital expenditure is incurred and when the asset isput to use expenses are incurred in consumption.

8. If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.

   Ans:- True: Debit balance of accounts are treated as expenses whose benefit is already received or expired.

9. Sales less cost of goods sold = gross profit.
   Ans:- True: Gross profit is obtained by deducting cost of goods sold from sales.

10. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.
    Ans:- False: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.

11. The provision for bad debts is debited to Sundry Debtors Account.
    Ans:- False: The provision for bad debts is debited to debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors

12. The provision for discount on creditors is often not provided in keeping with the principleof conservatism.
    Ans:- True: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

13. The debts written off as bad, if recovered subsequently are credited to Debtors Account.
    Ans:- False: The debts written off as bad, if recovered subsequently are credited to Bad Debts Recovered Account and becomes an income.

14. The adjustment entry in respect of income received in advance is debit Income receivedin advance account and credit income account.
    Ans:- False: Income received in advance is reduces it from the concerned income in profit and loss account. And, it is shows it as a liability in the current balance sheet under the head Current Liabilities.

15. Premium paid on the life policy of a proprietor is debited to profit and loss account.
    Ans:- False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.

16. Depreciation account appear in the trial balance is taken only to profit and loss account.
    Ans:- True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss accountby crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.

17. Personal purchases included in the purchases day book are added to the sales accountin the Trading account.

Ans:- False: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.

18. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.

Ans:- True: Any benefit given to the staff is debited to the salary account.

19. Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

Ans:- False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.

20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not enteredin Trading Account. It is only shown in the Balance Sheet.

Ans:- True: The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.

Multiple choice questions

1. A debit to an account may
   a) increase expense
   b) decrease an asset.
   c) increase a liability.
   Ans: a

2. 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.
   Ans: c

3. Gross profit is the difference between:
   a) sales and purchases
   b) sales and cost of sales.
   c) sales and total expenses.
   Ans:- b

4. Payment made to a creditor subject to cash discount will :
   a) reduce a liability, reduce an asset and add to expenses.
   b) reduce a liability, add to an asset, and add to revenue.
   c) reduce an asset, reduce a liability, and add to revenue.
   Ans: c

5. A customer returns goods already charged to him. We should:
   a) debit his account.
   b) credit his account.
   c) make no entry on his account.
   Ans:- b

6. Capital is the difference between
   a) Income and expenses
   b) Sales and Cost of goods sold
   c) Assets and liabilities
   Ans: c

7. 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) Wages being paid in cash.

   Ans: c

8. A decrease in the provision for doubtful debts would result in:
   a) An increase in liabilities.
   b) A decrease in working capital.
   c) An increase in net profit.

   Ans: c

9. 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%

   Ans: b

10. If sales is ₹ 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be
    a) ₹ 2,000.
    b) ₹ 1,500.
    c) ₹ 1,600.

    Ans:- c

11. Sales for the year ended 31st March, 2022 amounted to ₹ 10,00,000. Sales included goods sold to Mr. A for ₹ 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 Inventory.
    c) Goods in transit.

    Ans:- a

12. If sales revenues are ₹ 4,00,000; cost of goods sold is ₹ 3,10,000 and expenses are ₹60,000, the gross profit is
    a) ₹ 30,000.

b) ₹ 90,000.

c) ₹ 3,40,000.

Ans:- b

Theoretical questions

1. Write shorts notes on:

(a) Balance sheet.

(b) Trading account

(c) Closing entries

Answer

(a) The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of theword "as at."

(b) At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss withthe helps to Trading A/c. Gross Profit is the difference between the selling price and the cost of the goods sold.

(c) Closing entries: The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries.

2. Distinguish between Provision and reserve fund.

Answer:

Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined withsubstantial accuracy".

Reserve Fund: It signifies the amount standing to the credit of the reserve that isinvested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Financial Statements of Not-for-Profit Organisation

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11 / RTP May 18				
12	ICAI Illustration 12				
13	ICAI practical Question 1				
14	ICAI practical Question 2				
15	ICAI practical Question 3				
16	Additional Questions				
17	Additional Questions				
18	Additional Questions				
19	RTP Nov 18				
20	QP Nov 18				
21	QP May 19				
22	RTP May 20				
23	RTP Nov 20				
24	QP Jan 21				
25	QP Jan 21				
26	QP Jan 21				
27	QP Nov 21				
28	RTP May 21				
29	RTP Nov 21				

30	QP July 21				
31	QP Dec 21				
32	Mock Test Oct 21 (Series 1)				
33	Mock Test Nov 21				
34	RTP May 22				
35	RTP Nov 22				
36	ICAI Exam May 22				
37	MTP Nov 22 Series 1				
38	MTP Nov 22 Series 2				
39	ICAI Exam Nov 22				
40	RTP May 23				
41	QP June 23				
TEST IN TIME PASS IN TIME					
1	RTP Dec 23				
2	QP Dec 23				

Let's Get Started... With Class Work

1. ICAI Illustration 1

The receipts and payments for the Swaraj Club for the year ended March 31, 2022 were: Entrance fees ₹ 300; Membership Fees ₹ 3,000; Donation for Club Pavilion ₹ 10,000, Foodstuff sales ₹ 1,200; Salaries and Wages ₹ 1,200 Purchase of Foodstuff ₹ 800; Construction of Club Pavilion ₹11,000; General Expenses ₹600; Rent and Taxes ₹400; Bank Charges ₹160.

Cash in hand–April. 1st ₹200, March. 31st ₹ 350

Cash in Bank–April. 1st ₹400; March. 31st ₹590

You are required to prepare Receipts and Payment Account.

Solution:

Swaraj Club
Receipts and Payments Accounts
for the year ended 31st March, 2022

	Receipts	₹		Payments	₹
To	Balance b/d(opening bal.) Cash in hand	200	By	Salaries and Wages	1,200
To	Cash with bank	400	By	Purchase of Foodstuff	800
To	Entrance Fees	300	By	Club Pavilion (Expenditure	
To	Membership Fees	3,000		on its construction)	11,000
To	Donation of Account		By	General Expenses	600
	of Club Pavilion	10,000	By	Rent and Taxes	400
To	Sales of foodstuff	1,200	By	Bank Charges	160
			By	Balance c/d (closing bal)	
				Cash in hand	350
				Cash in bank	590
		15,100			15,100

2. ICAI Illustration 2

During 2022, subscription received in cash is ₹42,000. It includes ₹ 1,600 for 2019 and ₹600 for 2023. Also ₹3,000 has still to be received for 2022.

Required

Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

Solution:

		₹
Amount received		42,000
Add : Outstanding on 31st Dec., 2022		3,000
		45,000
Less : Received on account of 2022	1,600	
2023	600	(2,200)
		42,800

The various accounts will appear as under:

Subscription Outstanding Account

2022		₹	2022		₹
Jan. 1	To Balance b/d (transfer)	1,600	Dec. 31	By Subscription A/c	1,600
Dec. 31	To Subscription A/c	3,000	Dec. 31	By Balance c/d	3,000
		4,600			4,600
2023					
Jan. 1	To Balance b/d	3,000			

Subscription Account

2022		₹	2022		₹
Dec. 31	To Subscription Outstanding A/c (transfer)	1,600	Dec. 31	By Cash A/c	42,000
			Dec. 31	By Subscription Outstanding A/c	3,000
Dec. 31	To Subscription receivedin advance A/c	600			
Dec. 31	To Income and Expenditure A/c (transfer)	42,800			
		45,000			45,000

Subscription received in Advance Account

2022		₹	2022		₹
Dec. 31	To Balance c/d	600	Dec. 31	By Subscription A/c	600
			2023 Jan. 1	By Balance b/d	600

Subscription outstanding ₹3,000 and Subscription received in advance ₹600 will be shown in the balance sheet on the assets and liabilities side respectively.

3. ICAI Illustration 3

Suppose salaries paid during 2022 were ₹ 23,000. The following further information is available:

Particulars	Rs.
Salaries unpaid on 31st March, 2021	1400
Salaries prepaid on 31st March,2021	400
Salaries unpaid on 31st March, 2022	1800
Salaries prepaid on 31st March,2022	600

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

Solution:

Salaries Account

		₹			₹
April, 1 2021	To Prepaid Salaries A/c	400	April, 1, 2021	By Salaries Outstanding A/cBy Salaries Prepaid A/c	1,400
March, 31, 2022	To Cash	23,000	March, 31, 2022	By Transfer to Income & Expenditure A/c	600
	To Salaries Outstanding A/c	1,800			
					23,200
		25,200			25,200

Salaries Outstanding Account

		₹			₹

April, 1, 2021	To Salaries A/c	1,400	April, 1, 2021	By Balance b/d	1,400
March, 31, 2022	To Balance c/d	1,800	March, 31, 2022	By Salaries A/c	1,800
		3,200			3,200
			April, 1, 2022	By Balance b/d	1,800

Salaries Prepaid Account

		₹			₹
April, 2021	To Balance b/d	400	April, 1, 2021	By Salaries A/c (transfer)	400
March, 31, 2022	To Salaries A/c	600	March, 31, 2022	By Balance c/d	600
		1,000			1,000
April, 1, 2022	To Balance b/d	600			

4. ICAI Illustration 4

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2020:

Receipts and payments A/c for the year ended on 31st March 2022

Dr Cr

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	2,50,000	By Salaries and wages	1,65,000
To Subscription-		By Office expenses	35,000
2018-2019	65,000	By Sports equipment	3,42,000
2019-2020	3,55,000	By Telephone Charges	28,000
To Donations	55,000	By Electricity charges	32,000
To Entrance fees	85,000	By Travelling and conveyance	65,000
		By balance c/d	1,43,000
	8,10,000		8,10,000

Additional information :

(a) Outstanding Subscriptions for the year ended 31st March, 2022 – 55,000.

(b) Outstanding Salaries and wages Rs.40,000 for the year ended on 31st March 2022.

(c) Depreciate Sports equipment by 25% for the year ended on 31st March 2022.

(d) Capitalize 50% of the entrance fees

Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2022.

Solution:

In the books of New bird forty Club

Dr Income and expenditure Account for the year ended on 31st March 2022 **Cr**

Expenditure		Amount (₹)	Income		Amount (₹)
Salaries and wages	1,65,000		By Subscriptions	4,20,000	
Add: Outstanding Salaries			Add: Outstanding		
for 2022	40,000	2,05,000	Subscriptions		
To Office expenses		35,000	for 2022	55,000	
To Depreciation (25%*3,42,000)		85,500	Less: Outstanding Subscriptions		
To Telephone Charges		28,000	for 2021	65,000	4,10,000
To Electricity charges		32,000	By Donations		55,000
To Travelling and conveyance		65,000	By Entrance fees (50% * 85,000)		42,500
Excess of income over expenditure		57,000			
		5,07,500			5,07,500

5. ICAI Illustration 5

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2022:

Details	Amount (₹)
Match expenses paid during the year ended 31st March 2022	1,10,000
Match fund as on 01.04.2021	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

Solution:

Balance sheet as at March 31st 2022 (extract)

Liabilities	Amt. (₹)	Assets	Amt (₹)
Match fund	30,000		
Add: Donation for match fund	55,000		
Add: Proceeds from sale of tickets	20,000		
Less: Match expenses (Note 1)	(1,05,000)		
	NIL		

Note: Since the expenses incurred are more than the Match fund available ₹ 105,000 we are limiting the expenses to ₹ 1,05,000. The remaining expenses of ₹ 5000 (1,10,000-1,05,000) will be debited to the Income and expenditure account.

6. ICAI Illustration 6

During the year ended 31st March, 2022, the subscriptions received by the Jaipur Literary Society were 4,50,000. These subscriptions include 20,000 received for the year ended 31st March, 2021. On 31st March, 2022, subscriptions due but not received were 15,000. Advance subscription received for the year ending 31st March 2022 but pertaining to year 2023 amounted to 26,000. The Subscriptions received in advanced for the year 31st March 2021, include Rs.18,000 pertaining to year 2021-22. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2021 as income from subscriptions. Show the subscription account in book of the society?

Solution:

In the books of Jaipur literary society

Dr Subscription A/c (for the year ended on 31st March 2022) Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To outstanding subscriptions (2021)	20,000	By Advance subscriptions (2021)	18,000
To Income from Subscriptions A/c	4,37,000	By Bank A/c	4,50,000
To Advance subscriptions (2023)	26,000	By Outstanding subscriptions (2022)	15,000

7. ICAI Illustration 7

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2022

A club has 350 members each paying an annual subscription of 1,050. The Receipts and Payments Account for the year showed a sum of 4,10,000 received as subscriptions. The following additional information is provided:

Subscriptions Outstanding on 31st March, 2021 – 45,000

Subscriptions Received in Advance on 31st March, 2022 – 62,000

Subscriptions Received in Advance on 31st March, 2021 – 30,000

Solution:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding subscriptions (2021)	45,000	By Advance subscriptions (2021)	30,000
To Income from subscriptions A/c (300*1050)	3,67,500	By Bank A/c	4,10,000
To Advance subscriptions (2023)	62,000	By Outstanding subscriptions(2219)	34,500
	4,74,50		4,74,50

8. ICAI Illustration 8

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2022

All the figures in thousands

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2015	400
Net proceeds of Variety Entertainment	780	Balance at Bank as per Pass Book:	
Donation for forth coming Tournament	1,000	Deposit Account	3,090
		Current Account	150
		Cash in hand	250
	7,820		7,820

You are given the following additional information:

Particulars	April, 1, 2021 ₹	March, 31, 2022 ₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2022, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹ 200. Prepare the Income and Expenditure Account and Balance Sheet for period ending 31st March 2022.

Solution:

Income and Expenditure Account of Exe Club
for the year ending 31st March, 2020

(all figures in thousand)

Expenditure		₹	Income	₹
To Groundsman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Fares' Expenses Less: Contribution	400 (100)	300	(Fares) less expenses(₹ 300 - ₹ 250)	
To Printing & Office Expenses		260	By Proceeds of Variety Entertainment	780
To Repairs		460	By Interest (₹ 30 + ₹ 20)	50
To Depreciation on Machinery				
Opening balance and Purchases	2,300			
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)	470		
To Honorarium to Sect. &				
Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over				
Expenditure		40		
		3,430		3,430

Balance Sheet of Exe Club as on 31st March, 2020

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (₹260 – ₹150)		110	Interest Due	20
Capital Fund: Opening Add: Surplus for the year	3,080 40	3,120	Machinery & Equipments	1,750
Tournament Fund (Donation)		1,000		
		5,210		5,210

Balance Sheet as on 1st April, 2019

Liabilities	₹	Assets	₹
Outstanding Expenses and		Cash in hand	100

Honorarium (₹100 + ₹400)	500	Cash in Deposit A/c	2,230
Capital Fund (Balancing Figure)	3,080	Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

9. ICAI Illustration 9

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2022:

Receipts and Payments Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	2021	**2022**
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2022 was ₹ 5,250.

Required

From the above information you are required to prepare:

(a) The Club's Balance Sheet as at March 31, 2021;

(b) The Club's Income and Expenditure Account for the year ended March 31, 2022.

(c) The Club's Closing Balance Sheet as at March 31, 2022.

Solution:

(a) **Sportswriters Club**

Balance Sheet as on 31st March, 2021

Liabilities	₹	₹	**Assets**	₹
Outstanding expenses :			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (**Balancing figure**)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		48,800

(b) **Income and Expenditure Account for the year ending 31st March, 2022**

	Expenditure		₹		**Income**	₹
To	Salaries		11,460	By	Subscription	28,912
To	Rent & Electricity		7,329	By	Interest on FD	2,000
To	Magazines & Newspapers		2,286	By	Misc. Income	700
To	Sundry Expenses		10,075	By	Excess of expenditure over income	2,888
To	Depreciation :					
	Furniture	960				
	Sports Equipment	1,640				
	Library Books	750	3,350			
			34,500			34,500

(c) **Balance Sheet of Sports Writers Club as on 31st March, 2022**

Liabilities	₹	₹	**Assets**	₹	₹
Outstanding Expenses:			Furniture		

Salaries	170		Cost	9,600	
Rent & Electricity	973		Less: Depreciation	(960)	8,640
Newspapers	340	1,483	Magazines & Sport		
Capital Fund:			Equipment:		
Opening balance	47,000		Opening balance	7,200	
Less: Excess of			Addition	1,000	
exp. over income	(2,888)	44,112		8,200	
			Less: Depreciation	(1,640)	6,560
			Library Books :		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less : Depreciation	(750)	5,250
			Fixed Deposit		20,000
			Cash in hand & at bank		2,450
			Prepaid Expenses		620
			Subscription Receivable		1,575
			Interest accrued		500
		45,595			45,595

Working Notes:

(i)	**Expenses**	**Salaries** ₹	**Rent & Electricity** ₹	**Magazines & News-Papers** ₹	**Sundry Expenses** ₹
	Paid during the year	12,000	7,220	2,172	10,278
	Add: Outstanding on 31.3.2022	170	973	340	–
	Add: Prepaid on 31.3.2021	–	–	–	417
		12,170	8,193	2,512	10,695
	Less: Outstanding on 31.3.2021	(710)	(864)	(226)	–
	Less: Prepaid on 31.3.2022	–	–	–	(620)
	Expenditure for the year	11,460	7,329	2,286	10,075

			₹
(ii)	Depreciation		
	(a) Furniture @ 10% on ₹9,600		960
	(b) Sports Equipment @ 20% on ₹8,200		1,640

	(c) Library books - book value			6,000	
	Revalued at			(5,250)	750
(iii)	Subscription				
	Received in cash				28,600
	Add: Receivable on 31.3.2022				1,575
					30,175
	Less: Receivable on 31.3.2021				(1,263)
					28,912

10. ICAI Illustration 10

The Income and Expenditure Account of the Youth Club for the Year 2022 is as follows:

Expenditure	₹	Income	₹
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1,000
To Secretary's Honorarium	1,000	By Annual Sport meet receipts	750
To Stationery & Printing	450		
To Annual Dinner Expenses	1,500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9,500		9,500

This account had been prepared after the following adjustments:

Particulars	₹
Subscription outstanding at the end of 2021	600
Subscription received in Advance on 31st December, 2021	450
Subscription received in advance on 31st December, 2022	270
Subscription outstanding on 31st December, 2022	750

Salaries Outstanding at the beginning and the end of 2022 were respectively ₹ 400 and ₹450. General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2022 is as yet unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The Club owned a freehold lease of ground valued at ₹ 10,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2,600. At the end of the year, after depreciation, this equipment amounted to ₹2,700. In 2021, the Club has raised a bank loan of ₹ 2,000. This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1,600.

Required

Prepare the Receipts and Payments Account for 2022 and Balance Sheet as at the end of the year.

Solution:

The Youth Club Receipts and Payments Account
for the year ended 31st December, 2022

Receipts	₹	₹	Payments	₹	₹
To Balance b/d (balancing figure)		1,390	By Salaries	4,750	
	7500		*Add*: Paid for 2021	400	
To Subscriptions as per				5,150	
Income & Expenditure	600		*Less*: Unpaid for 2022	(450)	4,700
Account	270		By General Expenses	500	
Add: 2021's Received 2023's Received	8,370		*Add*: Paid for 2023	60	560
Less: 2022's Received in 2019	(450)		By Audit fee (2022)		200
	7,920		By Secy. Honorarium		1,000
Less: 2022's Outstanding	(750)	7,170	By Stationery & Printing		450
To Entrance Fees		250	By Annual Dinner Expenses		1,500
To Contribution for annual dinner		1,000	Interest & Bank Charges		150
To Sport meet : Receipt less		750	By Sports Equipments [2700 - (2600 - 300)]		400
			By Balance c/d		1,600
		10,560			10,560
To Balance b/d		1,600			

Balance Sheet of Youth Club as at December 31, 2022

Liabilities	₹	₹	Assets	₹	₹
Subscription receivedin advance		270	Freehold GroundSport		10,000
Audit Fee Outstanding		250	Equipment:		
Salaries Outstanding		450	As per last Balance Sheet	2,600	
Bank Loan		2,000	Additions	400	
Capital Fund :				3,000	
Balance as per previous Balance Sheet	11,540		Less: Depreciation	(300)	2,700
Add: Surplus for 2020	600	12,140	Subscription Outstanding		750
			Insurance Prepaid		60
			Cash in hand		1,600
		15,110			15,110

Balance Sheet of Youth Club as at 31st December, 2021

Liabilities	₹	Assets	₹
Subscriptions received in advance	450	Freehold Ground	10,000
Salaries outstanding	400	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	600
Bank Loan	2,000	Cash in hand	1,390
Capital Fund (balancing figure)	11,540		
	14,590		14,590

11. ICAI Illustration 11 / RTP May 2018

Smith Library Society showed the following position on 31st March, 2021:

Balance Sheet as on 31st March, 2021

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		**8,00,000**

The receipts and payment account for the year ended on 31st March, 2022 is given below:

Particulars	₹	Particulars	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		**3,09,500**

You are required to prepare income and expenditure account for the year ended 31st March, 2022 and a balance sheet as at 31st, March, 2022 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance. Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

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

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2021 for ₹ 40,000.

Solution:

Smith Library Society

Income and Expenditure Account

for the year ended 31st March, 2021

Dr.							Cr.
Expenditure		₹	₹	Income			₹
To	Electric charges		7,200	By	Entrance fee (25% of		7,500

To	Postage and stationary		5,000		₹ 30,000)		
To	Telephone charges		5,000		By Membership	2,00,000	
To	Rent	88,000			subscription	10,000	1,90,000
	Add: Outstanding	4,000	92,000		Less: Received in advance		
To	Salaries	66,000		By	Sale proceeds of old		1,500
	Add: Outstanding	3,000	69,000		papers		
To	Depreciation (W.N.1)			By	Hire of lecture hall		20,000
	Electrical fittings	15,000		By	Interest on securities	8,000	
	Furniture	5,000			(W.N.2)		
	Books	46,000	66,000		Add: Receivable	500	8,500
				By	Deficit-excess of expenditure over		16,700
					income		
			2,44,200				2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2021

Liabilities	₹	₹	Asset	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrancefees	22,500		Less: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure overincome	(16,700)	7,98,800	Less: Depreciation Books	(5,000) 4,60,000	45,000
Outstanding expenses: Rent	4,000		Less Depreciation Investment:	(46,000)	4,14,000
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interestCash at bank	500	1,90,500 20,000
advance		10,000			
			Cash in hand		11,300

		8,15,800			8,15,800

Working Notes:

1. Depreciation ₹

Electrical fittings 10% of ₹ 1,50,000 15,000

Furniture 10% of ₹ 50,000	5,000		
Books 10% of ₹ 4,60,000	46,000		

2. Interest on Securities

Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500		
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500	
Less: Received			(8,000)
Receivable			500

12. ICAI Illustration 12

From the following balances and particulars of Republic College, prepare Income & Expenditure Account for the year ended March, 2022 and a Balance Sheet as on the date :

Particulars	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit - Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	

Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation:		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	**1,03,85,000**

Adjustments:

		₹
(1)	Materials & Supplies consumed: (From college stores)	
	Teaching	50,000
	Research	1,50,000
	Students Welfare	75,000
	Games or Sports	25,000
(2)	Tuition fee receivable from Government for backward class Scholars	80,000
(3)	Stores selling prices are fixed to give a net profit of 10% on selling price	
(4)	Depreciation is provided on straight line basis at the following rates:	
	(1) Building	5%
	(2) Plant & Equipment	10%
	(3) Furniture & Fixtures	10%
	(4) Motor Vehicle	20%

Solution:

Republic College

Income and Expenditure Account for the year ending 31st March, 2022

Expenditure	₹	₹	Income	₹	₹
To Salaries:			By Tuitions & other fee		8,80,000
Teaching		8,50,000	By Govt. Grants		5,00,000
Research		1,20,000			
To Material & Supplies			By Income from Investments		1,85,000
Consumed:			By Hostel room Rent		1,75,000
Teaching		50,000	By Mess Receipts		2,00,000
Research		1,50,000	By Profit-Stores Sales		75,000
To Repairs & Maintenance		1,12,000	By Seminar and		
To Sports & Games			Conferences		
Expenses:			Income	4,80,000	
Cash	50,000	75,000		(4,50,000)	30,000
			By Less: Expenses		
Materials	25,000		By Consultancy charges :		
			Income	1,28,000	1,00,000
		1,13,000			
To Students Welfare		65,000	Less: Expenses		50,000
Expenses:		80,000	By Donations		
Cash	38,000			(28,000)	
		80,000			
		85,000			
Materials	75,000	60,000			
		36,000			
To Misc. Expenses					
To Scholarships		3,19,000			
To Depreciation:					
Building					
Plant & Equipment					
Furniture					
Motor Vehicle					
To Excess of Income over					
Expenditure					
		21,95,000			21,95,000

Republic College

Balance Sheet as on 31st March, 2022

Liabilities	₹	₹	Assets	₹	₹
	______		Fixed Assets:		
Capital Fund			Land		1,00,000
Opening balance	16,06,000		Building Cost	16,00,000	
Add: Excess of Income			Less: Depreciation	(5,60,000)	10,40,000
over Expenditure	3,19,000	19,25,000	Equipment Cost	8,50,000	
Other Funds			Less: Depreciation	(5,95,000)	2,55,000
Research Fund		8,00,000	Furniture & Fittings:		
Building Fund		25,00,000	Cost	6,00,000	
			Less: Depreciation	(3,96,000)	2,04,000
Current Liabilities :			Motor Vehicles		
Outstanding Expenses		2,25,000			
Provident Fund		5,10,000	Cost :	1,80,000	
Security Deposit		1,50,000	Less: Depreciation	(36,000)	1,44,000
			Library		3,60,000
			Investments:		
			Capital Fund Investments		18,50,000
			Research Fund Investment		8,00,000
			P.F. Investment		5,10,000
			Stock (stores)		
			Material & Supplies		1,25,000
			Tuition fees receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes :

			₹	₹
(1)	Material & Supplies - Closing Stock			
	Opening Stock			3,00,000
	Purchases			8,00,000
				11,00,000
	Less : Cost of Material & Supplies (7,50,000*90% (100-10))		6,75,000	
	Consumed		3,00,000	(9,75,000)
	Balance			1,25,000

(2)	Provisions for Depreciation	Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,80,000	5,10,000	3,36,000
	Addition	80,000	85,000	60,000
	Closing Balance	5,60,000	5,95,000	3,96,000
	Note: Expense related to income earned like consultancy charges, conference expenses are shown as net of income.			

13. ICAI Practical Question 1

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2022.

Receipts	₹	Payments	₹
Opening Balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at Coffee room	10,70,000	Garden upkeep	8,000
Soft drinks	5,10,000	Membership fees	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2021 were as follows

Particulars	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000

Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts.

(i) Subscription received in advance as on 31st March, 2022 was ₹ 18,000.

(ii) Outstanding subscription as on 31st March, 2022 was ₹ 7,000.

(iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2022.

(v) The cost of assets sold net as on 1.4.2021 was ₹ 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of ₹ 20,000 received in October 2021 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2022.

(viii) Purchases made during the year amounted ₹ 15,00,000.

(ix) The value of closing stock was ₹ 2,10,000.

(x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2022 and the Balance Sheet as on 31st March, 2022 along with necessary workings.

Solution:

Income and Expenditure Account of Lion Club
for the year ended 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations	92,000

To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	(deficit) transferred to capital fund	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

Balance Sheet of Lion Club as on 31st March, 2020

Liabilities	₹	Assets	₹
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding expenses	23,000	Bank	2,24,600
		Cash	8,000
	13,92,600		13,92,600

Working Notes:

1. **Opening Balance Sheet**

Balance Sheet of Lion Club as on 1st April, 2019

Liabilities	₹	Assets	₹
Sundry creditors	1,12,000	Fixed assets	5,00,000
Subscription received in advance	15,000	Stock	3,80,000
Entrance donation received in advance	1,00,000	Investments	5,00,000
Gratuity fund	1,50,000	Subscription outstanding	12,000
Capital fund (balance figure)	10,29,850	Prepaid expenses	1,000
		Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

2. **Subscription**

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2020	7,000
	2,09,750

Add: Received in advance as on 1.4.2019	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2019	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2020	(18,000)
	1,94,750

3. Entrance donation

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2019	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
	90,000

4. Loss on sale of asset

	₹
Cost of asset sold	10,000
Less: Sale proceeds	(8,000)
Loss on sale of asset	2,000

5. Depreciation

	₹
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on ₹4,90,000 @ 10%	49,000

6. Salaries

	₹
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2020	8,000
	1,28,000

7. Electricity charges

	₹
Electricity charges paid during the year	28,000
Add: Outstanding as on 31.3.2020	15,000
	43,000

8. Interest

	₹
Interest on 12% Government securities investment (₹ 5,00,000 @ 12% p.a.)	60,000
Less: Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to Income and Expenditure Account	60,000

9. Profit from operations

	₹
Cost of goods sold:	
Opening stock	3,80,000
Add: Purchases	15,00,000
Less: Closing stock	(2,10,000)
Cost of goods sold (A)	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from soft drinks	5,10,000
Receipts from swimming pool	80,000
Receipts from tennis court	1,02,000
Total receipts (B)	17,62,000
Profits from operations (B-A)	92,000

10. Insurance

	₹
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2019	1,000
	6,000

11. Sundry creditors

	₹
Opening balance as on 1.4.2019	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payments made during the year	(15,20,000)
Closing balance as on 31.3.2020	92,000

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	23,000

13. Fixed assets

	₹
Fixed assets as on 1.4.2019	5,00,000
Less: Cost of assets sold	(10,000)
	4,90,000
Less: Depreciation	(49,000)
Fixed assets as on 31.3.2020	4,41,000

14. Capital fund

	₹
Capital fund as on 1.4.2019	10,29,850
Add: Entrance donation capitalised	90,000
	11,19,850
Less: Excess of expenditure over income	(30,250)
Balance as on 31.3.2020	10,89,600

14. ICAI Practical Question 2

During the year ended 31st March, 2022, Sachin Cricket Club received subscriptions as follows:

Particulars	₹
For year ending 31st March, 2021	12,000
For year ending 31st March, 2022	6,15,000
For year ending 31st March, 2023	18,000
Total	6,45,000

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2022, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2021.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2022. Also show how the items would appear in the Balance Sheet as on 31st March, 2021 and the Balance Sheet as on 31st March, 2022.

Solution:

Income & Expenditure Account (An extract) of Sachin Cricket Club

For the year ended 31st March, 2022

	₹		₹
		By Subscription (500 members × ₹1,500 per member)	7,50,000

Balance Sheet of Sachin Cricket Club as on 31st March, 2021 (An extract)

Liabilities	₹	Assets	₹
		Subscription Receivable(₹15,000 + ₹12,000)	27,000

Balance Sheet of Sachin Cricket Club as on 31st March, 2022 (An extract)

Liabilities	₹	Assets	₹	₹
Unearned Subscription	18,000	Outstanding Subscription		
		of 2020-21	15,000	
		of 2021-22		
		₹(7,50,000 – 6,15,000)	1,35,000	1,50,000

15. ICAI Practical Question 3

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2022 are as follows:

Opening cash balance in hand ₹ 8,000, subscription ₹ 50,000, donation ₹ 15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. ₹ 9000, payments for medicine supply ₹ 30,000

Honorarium to doctor ₹ 10,000, salaries ₹ 28,000, sundry expenses ₹ 1,000, equipment purchase ₹ 15,000, charity show expenses ₹ 1,500, charity show collections ₹ 12,500

Additional information:

	1.1.2022	31.12.2022
Subscription due	1500	2200
Subscription received in advance	1200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2022 and balance sheet as on 31.12.2022.

Solution:

Receipts and Payments Account of Bombay Medical Aid Society for the year ended 31st December, 2022

Receipts		₹	Payments	₹
To Cash in hand (opening)		8,000	By Medicine supply	30,000
To Subscription		50,000	By Honorarium to doctors	10,000
To Donation		15,000	By Salaries	28,000
To Interest on investment		9,000	By Sundry expenses	1,000
To Charity show collections		12,500	By Purchase of equipment	15,000
			By Charity show expenses	1,500
			By Cash in hand (closing)	9,000
		94,500		94,500

Income and Expenditure Account of Bombay Medical Aid Society for the year ended 31st December, 2022

Expenditure		₹	Income		₹
To Medicine consumed		29,000	By Subscription		51,200
To Honorarium to doctors		10,000	By Donation		15,000
To Salaries		28,000	By Interest on investments		9,000
To Sundry expenses		1,000	By Profit on charity show:		
To Depreciation on			Show collections	12,500	
Equipment	6,000		Less: Show expenses	(1,500)	11,000
Building	2,000	8,000			
To Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society as on 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Building	50,000	
Opening balance	1,80,300		Less: Depreciation	(2,000)	48,000
Add: Surplus	10,200	1,90,500	Equipment	21,000	

Subscription received in advance		700	Add: Purchase	15,000	
Amount due for medicine supply		13,000		36,000	
			Less: Depreciation	(6,000)	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		9,000
		2,04,200			2,04,200

Working Notes:

Subscription for the year ended 31st December, 2022:		₹
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2022	1,500	
Less: Subscription received in advance on 31.12.2022	700	(2,200)
		47,800
Add: Subscription receivable on 31.12.2022	2,200	
Add: Subscription received in advance on 1.1.2022	1,200	3,400
		51,200
Purchase of medicine:		
Payment for medicine supply		30,000
Less: Amounts due for medicine supply on 1.1.2022		(9,000)
		21,000
Add: Amounts due for medicine supply on 31.12.2022		13,000
		34,000
Medicine consumed:		
Stock of medicine on 1.1.2022		10,000
Add: Purchase of medicine during the year		34,000
		44,000
Less: Stock of medicine on 31.12.2022		(15,000)
		29,000
Depreciation on equipment:		
Value of equipment on 1.1.2022		21,000
Add: Purchase of equipment during the year		15,000
		36,000
Less: Value of equipment on 31.12.2022		(30,000)
Depreciation on equipment for the year		6,000

Balance Sheet of Medical Aid Society

as on 1st January, 2022

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	1,80,300	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (₹ 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500

16. ICAI Illustration 11

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2020:

Income & Expenditure Account for the year 2019-20

Expenditure	₹	Income	₹
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Miscellaneous Income	400
		By Deficit	2,820
	23,600		23,600

Balance Sheet as at 31st March, 2020

Liabilities		₹	Assets	₹
Subscription in Advance			Furniture	9,000
(2020-21)		100	Ground and Building	47,000
Prize Fund :			Prize Fund Investment	20,000
Opening Balance	25,000		Cash in Hand	2,300
Add : Interest	1,000		Subscription (outstanding)	700
	26,000		(2019-20)	
Less : Prizes General	(2,000)	24,000		
Fund : Opening Balance Less :	56,420			
Deficit	(2,820)			
	53,600			
Add : Entrance Fee	1,300	54,900		

		79,000		79,000

The following adjustments have been made in the above accounts:

(1) Upkeep of ground ₹ 600 and Printing ₹ 240 relating to 2018-2019 were paid in 2019-20.

(2) One-half of entrance fee has been capitalised by transfer to General Fund.

(3) Subscription outstanding in 2018-19 was ₹ 800 and for 2019-20 ₹ 700.

(4) Subscription received in advance in 2018-19 was ₹200 and in 2019-20 for 2020-21 ₹ 100.

Solution:

Receipts and Payments Account
for the year ending 31st March, 2020

	Receipts	₹		**Payments**	₹
To	Balance b/d		By	Upkeep of Ground	
	(Balancing figure)	4,660		(10,000 + 600)	10,600
To	Subscription	17,320	By	Printing (1,000 + 240)	1,240
To	Interest on Prize Fund Investments	1,000	By	Salaries	11,000
To	Lecture (fee)	1,500	By	Rent	600
To	Entrance Fee	2,600	By	Prizes	2,000
To	Sale of Newspapers (old)	260	By	Balance c/d	2,300
To	Misc. Income	400			
		27,740			27,740

Note: In order to arrive at the payments under Upkeep of ground and printing, even the payment for 2018-19 has been considered, as receipts and payments A/c shows all the period payments

Subscription Account

2019		₹	**2019**		₹
April	To Subscription Outstanding (2018-19)	800	April 1	By Cash (Balancing figure)	17,320
				By Subscription Outstanding (2019-20)	700
	To Subscription In Advance (2020-21)	100		By Subscription in Advance (2018-19)	200
2020 March	To Income &				

	Expenditure A/c	17,320			
		18,220			18,220

17. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as at that date of the Mayura Hospital.

Receipts and Payments Account for the year ended 31 December, 2016

Receipts	₹	₹	Payments	₹	₹
To Balances			By Salaries :		
Cash	400		(₹ 3,600 for 2015)		15,600
Bank	2,600	3,000	By Hospital Equipment		8,500
To Subscriptions :			By Furniture purchased		3,000
For 2015		2,550	By Additions to Building		25,000
For 2016		12,250	By Printing and Stationery		1,200
For 2017		1,200	By Diet expenses		7,800
To Government Grant :			By Rent and rates		1,000
For building		40,000	(₹ 150 for 2017)		
For maintenance		10,000	By Electricity & water charges		1,200
Fees from sundry			By office expenses		1,000
patients		2,400	By Investments		10,000
To Donations (not to be		4,000	By Balances :		
capitalised)			Cash	700	
To Net collections from			Bank	3,400	4,100
benefit shows		3,000			
Total		**78,400**	**Total**		**78,400**

Additional information :	₹
Value of building under construction as on 31.12.2016	70,000
Value of hospital equipment on 31.12.2016	25,500
Building Fund as on 1.1. 2016	40,000
Subscriptions in arrears as on 31.12.2015	3,250
Investments in 8% Govt. securities were made on Ist July, 2016	

Solution:

Mayura hospital Income & Expenditure Account
for the year ended 31 December, 2016

Receipts	₹	₹	Payments	₹
To Balance c/d		2,500	By Books purchased	1,000
To Subscriptions:			By Printing and Stationery	200
2015	600		By Salary	1,500
2016	4,300	4,900	By Advertisement	200
To Interest		500	By Electric Charge	400
To Donation for special fund		300	By Balance c/d	7,350
To Rent:				
2015	150			
2016	300	450		
To Govt. Grants		2,000		
Total		10,650	Total	10,650

	Expenditure	₹		Income	₹
To	Salaries	12,000	By	Subscriptions	12,250
To	Diet expenses	7,800	By	Govt. Grants (Maintenance)	10,000
To	Rent & Rates	850	By	Fees, Sundry Patients	2,400
To	Printing & Stationery	1,200	By	Donations	4,000
To	Electricity & Water-charges	1,200	By	Benefit shows (net collections)	3,000
To	Office expenses	1,000	By	Interest on Investments	400
To	Excess of Income over				
	expenditure transferred				
	to Capital Fund	8,000			
		32,050			32,050

Statement of Affairs as on 31st Dec., 2016

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		

Opening balance	24,650		Opening balance	45,000	
Excess of Income			Addition	25,000	70,000
Over Expenditure	8,000	32,650	Hospital Equipment :		
Building Fund :			Opening balance	17,000	
Opening balance	40,000		Addition	8,500	25,500
Add : Govt. Grant	40,000	80,000	Furniture		3,000
Subscriptions			Investments-		
received in advance		1,200	8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses (Rent)		150
			Cash at Bank		3,400
			Cash in hand		700
		1,13,850			1,13,850

Working Notes:

(1) Statements of Affairs as on 31st Dec., 2015

Liabilities	₹	Assets	₹
Capital Fund		Building	45,000
(Balancing Figure)	24,650	Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	3,600	Cash in hand	400
	68,250		68,250

(2) Building	₹
Balance on 31st Dec. 2016	70,000
Paid during the year	25,000
Balance on 31st Dec. 2015	45,000
(3) Equipment	
Balance on 31st Dec. 2016	25,500
Paid during the year	(8,500)
Balance on 31st Dec. 2015	17,000
(4) Subscription due for 2013	
Receivable on 31st Dec. 2015	3,250
Received in 2016	2,550

Still Receivable for 2015	700

18. The receipts and payments account and the income and expenditure account of a Club for the year ended 31st December, 2016 were as follows:

Receipts and Payments Account

Income and Expenditure Account

Expenditure	₹	**Income**	₹
To Salary	2,800	By Interest	400
To Tent Hire	200	By Subscription	4,800
To Electric charges	400	By Rent	2,300
To Depreciation on Building	750	By Govt. Grant	2,000
To Printing and Stationery	200		
To Advertisement	150		
To Surplus	5,000		
	9,500		9,500

The club's assets as on 1st January 2016 were : Building ₹ 15,000; Books ₹10,000 Furniture ₹4,000; Investments ₹10,000

Liabilities as on that date were ₹50 for advertisement and ₹100 for salary.

Required

Prepare the balance sheet of the club on 31st December, 2015 and 31st December, 2016.

Solution:

Balance Sheet

As at 31st December, 2015

Liabilities	₹	**Assets**	₹
Capital fund(Bal. fig.)	42,200	Cash in hand	2,500
Outstanding for advertisement	50	Subscriptions outstanding	600
Outstanding for salary	100	Interest outstanding	100
		Rent receivable	150
		Buildings	15,000
		Books	10,000

		Furniture Purchased	4,000
		Investments	10,000
	42,350		42,350

Balance Sheet

As at 31st December, 2016

Liabilities		₹	Assets		₹
Donation for Special Fund		300	Cash in hand		7,350
Outstanding for salary		1,400	Subscriptions outstanding		500
Outstanding for Tent hire		200	Books	10,000	
Capital Fund			Add: Purchase	1,000	11,000
Balance on 31/12/15	42,200				
Add: Surplus	5,000	47,200	Buildings	15,000	
			Less: Dep.	(750)	14,250
			Furniture		4,000
			Investments		10,000
			Accrued Rent		2,000
		49,100			49,100

Note: In the above solution, it is assumed that ₹ 100(₹ 500-₹ 400) excess interest received during the year is in relation to the outstanding interest of the last year.

19. RTP May 2018

Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		**8,00,000**

The receipts and payment account for the year ended on 31st March, 2018 is given below:

Particulars	₹	Particulars	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000

To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		**3,09,500**

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31st, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance. Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

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

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000.

20. RTP Nov 2018

The following information of M/s. TT Club are related for the year ended 31st March, 2018:

Balances	As on 01-04-17 (₹)	As on 31-3-18 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

Subscription received during the year ₹ 3,75,000

Payments for Sports Material during the year ₹ 2,25,000

You are required to:

- Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and
- Also show how these items would appear in the Balance Sheet as on 31.03.2018.

Solution:

Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

21. QP Nov 18

You are provided with the followings

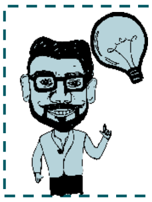
Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advanced	6000	Outstanding Subscription	3800
Outstanding Expenses	14,000	Outstanding Locker Rent	2400
Loan	40,000	Cash in Hand	20,000
Sundry Creditors	10,000		
Total	**1,76,200**	**Total**	**1,76,200**

The Receipts and Payment Account for the year ended on 31st March 2018

Receipts	₹	Payments	₹
To Bal b/d Cash in hand	20,000	By Expenses For 17 12,000 For 18 20,000	32,000
To Subscriptions For 17 2,000 For 18 21,000 For 19 1000	24,000	By Land	40000
To Entrance Fees	38,000	By interest	4000
To Locker Rent	7000	By Mis. Exp	4700
To Sale proceeds of old newspapers	1000	By Bal c/d	
To Mis. Income	9000	Cash in hand	18,300
TOtal	**99,000**	**TOtal**	**99,000**

You are required to prepare Income and Expenditure account for the year ended 31st March 2018 and a Balance Sheet as at 31st March 2018 (Workings should from part of your answer)



Solution:

Income and Expenditure Account for the year ended 31st March, 2018

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of oldnewspapers	1,000
To Surplus	12,900	By Misc. income	9,000
	41,600		41,600

Balance Sheet as at 31st March, 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	12,900	1,57,100		
Loan		40,000	Cash in hand	18,300
Creditors		10,000		
Outstanding expenses (2017) (14,000-12,000)		2,000		
Subscription received inadvance		1,000		-----
		2,10,100		2,10,100

Note: Entrance fees have been capitalized in the above solution.

22.(QP May 19)

From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

Particulars	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @ 10% p.a. on Furniture.

Following Expenses were made during the year: Sports Expenses: ₹ 50,000

Rent: ₹ 24,000 out of which ₹ 2,000 outstanding

Misc. Expenses: ₹ 5,000

Solution:

Receipts and Payments Account for the year ended 31-03-2019

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	₹ (20,000-10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid	22,000
		₹ (24,000 -2,000)	
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment		
	78,000		Received	14,000	

Less: Outstanding for 2018	(15,000)	63,000	Accrued (W.N.5)	3,500	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N.3)		6,000			
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. Calculation of Subscription received during the year 2018-19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500

Sales price: ₹ 87,500 × 80% = ₹ 70,000

Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000

Profit/loss on sale of investment: ₹ 70,000 – ₹ 70,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. Depreciation

Furniture - ₹14,000 × 10% =	1,400
Machinery- ₹10,000 × 15% =	1,500
Sports goods – ₹15,000 × 15% =	2,250

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

23. RTP MAY 20

Doctor Dinesh after retiring from Govt. service, started private practice on 1 st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Solution:

Income and Expenditure Account
for the year ended 31st March, 2019

Particulars	₹	Particulars	₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		------
	4,67,000		4,67,000

Capital Account for the year ended 31st March, 2019

Particulars	₹	Particulars	₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from income	
To Salary of domestic servants	15,000	and expenditure a/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	Assets	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

24. RTP NOV 20

The following information of M/s. TT Club are related for the year ended 31st March, 2020:

1.

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

2. Subscription received during the year ₹ 3,75,000
3. Payments for Sports Material during the year ₹ 2,25,000

You are required to:

A. Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and
B. Also show how these items would appear in the Balance Sheet as on 31.03. 2020.

Solution:

Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

25. QP JAN 21

Dr. Deku started private practice on 1st April,2019 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12% p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payment	₹
Own capital	2,00,000	Medicines Purchased	2,45,000
Loans	3,00,000	Surgical equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000
Pension Received	3,00,000	Rent of Clinic	60,000
		General Charges	49,000
		Household Expenses	1,80,000
		Household Furniture	25,000
		Expenses on Daughter₹s Marriage	2,15,000
		Interest on Loan	36,000
		Balance at Bank	1,10,000

		Cash in Hand	19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st march, 2020 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

Solution:

Income and Expenditure Account
for the year ended 31st March, 2020

	₹		₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases 2,45,000			
Less: Stock on 31.3.20 (95,000)	1,50,000	By Visiting fees	2,50,000
To Motor car expense	80,000	By Fees from lectures	24,000
To Wages and salaries (1,05,000 – 30,000)	75,000		
To Rent for clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	4,84,000		----
	9,34,000		9,34,000

Capital Account
for the year ended 31st March, 2020

	₹		₹
To Drawings:		By Cash/bank	2,00,000
Motor car expenses	40,000	By Cash/ bank (pension)	3,00,000
(one-third of ₹ 1,20,000)		By Net income from practice	4,84,000
Household expenses Daughter's marriage	1,80,000 2,15,000	(derived from income andexpenditure A/c)	

exp.			
Wages of domestic servants	30,000		
Household furniture	25,000		
To Balance c/d	4,94,000		-----
	9,84,000		9,84,000

26. QP JAN 21

M.r K is Engaged in business of selling magazines. Several of his customer pay money in advance for subscribing his magazines .information related to year ended 31st March, 2020 has been given below :

On 1st April 2019 he had a balance of ₹ 3,00,000 advance from customer of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute:

i. Total income for the year 2019-20.
ii. Total money received during the year, if the closing balance as on 31st march, 2020 in advance from customer account is ₹ 2,55,000.

Solution:

(i) Computation of Income for the year 2019-20:

	₹
Money received during the year related to 2019-20	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000

31.3.20	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

27. QP JAN 21

From the following Income and expenditure Accounts and additional information of ATK club, prepare Receipts and Payments accounts and Balance sheet of the club as on 31st March ,2020.

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationary	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		**8,40,000**

Additional Information:

Particulars	As on 31st March,2019	As on 31st March,2020
Subscription Outstanding	64,000	72,000
Subscription Received in Advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

Solution:

ATK Club

Receipts and Payments Account for the year ended 31st March, 2020

RECEIPTS	₹	₹	PAYMENTS	₹	₹
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N. 2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000	By Telephone		6,000
To Misc. Income		1,44,000	By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000
			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			8,68,000

Balance Sheet of ATK Club as at March31, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund : Balance as per previous Balance Sheet	8,82,400		Club Premises		7,60,000
Add: Surplus for 2020	1,20,000	10,02,400	Sport Equipment		2,52,000
Bank Loan		1,20,000	Subscription Outstanding		72,000
Subscription received in advance		33,600	Cash in hand		1,14,000
Audit Fee Outstanding		10,000			

Salaries Outstanding		32,000			
		11,98,000			11,98,000

Balance Sheet of ATK Club as at 31st March, 2019

Liabilities	₹	Assets	₹
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		10,86,400

Working Notes:

1.	Subscription received in 2019-20	
	Add: Subscription for 2019-20 on accrual basis	6,80,000
	Add: Amount received in advance on 31.03.2020	33,600
	Outstanding as on 01.04.2019 received in 2019-20	64,000
		7,77,600
	Less: Outstanding to be received on 31.03.2020	72,000
	Amount of 2019-20 received in 2018-19	52,000
		Rs 6,53,600
2.	Salary paid in 2019-20	
	Salary for 2019-20 on accrual basis	4,80,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
	Less: Outstanding to be paid on 31.03.2020	32,000
		Rs .4,72,000
3.	Audit Fees paid in 2019-20	
	Audit Fees for 2019-20 on accrual basis	10,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
	Less: Outstanding to be paid on 31.03.2020	10,000
		₹ 8,000
4.	Sports Equipment purchased during 2019-20	
	WDV as on 31.03.2020	2,52,000

Add: Depreciation	28,000
Less: WDV as on 31.03.2019	2,08,000
	Rs 72,000

28.QP NOV 21

From the following balances and particulars of AS college, prepare Income & Expenditure Account for the year ended March,2020 and a Balance Sheet as on the date:

Particulars	Amount (₹)	Amount (₹)
Security Deposit-Student	-	1,55,000
Capital fund	-	13,08,000
Building Fund	-	19,10,000
Tuition Fee Received	-	8,10,000
Government Grants	-	5,01,000
Interest & Dividends on Investments	-	1,75,000
Hotel room Rent	-	1,65,000
Mess Receipts (net)	-	2,05,000
College Stores–sales	-	7,60,000
Outstanding Expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchased-Stores & Supplies	8,20,000	-
Salaries- Teaching	8,75,000	-
Salaries-Research	1,25,000	-
Scholarships	85,000	-
Student Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation:		-
Building		4,90,000
Plant and Machinery		5,05,000
Furniture and fittings		3,26,000
Cash at Hand	3,16,000	
Library	3,20,000	
	75,45,000	**75,45,000**

Adjustment:

a. Materials & Supplies consumed: (From College stores)

Teaching	₹ 52,000
Research	₹ 1,45,000
Student Welfare	₹ 78,000
Games or Sports	₹ 24,000

b. Tuition fee receivable from Government for backward class Scholars- ₹ 82,000.

c. Stores selling pieces are fixed to give a net profit of 15% on selling price.

d. Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

Solution:

AS College

Income and Expenditure Account for the year ending 31st March, 2020

	Expenditure	₹	₹		Income	₹	₹
To	Salaries: Teaching		8,75,000	By	Tutions & other fee		8,92,000
	Research		1,25,000	By	Govt. Grants		5,01,000
To	Material & Supplies Consumed			By	Income from Investments		1,75,000
	Teaching		52,000	By	Hostel room Rent		1,65,000
	Research		1,45,000	By	Mess Receipts		2,05,000
To	Sports & Games Expenses			By	Profit-stores sales		1,14,000
	Cash	52,000					
	Materials	24,000	76,000				
To	Students Welfare Expenses						
	Cash	37,000					

	Materials	78,000	1,15,000				
To	Scholarships		85,000				
To	Depreciation:						
	Building		77,500				
	Plant & Equipment		85,000				
	Furniture		54,000				
	Motor Vehicle		48,000				
To	Excess of Incomeover						
	Expenditure		3,14,500				
			20,52,000				20,52,000

AS College

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund			Land		1,50,000
Opening balance	13,08,000		Building Cost	15,50,000	
Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000	Furniture &		
Security Deposit		1,55,000	Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000

			Cash in hand &at Bank		3,16,000
		39,22,500			39,22,500

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	77,500	85,000	54,000
	Closing Balance	5,67,500	5,90,000	3,80,000

29. RTP MAY 21

The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription To Sale of refreshmentsTo Entrance fees	23,000 22,000 26,000	By Supply of refreshmentBy Sports equipment By Telephone Charges	18,250 27,500 2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:

Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480

Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250

2. Following are the assets and liabilities on 31st March, 2020-

Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180

Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850

3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2018

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club.

Solution:

In the books of Rotary Club

Dr Income and expenditure Account for the year ended on 31st March, 2020 Cr

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x26,000)	13,000
To Electricity charges(W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure overincome	2,550
	45,850		45,850

Balance sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund 1,13,880		Sports Equipment	50,500
Less: Deficit (2,550)	1,11,330	Furniture	11,180
Entrance fees	13,000	7% Investments	65,000
Outstanding electricity charges	3,800	Subscription in arrears	5,200
Subscription in advance	4,850	Cash	1,100
	1,32,980		1,32,980

Working notes

1. Investments made –

Income earned during the year/ Rate of interest = 4,550 / 7% = 65,000

2. Balance sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	1,25,530		1,25,530

3. Computation of depreciation-

Sports equipment

Particulars	Amt (Rs)
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2020	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt (₹)
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2020

Dr Subscription A/c (year ended on 31st March, 2020) Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		34,450

5. **Electricity charges to be debited to Income and expenditure Account-**

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

30.RTP NOV 21

The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount₹
To	Balance b/d		900	By	Expenses (including Payment for sports material ₹ 5,400)	12,600
	Annual Income from Subscription	9,180				
To	Add: Outstanding of last year receivedthis year	360		By	Loss on Sale ofFurniture (cost price ₹ 900)	360
		9,540		By	Balance c/d	1,80,900
	Less: Prepaid of last year	180	9,360			
To	Other fees		3,600			
To	Donation for Building		1,80,000			
			1,93,860			1,93,860

Additional information:

Peppapig club had balances as on 1.4.2020 : - Furniture ₹ 3,600; Investment at 5% ₹ 54,000; Sports material ₹ 13,320;

Balance as on 31.3.2021 : Subscription Receivable ₹ 540;

Subscription received in advance ₹ 180; Stock of sports material ₹ 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Solution:

Corrected Receipts and Payments Account of Peppapig Club
for the year ended 31st March, 2021

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		900	By	Expenses	
To	Subscription				(₹ 12,600 –	7,200
	Annual Income	9,180			₹ 5,400)	
				By	Sports Material	5,400
	Less: Receivable as on 31.3.2020	540		By	Balance c/d (Cash in Hand and at Bank)	1,81,440
	Add: Advance received for the year 2020-2021	180				
	Add: Receivable as on 31.3.2020	360				
	Less: Advance received as on 31.3.2020	180	9,000			
To	Other Fees		3,600			
To	Donation for Building		1,80,000			
To	Sale of Furniture		540			
			1,94,040			1,94,040

Income and Expenditure Account of Peppapig club
for the year ended 31st March, 2021

	Expenditure		Amount ₹		Income	Amount ₹
To	Sundry Expenses		7,200	By	Subscription	9,180
To	Sports Material			By	Other fees	3,600
	Balance as on 1.4.2020	13,320		By	Interest on investment	2,700
	Add: Purchases	5,400			(5% on ₹ 54,000)	

To	Less: Balance as on 31.3.2021 Loss on sale of	3,600	15,120	By	Deficit: Excess of Expenditure over Income	7,200
	Furniture		360			
			22,680			22,680

Balance Sheet of Peppapig club
as on 31st March, 2021

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	72,000		Furniture	3,600	
Less: Excess of			Less: Sold	900	2,700
Expenditure over Income	7,200	64,800	5% Investment		54,000
Building Fund		1,80,000	Interest Accrued		
			on Investment		2,700
Subscription Received in Advance		180	Sports Material Subscription Receivable		3,600 540
		--------	Cash in Hand and at Bank		1,81,440
		2,44,980			2,44,980

Working Note:

Balance Sheet of Peppapig Club
as on 1st April, 2020

Liabilities	Amount	Assets	Amount
	₹		₹
Subscription Received in Advance	180	Furniture Investment	3,600 54,000
Capital Fund (Balancing Figure)	72,000	Sports Material Subscription Receivable	13,320 360
		Cash in Hand and at Bank	900
	72,180		72,180

31. QP July 21

Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4'80'000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

i. Income and Expenditure Account for the year ended 31st March, 2021.

ii. Balance Sheet as on 31st March, 2021

Solution:

In the books of AMA society

Income and Expenditure Account for the year ending 31st March, 2021

	Expenditure	₹	₹		Income	₹	₹
To	Medicine		2,90,000	By	Subscription		5,12,000
To	Honorarium		1,00,000	By	donation		1,50,000

To	Salaries		2,80,000	By	Interest on investment		90,000
To	Sundry expenses		10,000	By	Charity show	1,25,000	
To	Depreciation				Less: Charity show expenses	(15,000)	1,10,000
	Equipment		60000				
	Building		20000				
To	Surplus		1,02,000				
			8,62,000				8,62,000

Balance Sheet of AMA society

as on 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipments	2,10,000	
Opening balance	18,03,000		Add: Purchases.	1,50,000	
Add: Surplus	1,02,000	19,05,000		3,60,000	
Adv subscription		7,000	Less: dep. (bal. fig)	(60,000)	3,00,000
Creditors (medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	(20,000)	4,80,000
			Investment (₹ 90,000/9%)		10,00,000
			Closing outstanding subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		90,000
		20,42,000			20,42,000

Working Note:

(i) Subscription for the year ended 31st March, 2021

Particulars	Amount
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1" April, 2020	(15,000)
Add: Subscription outstanding as on 31" March, 2021	22,000
Add: Subscription received in advance as on 1" April, 2020	12,000
Less: Subscription received in advance as on 31°' March, 2021	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2021

Particulars	Amount
Opening due for medical supply	90,000
Less: Payment made during the year	(3,00,000)
Less: Closing due for medical supply	(1,30,000)
Medicines purchased during the year	3,40,000

(iii) Medicines consumed during the year ended 31st March, 2021

Particulars	Amount
Opening stock	1,00,000
Add: Purchase during the year	3,40,000
Less: Closing Stock	(1,50,000)
Medicines consumed during the year	2,90,000

(iv) Depreciation on Equipment

Particulars	Amount
Opening Balance	2,10,000
Add: Purchase during the year	1,50,000
Less: Closing Balance	(3,00,000)
Depreciation for the year	60,000

32. QP Dec 21

The income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows:

Expenditure	₹	Income	₹
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for annual Dinner	10,000
To Secretary's Honorarium	10,000	By annual Sports meet Receipts	7,500
To Stationary and Printing	4,500		
To Annual Dinner expenses	15,000		
To Interest and Bank charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This Account had Been Prepared after the following Adjustments:

	₹
Subscription outstanding at the end of 2020	6,000
Subscription Received in advance on 31st December ,2020	4,500

Subscription Received in advance on 31st December, 2021	2,700
Subscription outstanding on 31st December, 2021	7,500

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and 4,500. General Expenses include insurance prepaid to the extend of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000.

The club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st jan 2021 valued at Rs. 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹ 27,000. In the year 2020 the club had raised a bank loan of ₹ 20,000. This was outstanding throughout the year 2021. On 31st December, 2021 cash in hand was ₹ 16,000.

You are required to:

Prepare the receipts and Payments Account for the year ended on December 31,2021 and the balance sheet as on that date.

Solution:

The Women Club

Receipts and Payments Account for the year ended 31st December, 2021

Receipts		₹	₹	Payments		₹	₹
To	Balance b/d (balancing figure)		13,900	By	Salaries (W.N.2)		47,000
To	Subscriptions (W.N.1)		71,700	By	General Expenses	5,000	
To	Entrance Fees		2,500		Add: Paid for 2022	600	5,600
To	Contribution for annual dinner		10,000	By	Audit fee (2021)		2,000
To	Annual sportmeet receipt		7,500	By	Secy. Honorarium		10,000
				By	Stationery & Printing		4,500
				By	Annual Dinner Expenses		15,000
				By	Interest & Bank Charges		1,500

				By	Sports Equipment's		
					[27,000 -- (26,000 – 3,000)] (W.N.3)		4,000
				By	Balance c/d		16,000
			1,05,600				1,05,600
To	Balance b/d		16,000				

Balance Sheet of Women Club as on December 31, 2021

Liabilities	₹	₹	Assets	₹	₹
Subscription received			Freehold Ground		1,00,000
in advance		2,700	Sport Equipment:		
Audit Fee Outstanding		2,500	As per last		
Salaries Outstanding		4,500	Balance Sheet	26,000	
Bank Loan		20,000	Additions	4000	
Capital Fund:				30,000	
Balance as perprevious			Less: Depreciation	(3,000)	27,000
Balance Sheet	1,15,400		Subscription Outstanding		7,500
Add: Surplus for 2021	6,000	1,21,400	Insurance Prepaid		600
			Cash in hand		16,000
		1,51,100			1,51,100

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	Assets	₹
Subscriptions received inadvance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000
Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		1,45,900

Working Note 1:

Calculation of Subscription received during the year ended 31st December, 2021

	₹
Subscription as per Income & Expenditure account	75,000

Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:	
Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

33.Mock Test Oct 21 (Series I)

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the Rex Speciality Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	1,600			(₹ 14,400 for 2019)		62,400
	Bank	10,400	12,000	By	Hospital Equipment		34,000
To	Subscriptions:			By	Furniture purchased		12,000
	For 2019		10,200	By	Additions to Building		1,00,000
	For 2020		49,000	By	Printing and		4,800
	For 2021		4,800		Stationery		
To	Government Grant:			By	Diet expenses		31,200
	For building		1,60,000	By	Rent and rates		
	For maintenance		40,000		(₹ 600 for 2021)		4,000
	Fees from sundry			By	Electricity and water		
	Patients		9,600		charges		4,800
To	Donations (not to be		16,000	By	office expenses		4,000
	capitalized)			By	Investments		40,000

To	Net collections from		By	Balances:		
	benefit shows	12,000		Cash	2,800	
				Bank	13,600	16,400
		3,13,600				3,13,600

Additional information :	₹
Value of building under construction as on 31.12.2020	2,80,000
Value of hospital equipment on 31.12.2020	1,02,000
Building Fund as on 1.1. 2020	1,60,000
Subscriptions in arrears as on 31.12.2019	13,000
Investments in 8% Govt. securities were made on 1st July, 2020.	

Solution:

Rex Speciality Hospital
Income & Expenditure Account
for the year ended 31 December, 2020

	Expenditure	(₹)		Income	(₹)
To	Salaries	48,000	By	Subscriptions	49,000
To	Diet expenses	31,200	By	Govt. Grants (Maintenance)	40,000
To	Rent & Rates	3,400	By	Fees, Sundry Patients	9,600
To	Printing & Stationery	4,800	By	Donations	16,000
To	Electricity & Water-charges	4,800	By	Benefit shows (net collections)	12,000
To	Office expenses	4,000	By	Interest on Investments	1,600
To	Excess of Income over expenditure transferred to Capital Fund	32,000			
		1,28,200			1,28,200

Balance Sheet as at 31st Dec., 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	

Excess of Income			Addition	1,00,000	2,80,000
Over Expenditure	32,000	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	34,000	1,02,000
Add : Govt. Grant	1,60,000	3,20,000	Furniture		12,000
Subscriptions			Investments-		
received in advance		4,800	8% Govt. Securities		40,000
			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600
			Cash at Bank		13,600
			Cash in hand		2,800
		4,55,400			4,55,400

Working Notes:

(1) Balance sheet as at 31st Dec., 2020

Liabilities	₹	Assets	₹
Capital Fund		Building	1,80,000
(Balancing Figure)	98,600	Equipment	68,000
Building Fund	1,60,000	Subscription Receivable	13,000
Creditors for Expenses :		Cash at Bank	10,400
Salaries payable	14,400	Cash in hand	1,600
	2,73,000		2,73,000

(2) Value of Building			₹
Balance on 31st Dec. 2020			2,80,000
Paid during the year			1,00,000
Balance on 31st Dec. 2019			1,80,000
(3) Value of Equipment			
Balance on 31st Dec. 2020			1,02,000
Paid during the year			(34,000)
Balance on 31st Dec. 2019			78,000
(4) Subscription due for 2019			
Receivable on 31st Dec. 2019			13,000
Received in 2020			10,200
Still Receivable for 2019			2,800

34. Mock Test Nov 21

The following information of M/s. Missionary Club are related for the year ended 31st March, 2021:

(1).

Balances	As on 01-04-2020 (Rs.)	As on 31-3-2021 (Rs.)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year Rs. 11,25,000

(3) Payments for Sports Material during the year Rs. 6,75000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

Solution:

Subscription for the year ended 31.3.2021

		₹
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2021

	₹
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)

	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

Balance Sheet of M/s Missionary Club For the year ended 31st March, 2021(An extract)

Liabilities	₹₹	Assets	₹
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

34. RTP May 22

From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	Payments	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
3. 50% of donation is to be capitalized.

4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

Solutions

Income and Expenditure Account of Pune Club

for the year ended 31st March,2021

Dr.					Cr.
Expenditure	₹	₹	Income	₹	₹
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment [8/100x6,000x5/12]		200
Add: Outstanding	40	240	By Interest received from		500
			bank		
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of		14,150			
income over					
expenditure					
		17,950			17,950

Balance Sheet of Pune Clubas on 31st March,2021

Liabilities	₹	Assets	₹
Capital fund (WN-1)	52,650	Snooker table	30,000
Opening balance	36,000	Furniture	6,000
Add: Surplus	14,150	Investments	6,000

Donations	2,500	Interest accrued	200
Outstanding insurance premium	40	Prepaid Misc. expenses	90
Subscription received in advance	350	Subscriptions receivable	900
		Cash in hand	2,650
	------	Cash at bank	7,200
	53,040		53,040

Working Note:

Balance Sheet of Pune Clubas on 31st March,2020

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
		Cash at bank	10,000
	44,000		44,000

Subscriptions ₹

Subscription as per Receipt and Payment A/c	12,000
Add: Outstanding for year 2020-21	900
	12,900
Less: Advance for year 2021-22	(350)
	12,550

35. RTP Nov 22

From the following information supplied by ABC Club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2022.

	01.04.2021 ₹	31.03.2022 ₹
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84000
Machinery	60,000	120000
Sports goods	90,000	150000

Subscription for the year amount to ₹ 18,00,000/-. Salaries paid ₹ 3,60,000. Face value of the Investment was ₹ 10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 84,000. Furniture was sold for ₹ 48,000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @ 10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 3,00,000

Rent: ₹ 1,44,000 out of which ₹ 12,000 outstanding

Misc. Expenses: ₹ 30,000

Solution

Receipts and Payments Account for the year ended 31-03-2022

Receipts	₹	Payments	₹
To balance b/d		By Salaries	3,60,000
Cash and bank	6,60,000	By Purchase of sports goods	60,000
To Subscription received (W.N.1)	14,70,000	₹ (1,50,000-90,000)	
To Sale of investments (W.N.2)	4,20,000	By Purchase of machinery	60,000
To Interest received on investment	84,000	₹ (1,20,000-60,000)	
To Sale of furniture	48,000	By Sports expenses	3,00,000
		By Rent paid	1,32,000
		₹ (1,44,000-12,000)	
		By Miscellaneous expenses	30,000
		By Balance c/d	
		Cash and bank	17,40,000
	26,82,000		26,82,000

Income and Expenditure account for the year ended 31-03-2022

Expenditure	₹	₹	Income	₹	₹
To Salaries	3,60,000		By Subscription		18,00,000
Add: Outstanding for 2022	1,08,000 4,68,000		By Interest on Investment		
			Received	84,000	
Less: Outstanding for 2022	(90,000)	3,78,000	Accrued (W.N.5)	21,000	1,05,000

To Sports expenses		3,00,000			
To Rent		1,44,000			
To Miscellaneous exp.		30,000			
To Loss on saleoffurniture (W.N.3)		36,000			
To Depreciation (W.N.4)					
Furniture	8,400				
Machinery	9,000				
Sports goods	13,500	30,900			
To Surplus		9,86,100			
		19,05,000			19,05,000

Working Notes:

1. Calculation of Subscription received during the year 2021-22

	₹
Subscription due for 2021-22	18,00,000
Add: Outstanding of 2021	8,40,000
Less: Outstanding of 2022	(12,00,000)
Add: Subscription of 2022 received in advance	1,80,000
Less: Subscription of 2021 received in advance	(1,50,000)
	14,70,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 10,50,000 × 50% = ₹ 5,25,000Sales price: ₹ 5,25,000 × 80% = ₹ 4,20,000

Cost price of investment sold: ₹ 8,40,000 × 50% = ₹4,20,000 Profit/loss on sale of investment: ₹ 4,20,000 -₹ 4,20,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2021	1,68,000
Value of furniture as on 31-03-2022	84,000
Value of furniture sold at the beginning of the year	84,000
Less: Sales price of furniture	(48,000)
Loss on sale of furniture	36,000

4. Depreciation

Furniture - ₹ 84,000 × 10% =	8,400
Machinery - ₹ 60,000 × 15% =	9,000
Sports goods – ₹ 90,000 × 15% =	13500

5. Interest accrued on investment

	₹

Face value of investment on 01-04-2021	10,50,000
Interest @ 10%	1,05,000
Less: Interest received during the year	(84,000)
Interest accrued during the year	21,000

Note: It is assumed that the sale of investment has taken place at the end of the year.

36. ICAI Exam May 22

The following is the receipts and payments account of Mumbai Club for the year ended 31.03.2021

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per Pass Book:		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary (2019-20)	40,000
Contribution to Club night	10,000	Balance at Bank as per Pass Book:	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.20	31.03.21
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unpresented being payment for repairs	30,000	25,000
Interest not yet entered in the Pass book	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March,2021 and the Balance Sheet as at that date.

Income and Expenditure Account of Mumbai Club for the year ending 31st March, 2021

Expenditure		₹	Income	₹
To Groundsman's fee		75,000	By Donations and Subscription (W.N.2)	2,45,000
To Rent of Ground		25,000		
To Club night' Expenses	38,000		By Receipts from bar room	20,000
Less: Contribution	(10,000)	28,000*		
To Printing & Office Expenses (W.N. 3)		28,000	By Proceeds of club night	78,000*
To Repairs to Equipment (W.N.4)		45,000	By Interest (5,000+2,000)	7,000
To Depreciation on Machinery (W.N. 5)		52,000		
To Honorarium to Secretary		60,000		
To Bonus to Groundsman		20,000		
To Excess of Income over				
Expenditure		17,000		
		3,50,000		3,50,000

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

Balance Sheet of Mumbai Club as on 31st March,2021

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		20,000	Cash in hand	25,000
Printing		8,000	Cash in Saving A/c	2,04,000
Honorarium (40,000+20,000)		60,000	Subscription Receivable	10,000
Bank Overdraft (25,000-20,000)		5,000	Interest Due	2,000

Capital Fund: Opening	2,88,000		Machinery & Equipment's	1,75,000
Add: Surplus for the year	17,000			
Add: Entrance Fees	18,000	3,23,000		
		4,16,000		4,16,000

Balance Sheet as on 1st April,2020

Liabilities	₹	Assets	₹
Outstanding Expenses		Cash in hand	20,000
Printing	10,000	Cash in Saving A/c	1,93,000
Honorarium to Secretary Capital		Cash in Current A/c	30,000
Fund (Balancing Figure)			
		Subscription Receivable	15,000
		Machinery & Equipment's	
			80,000
			3,38,000

Calculation of Donations and Subscriptions ₹

Donations and Subscriptions as per Receipt and Payments A/c Add:	2,50,000
Outstanding as on 31.03.21	10,000
Less: Outstanding as on 01.04.20	15,000
	2,45,000

Printing and Office Expenses ₹

Printing and Office Expenses as per Receipt and Payments A/c Add:	30,000
Outstanding as on 31.03.21	8,000
Less: Outstanding as on 01.04.20	10,000
	28,000

Repairs to Equipment ₹

Repairs as per Receipt and Payments A/c Add:	50,000
Outstanding as on 31.03.21	25,000
Less: Outstanding as on 01.04.20	30,000
	45,000

Depreciation on Machinery and equipment ₹

Balance as on 01.04.20	80,000
Add: Purchases during the year Less: Sale of	1,55,000
Equipment	8,000
Less: Balance as on 31.03.21	1,75,000
	52,000

37.MTP Nov 22 Series I

Ankit Sports club gives the following Receipts and Payments account for the year ended March 31,2022:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash and bankbalances	52,000	By Salaries	1,50,000
To Subscription	3,48,000	By Rent and taxes	54,000
To Donations	1,00,000	By Electricity charges	6,000
To Interest on investments	12,000	By Sports goods	20,000
To Sundry receipts	3,000	By Library books	1,00,000
		By Newspapers and periodicals	10,800
		By Miscellaneous expenses	54,000
		By Closing cash and bankbalances	1,20,200
	5,15,000		5,15,000

	As on 31.3.2021 (₹)	As on 31.3.2022 (₹)
Liabilities		
Outstanding expense:		
Salaries	10,000	20,000
Newspapers and periodicals	4,000	5,000
Rent and taxes	6,000	6,000
Electricity charges	8,000	10,000
Assets		
Library Books	1,00,000	-
Sports goods	80,000	-
Furniture and fixtures	1,00,000	-
Subscription receivable	50,000	1,20,000
Investment government securities	5,00,000	-
Accrued interest	6,000	6,000

Provide depreciation on Furniture and fixtures @ 10% , Sports goods @ 20%, Library books @ 10%. Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2021, Income and expenditure Account for the year ended on 31.3.2022 and Balance sheet as on that date.

Solution

Balance Sheet of Ankit Sports Club as on Ist April,2021

Liabilities	₹	₹	Assets	₹
Capital fund (bal.fig)		8,60,000	Library books	1,00,000
Outstanding expenses:			Sports goods	80,000
Salaries	10,000		Furniture and Fixtures	1,00,000
Newspapers and			Subscriptions Receivable	50,000
Periodicals	4,000		Investment Govt. Securities	5,00,000
Electricity charges	8,000		Accrued interest	6,000
Rent and taxes	6,000	28,000	Cash and Bank balances	52,000
		8,88,000		8,88,000

Income and Expenditure Account for the year ended on 31st March,2022

Expenditure	₹	Income	₹
To Salaries (WN 3)	1,60,000	By subscription (W.N.1)	4,18,000
To Electricity charges (WN 3)	8,000	By Interest on	12,000
To Rent and taxes (WN 3)	54,000	Investments (W.N.2)	
To Newspapers and	11,800	By Sundry receipts	3,000
Periodicals (WN 3)			
To Miss expenses	54,000		
To Depreciation on fixed	50,000		
Assets (W N 4)			
To Excess of income over	95,200		
Expenditure (Transferred to			
Capital fund)			
	4,33,000		4,33,000

Balance Sheet of Ankit Sports Club as on 31st March,2022

Liabilities	₹	₹	Assets	₹	₹
Capital fund			Fixed assets (W.N.4)		
Opening balance	8,60,000		Furniture and	90,000	
Add: Surplus	95200		Fixtures		

Add: Donations	1,00,000		Sports goods	80,000	
		10,55,200	Library books	1,80,000	
Outstanding			Investment Govt		3,50,000
Expenses: (W.N.3)			Securities		5,00,000
Salaries	20,000		Accrued interest		6,000
Newspapers and	5,000		Subscriptions		
Periodicals			Receivable		1,20,000
Electricity charges	10,000		Cash and bank		1,20,200
Rent and taxes	6,000	41,000	Balance		
		10,96,200			10,96,200

Working Notes:

(1) **Subscriptions for the year ended 31st March,2022:**

	₹
Subscription received during the year	3,48,000
Add: Subscriptions receivable on 31.3.2022	1,20,000
Less: Subscriptions receivable on 31.3.2021	4,68,000
	(50,000)
	4,18,000

(2) **Interest on investments for the year ended 31st March,2022:**

	₹
Interest received during the year Add:	12,000
Accrued interest on 31.3.2022	6,000
Less: Accrued interest on 31.3.2021	18,000
	(6,000)
	12,000

(3) **Expenses for the year ended 31st March,2022:**

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	₹	₹	₹	₹
Paid during the year	1,50,000	6,000	54,000	10,800
Add: Outstanding (as on31.3.2022)	20,000	10,000	6,000	5,000
	1,70,000	16,000	60,000	15,800
Less: Outstanding (as on31.3.2021)	(10,000)	(8,000)	(6,000)	(4,000)
	1,60,000	8,000	54,000	11,800

(4) Depreciation on Fixed assets

Assets	Book value as on 31.3.2021	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V. as on 31.3.2022
Furniture and fixtures	1,00,000		1,00,000	10%	10,000	90,000
Sports						
Goods	80,000	20,000	1,00,000	20%	20,000	80,000
Library						
Books	1,00,000	1,00,000	2,00,000	10%	20,000	1,80,000
Total					50,000	3,50,000

38. MTP Nov 22 Series 2

The Receipts and Payments account of Silver Stitch Club prepared on 31st March, 2022 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		9,000	By Expenses (including Payment for sports material ₹ 54,000)	1,26,000
To Annual Income from Subscription	91,800		By Loss on Sale of Furniture (cost price ₹ 9,000)	3,600
Add: Outstanding of last year received this year	3,600		Balance c/d	18,09,000
	95,440			
Less: Prepaid of last year	1,800	93,600		
To Other fees		36,000		
To Donation for Building		18,00,000		
		19,38,600		19,38,600

Additional information:

Silver Stitch Club had balances as on 1.4.2021 : - Furniture ₹ 36,000; Investment at 5% ₹ 5,40,000; Sports material ₹ 1,33,200; Balance as on 31.3.2022 : Subscription Receivable ₹ 5,400;

Subscription received in advance ₹ 1,800; Stock of sports material ₹ 36,000.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2022 and Balance Sheet on that date.

Solution

1. Corrected Receipts and Payments Account of Silver Stitch Club

for the year ended 31st March, 2022

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d Subscription		9,000	By Expenses(₹ 1,26,000 – ₹ 54,000)	72,000
To Annual Income	91,800		By Sports Material	54,000
			By Balance c/d (Cash in Hand and at Bank)	18,14,400
Less: Receivable as on 31.3.2022	5,400			
Advance received for the year 2022-2023	1,800			
Receivable as on 31.3.2021	3,600			
Less: Advance received as on 31.3.2021	1,800	90,000		
To Other Fees		36,000		
To Donation for Building		18,00,000		
To Sale of Furniture		5,400		
		19,40,400		19,40,400

Income and Expenditure Account of Silver Stitch Club for the year ended 31st March, 2022

Expenditure	₹	Amount ₹	Income	Amount ₹
To Sundry Expenses		72,000	By Subscription	91,800
To Sports Material			By Other fees	36,000
Balance as on 1.4.2021	1,33,200		By Interest on investment (5% on ₹ 5,40,000)	27,000
Add: Purchases	54,000		By Deficit: Excess of Expenditure over Income	72,000
Less: Balance as on 31.3.2022	36,000	1,51,200		
Loss on sale Furniture of furniture		3,600		
		2,26,800		2,26,800

Balance Sheet of Silver Stitch Clubas on 31st March, 2022

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	7,20,000		Furniture	36,000	
Less: Excess of	72,000		Less: Sold	9,000	27,000
Expenditure overIncome		6,48,000	5% Investment		5,40,000
Building Fund		18,00,000	Interest Accrued onInvestment		27,000
Subscription Received in Advance		1,800	Sports Material		36,000
			Subscription Receivable		5,400
			Cash in Hand and at Bank		18,14,400
		24,49,800			24,49,800

Working Note:

Balance Sheet of Silver Stitch Clubas on 1st April, 2021

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in Advance	1,800	Furniture	36,000
		Investment	5,40,000
Capital Fund (Balancing Figure)	7,20,000	Sports Material	1,33,200
		Subscription Receivable	3,600
		Cash in Hand and at Bank	9,000
	7,21,800		7,21,800

39.ICAI Exam Nov 22

The Income and Expenditure Account of the young Boys Club for the year 2022 is as follows:

Expenditure	Amount ₹	Income	Amount ₹
To Salaries	3,750	By Subscriptions	8,500
To General Expenses	1,500	By Entrance Fees	250
To Audit fees	250	By Contributions for	
To Secretary's Honorarium	1,000	Annual Dinner	1,000
To Stationery and printing	450	By Annual sports	
To Interest and Bank Change	150		
To Depreciations	400		
To Surplus	1,500		
	10,500		10,500

This Account has been prepared after the following adjustments:

	Amount (₹)
Subscriptions outstanding on 31st December,2021	700
Subscriptions received in advance on 31st December, 2021	550

Subscriptions received in advance on 31st December, 2022	370
Subscriptions outstanding on 31st December, 2022	750

Salaries outstanding at the beginning and the end of 2022, were respectively ₹ 600 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2600. At the end of the years, after depreciation, the balance of equipment amounted to ₹ 3,600. In 2021, the club raised a bank loan of 5,000, this was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1600.

You are required to prepare:

i. Receipts and payments Account for 2022
ii. Balance Sheet as on 31st December, 2022
iii. Balance Sheet as on 31st December 2021.

Solution

The Young Boys Club

Receipts and Payments Account for the year ended 31st December, 2022

Receipts	₹	Payments		₹
To Balance b/d (balancing figure)	1,580	By Salaries (WN-2)		3,900
To Subscriptions (WN-1)	8,270	By General Expenses	1500	
To Entrance Fees	250	Add: Paid for 2023	150	1,650
To Contribution for annual dinner	1,000	By Audit fee (2021)		200
To Annual sport meet receipt	750	By Secy. Honorarium		1,000
		By Stationery & Printing		450
		By Annual Dinner Expenses		1,500
		By Interest & Bank Charges		150
		By Sports Equipment (WN -3)		1,400
		By Balance c/d		1,600
	11,850			11,850
To Balance b/d	1,600			

Working Note 1

Subscription A/c

To Subscription O/s 2021	700	By Balance b/d (b/f)	8,270
To Subscription in Advance 2022	370	By Subscription O/s 2022	750
To Income & Expenditure a/c		By Subscription in Advance 2021	550

	8,500		
Total	9,570	Total	9,570

Working Note 2

Salaries A/c

To Bank (b/f) To Salaries O/s 2022	3,900 450	By Income & Expenditure a/c By Salaries O/s 2021	3,750 600
	4,350		4,350

Working Note 3

Sports Equipment A/c

To Balance b/d To Cash / Bank (b/f)	2,600 1,400	By Depreciation By Balance c/d	400 3,600
Total	4,000	Total	4,000

Balance Sheet of Young Boys Club as on December 31, 2022

Liabilities	₹	₹	Assets	₹	₹
Subscription received inadvance		370	Freehold Ground		20,000
Audit Fee Outstanding		250	Sport Equipment:		
Salaries Outstanding		450	As per last BalanceSheet	2,600	
Bank Loan		5,000	Additions	1,400	
Capital Fund:				4,000	
Balance as per previous			Less: Depreciation	(400)	3,600
Balance Sheet	18,530		Subscription Outstanding		750
Add: Surplus for 2022	1,500		Insurance Prepaid		150
		20,030	Cash in hand		1,600
		26,100			26,100

Balance Sheet of Young Boys Club as on 31st December, 2021

Liabilities	₹	Assets	₹
Subscriptions received in advance	550	Freehold Ground	20,000
Salaries outstanding	600	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	700
Bank Loan	5,000	Cash in hand	1,580
Capital Fund (balancing figure)	18,530		
	24,880		24,880

40.RTP May 23

A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with ₹ 1,50,000 of his own and ₹ 2,25,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own capital	1,50,000	Medicines purchased	1,83,750
Loan	2,25,000	Surgical equipments	1,87,500
Prescription fees	4,95,000	Motor car	2,40,000

Visiting fees	1,87,500	Motor car expenses	90,000
Fees from lectures	18,000	Wages and salaries	78,750
Pension received	2,25,000	Rent of clinic	45,000
		General charges	36,750
		Household expenses	1,35,000
		Household Furniture	18,750
		Expenses on daughter's marriage	1,61,250
		Interest on loan	27,000
		Balance at bank	82,500
		Cash in hand	14,250

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 22,500 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2022 was valued at ₹ 71,250.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

Solution

Income and Expenditure Account for the year ended 31st March, 2022

		₹		₹
To Medicines consumed			By Prescription fees	4,95,000
Purchases	1,83,750		By Visiting fees	1,87,500
Less: Closing Stock	(71,250)	1,12,500	By Fees from lectures	18,000
To Motor car expense (90,000 x 2/3)		60,000		
To Salaries (₹ 78,750 – ₹ 22,500)		56,250		
To Rent for clinic		45,000		
To General charges		36,750		
To Interest on loan		27,000		
To Excess of Income over expenditure		3,63,000		------
		7,00,500		7,00,500

Capital Account

for the year ended 31st March, 2022

	₹		₹
To Drawings:		By Cash/bank	1,50,000
Motor car expenses	30,000	By Cash/bank (pension)	2,25,000
Household expenses	1,35,000	By Net income from practice (derived from income and expenditure a/c)	3,63,000
Marriage expenses	1,61,250		
To Salary of domesticservants	22,500		
To Household furniture	18,750		
To Balance c/d	3,70,500		
	7,38,000		7,38,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital	3,70,500	Motor car	2,40,000
Loan	2,25,000	Surgical equipment	1,87,500
		Stock of medicines	71,250
		Cash at bank	82,500
		Cash in hand	14,250
	5,95,500		5,95,500

41. QP June 23

Following is the Receipt and payments account of pune Medical Aid Society for the year ended 31.12.2022

Receipts and Payments Account for the year ended 31.12.2022.

Receipt	Amount₹	Payment	Amount₹
To Opening cash in hand	12,000	By Medicine Supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To interest in Investment (10%)	10,000	By Sundry expenses	950
To Charity Show collection	16,500	By purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	1,28,500		1,28,500

The following is the additional information provided.

	01.01.2022	31.12.2022
	Amount ₹	Amount ₹
Subscriptions due	2,500	3,100

Subscriptions received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of Building	65,000	61,750

You are required to prepare Income and Expenditure account and Balance sheet as on 31-12-2022.

Solution

Income and Expenditure Account of Pune Medical Aid Society for the year ended 31st December, 2022

Expenditure		`	Income		`
To Medicine consumed		34,750	By Subscription		66,000
To Honorarium to doctors		15,000	By Donation		25,000
To Salaries		36,000	By Interest on investments		10,000
To Sundry expenses		950	By Profit on charity show:		
To Depreciation on			Show collections	16,500	
Equipment	9,300		Less: Show expenses	(2,750)	13,750
Building	3,250	12,550			
To Surplus-excess of Income over Expenditure		15,500			
		1,14,750			1,14,750

Balance Sheet of Pune Medical Aid Society as on 31st December, 2022

Liabilities	`	`	Assets	`	`
Capital fund:			Building	65,000	
Opening balance	1,99,700		Less: Depreciation	(3,250)	61,750
Add: Surplus	15,500	2,15,200	Equipment	21,500	
Subscription received in advance		1,400	Add: Purchase	25,000	
Amount due for medicine supply		16,500		46,500	
			Less: Depreciation	(9,300)	37,200
			Stock of medicine		17,250

			Investments		1,00,000
			Subscription receivable		3,100
			Cash in hand		13,800
		2,33,100			2,33,100

Working Notes: 1.

Subscription for the year ended 31st December, 2022:		₹
Subscription received during the year		65,000
Less: Subscription receivable on 1.1.2022	2,500	
Less: Subscription received in advance on 31.12.2022	1,400	(3,900)
Add: Subscription receivable on 31.12.2022	3,100	61,100
Add: Subscription received in advance on 1.1.2022	1,800	4,900
		66,000
2. Purchase of medicine:		
Payment for medicine supply		35,000
Less: Amounts due for medicine supply on 1.1.2022		(12,000)
		23,000
Add: Amounts due for medicine supply on 31.12.2022		16,500
		39,500
3. Medicine consumed:		
Stock of medicine on 1.1.2022		12,500
Add: Purchase of medicine during the year		39,500
		52,000
Less: Stock of medicine on 31.12.2022		(17,250)
		34,750
4. Depreciation on equipment:		
Value of equipment on 1.1.2022		21,500
Add: Purchase of equipment during the year		25,000
		46,500
Less: Value of equipment on 31.12.2022		(37,200)
Depreciation on equipment for the year		9,300

Balance Sheet of Pune Aid Society as on 1st January, 2022

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	1,99,700	Building	65,000
Subscription received in advance	1,800	Equipment	21,500
Amount due for medicine supply	12,000	Stock of medicine	12,500
		Investments (10,000 x 100/10)	1,00,000

		Subscription receivable	2,500
		Cash in hand	12,000
	2,13,500		2,13,500

42. RTP Dec 23

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Amar Leela Hospital:

Receipts and Payments Account for the year ended 31 December, 2022

RECEIPTS	₹		PAYMENTS		₹
To Balance b/d			By Salaries:		
Cash	2,400		(₹ 21,600 for 2021)		93,600
Bank	15,600	18,000	By Hospital Equipment		51,000
To Subscriptions:			By Furniture purchased		18,000
For 2021		15,300	By Additions to Building		150,000
For 2022		73,500	By Printing and Stationery		7,200
For 2023		7200			
To Government Grant:			By Diet expenses		46,800
For building		2,40,000	By Rent and rates		
For maintenance		60,000	(₹ 900 for 2023)		6,000
Fees from sundry			By Electricity and water		
Patients		14,400	charges		7,200
To Donations (not to be		24,000	By office expenses		6,000
capitalized)			By Investments		60,000
To Net collections from			By Balances:		
benefit shows		18,000	Cash	4,200	
			Bank	20,400	24,600
		4,70,400			4,70,400

Additional information:	₹
Value of building under construction as on 31.12.2022	4,20,000
Value of hospital equipment on 31.12.2022	1,53,000
Building Fund as on 1.1. 2022	2,40,000
Subscriptions in arrears as on 31.12.2021	19,500
Investments in 8% Govt. securities were made on 1st July, 2022.	

Solution

Amar Leela Hospital

Income & Expenditure Account for the year ended 31 December, 2022

Expenditure	(₹)	Income	(₹)
To Salaries	72,000	By Subscriptions	73,500
To Diet expenses	46,800	By Govt. Grants (Maintenance)	60,000
To Rent & Rates	5,100	By Fees from Sundry Patients	14,400
To Printing & Stationery	7,200	By Donations	24,000
To Electricity & Water-charges	7,200	By Benefit shows (net collections)	18,000
To Office expenses	6,000	By Interest on Investments	2,400
To Excess of Income over expenditure transferredto Capital Fund	48,000		
	1,92,300		1,92,300

Balance Sheet as at 31st Dec., 2022

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	1,47,900		Opening balance	2,70,000	
Excess of Income			Addition	1,50,000	4,20,000
Over Expenditure	48,000		Hospital Equipment :		
Building Fund :		1,95,900	Opening balance	1,02,000	
Opening balance	2,40,000		Addition	51,000	1,53,000
Add : Govt. Grant	2,40,000	4,80,000	Furniture		18,000
Subscriptions			Investments -		
received in advance		7,200	8% Govt. Securities		60,000
			Subscriptions receivable		4,200
			Accrued interest		2,400
			Prepaid expenses (Rent)		900
			Cash at Bank		20,400

			Cash in hand		4,300
		6,83,100			6,83,100

Working Notes:

1) Balance sheet as at 31st Dec., 2021

Liabilities	₹	Assets	₹
Capital Fund		Building	2,70,000
(Balancing Figure)	1,47,900	Equipment	1,02,000
Building Fund	2,40,000	Subscription Receivable	19,500
Creditors for Expenses:		Cash at Bank	15,600
Salaries payable	21,600	Cash in hand	2,400
	4,09,500		4,09,500
(2) Value of Building			₹
Balance on 31st Dec. 2022			4,20,000
Paid during the year			1,50,000
Balance on 31st Dec. 2021			2,70,000
(3) Value of Equipment			
Balance on 31st Dec. 2022			1,53,000
Paid during the year			(51,000)
Balance on 31st Dec. 2021			1,02,000
(4) Subscription due for 2021			
Receivable on 31st Dec. 2021			19,500
Received in 2022			15,300
Still Receivable for 2021			4,200

43. QP Dec 23

From the following particulars, prepare a bank Reconciliation Statement as on 31st December, 2022.

i. Debit balance (overdraft) shown by the passbook ₹ 2,48,000.

ii. Cheques of ₹ 2,10,000 were issued in the last week of December, but of these ₹ 1,40,000 only were presented for payment.

iii. A cheque for ₹ 19,200 drawn for the payment of telephone bill had been entered in the cash book as ₹ 29,200 but was shown correctly in the bank statement.

iv. A cheque received of ₹ 37,520 entered twice in the cashbook.

v. A cheque for ₹ 1,17,000 was issued for purchased of merchandise of was paid by the bank but not recorded in cash book.

vi. Interest of overdraft and bank charges amounting to ₹ 3,500 were not entered in the cash book .

vii. A cheque for ₹ 45,000 was credited in the passbook but not was recorded in the cash book

viii. A bill of exchange for ₹ 26,200 which was discounted with bank, returned dishonored but not entry was made in the cash book.

ix. Payment side of the cash book has been undercast by ₹ 12,000.

True and False

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.

   Ans: False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.

   Ans: False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.

3. Sale of grass by a sports club is to be treated as sale of an asset.

   Ans: False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.

4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.

   Ans:- False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.

5. Receipts and payments account gives the details about the expenses outstanding for the year.

   Ans:- False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.

6. Adjustments in the form of additional information shall be adjusted in the final accounts of a Non- profit organisation only in one place.

   Ans: False: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.

7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.

   Ans:- False: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.

8. For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
   Ans: False: The excess of the income over the expenditure is called as Surplus and not profit for an Non-profit organisation.

9. Surplus of non-profit organizations is distributed among its members.
   Ans:- False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.

10. Tournament fund, building fund, library fund is based on the fund based accounting.
    Ans:- True: It is Fund based accounting that records the fund balances in the balance sheet.

11. Subscription fees refers to the one-time fees paid by the members to get admission for the benefits of the club.
    Ans:- False: Subscription is a regular fees paid by the members to keep the membership alive.

12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
    Ans:- True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.

13. An Insurance company is an example of non-profit organization.
    Ans:- False: Insurance Company has a profit motive, hence it is not a non-profit organization.

14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
    Ans:- False: It shall be shown in the Balance sheet- where it is to be capitalized.

15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.
    Ans:- False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.

16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.
    Ans:- True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as Legacy.

17. Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

    Ans: True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.

18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.

    Ans:- False: The Non-profit organisation has its very existence to serve the members and the society. Profit earning shall never be its motive.

19. All the receipts are of revenue nature in case of Non-profit organisation.

    Ans: False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.

20. There is opening balance of Income and expenditure account

    Ans:- False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

Multiple Choice Questions

1. Scholarship granted to students out of specific funds provided by Government will be debited to
   a) Income and Expenditure Account.
   b) Receipts and payments Account.
   c) Funds granted for Scholarship account.

   Ans:- c

2. In case of NPO, excess of total assets over liabilities is known as
   a) Profits.
   b) Surplus.
   c) Capital Fund.

   Ans:- c

3. General donations and legacies are credited to
   a) Receipts and Payments Account.
   b) Income and Expenditure Account.
   c) Capital Fund.

   Ans: b

4. Interest on prize funds is
   a) Credited to Income and Expenditure Account.
   b) Credited to Receipts and Payments Account.
   c) Added to prize fund.

   Ans:- c

5. Special aids are
   a) Treated as capital receipts.
   b) Treated as revenue receipts.
   c) Both (a) and (c).

   Ans:- c

6. If there exist a specific sports fund, the expenses incurred in relation to sports activities will be taken to
   a) Income and Expenditure Account
   b) Receipt and Payment Account
   c) Sports fund

   Ans:- c

Theory Questions

1. Distinguish between Receipt and Payment and Income and Expenditure Account.

Answer

Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. For distinguishing features of both the accounts, Refer para 3.2.

Accounts for Incomplete Records

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI PQ 1				
12	ICAI PQ 2				
13	ICAI PQ 3				

Let's Get Started... With Class Work

1. ICAI – Illustration 1

Raju does not maintain proper records of his business. However, he provides the following information:

Opening capital	10,000
Closing capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

Solution

Closing Capital	12,500
Add: Drawings during the year	3,000
	15,500
Less: Additional capital during the year	(3,750)
Less: opening capital	(10,000)
Net Profit for the year	1,750

2. ICAI – Illustration 2

Rakesh started his business on 1st of April 2021. He invested a capital of Rs 1,00,000. On 31st March 2022, he has the following information available as per the Single-entry system

maintained by him.	
Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2022.

Solution

Statement of Affairs as on 31st March, 2022

Liabilities	Amount	Assets	Amount
Sundry Creditors	12,000	Cash balance	3,200
Loan from bank	10,000	Inventory	34,800
Capital (Bal fig)	1,32,000	Sundry Debtors	31,000
		Machine	85,000
	1,54,000		1,54,000

Statement of profit or loss for the year ended 31st March, 2022

Capital as at 31st March 2022	1,32,000
Add: Drawings made during the year	24,000
Total	1,56,000
Less: Opening Capital as at 1st April 2021	(1,00,000)
Profit for the year ended 31st March 2022	56,000

3. ICAI Illustration 3

Assets and Liabilities of Mr. X as on 31-12-2021 and 31-12-2022 are as follows:

Particular	**31-12-2021**	**31-12-2022**
Assets		
Building	1,00,000	-
Furniture	50,000	-
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% and furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount 40,000 is retained in the business. Proprietor took @ 2,000 p.m. for meeting family expenses. Prepare Statement of Affairs.

Solution:

Mr. X
Statement of Affairs
as on 31-03-2021 & 31-03-2022

Liabilities	31-03-2021 ₹	31-03-2022 ₹	Assets	31-03-2021 ₹	31-03-2022 ₹
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
			Furniture	50,000	45,000
Loans	1,00,000	80,000	Inventory	1,20,000	2,70,000
Sundry creditors	40,000	70,000	Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

4. ICAI Illustration 4

Take figures given above question no. 3. Find out profit of Mr. X.

Solution:

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-03-2022	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (₹ 2000 × 12)	24,000
	4,24,700

Less: Capital Balance as on 31-03-2021	(2,41,200)
Profit	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

ALTERNATIVELY

Capital account can be prepared as follows:

Particulars	₹	Particulars	₹
		By Balance b/d	2,41,200
To drawings	24,000	By additional capital	40,000
		By Net Profit (Bal Fig)	1,83,500
To Balance c/d	4,40,700		
	4,64,700		4,64,700

5. ICAI Illustration 5

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020- 2021 and 2021-2022 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on Ist April, 2020 and Ist April, 2022.

Date		Particulars	₹
01-04-2020	**Assets**	Cash in hand	25,500
		Inventory	56,000
		Sundry debtors	41,500
		Land and Building	1,90,000
		Wife's Jewellery	75,000
	Liabilities	Owing to Moti's Brother	40,000
		Sundry creditors	35,000
01-04-2022	**Assets**	Cash in hand	16,000
		Inventory	91,500
		Sundry debtors	52,500
		Land and Building	1,90,000
		Motor Car	1,25,000
		Wife's Jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities	Sundry creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹ 1,05,000 for 2020-2021 and ₹ 1,23,000 for 2021-2022 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Solution:

Capital Account of Shri Moti

		1-4-2020		1-4-2022
Assets	₹	₹	₹	₹
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000
Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-20X2				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-20X0				(3,13,000)
Income earned in 20X0-20X1 and 20X1-20X2				3,48,000
Income declared (₹ 1,05,000 + ₹1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000.

6. ICAI – Illustration 6

Calculate the bad debts from the below information:

Opening balance of Debtors	5,00,000
Closing balance of Debtors	7,00,000
Amount received in Cash	6,00,000
Discount allowed	10,000
Credit Sales	11,40,000
Bills Receivable	3,00,000
Bad Debts	???

Solution

Debtors Account

Particulars	Amount	Particulars	Amount
Balance b/f	5,00,000	Cash A/c	6,00,000
Credit Sales	11,40,000	Discount allowed	10,000
		Bills Receivable	3,00,000
		Bad Debts (Bal fig)	30,000
		Balance c/f	7,00,000
	16,40,000		16,40,000

7. ICAI – Illustration 7

Calculate the credit purchases from the below information:

Opening balance of creditors	4,00,000
Closing balance of creditors	5,00,000
Payments made in Cash	8,50,000
Discount received	20,000

Solution

Total Creditors Account

Particulars	Amount	Particulars	Amount
Cash paid	8,50,000	Balance b/d	4,00,000

Discount received	20,000	Credit Purchases (Bal. fig)	
Balance c/d	5,00,000		9,70,000
	13,70,000		13,70,000

8. ICAI Illustration 8

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2022 is given below:

Receipts	₹	Payments	₹
To Bank Balance as on 1st Jan	2,800	By Payments to Sundry	35,000
To Received from Sundry Debtors	48,000	By Salaries	6,500
To Cash Sales	11,000	By General expenses	2,500
To Capital brought during the year	6,000	By Rent and Taxes	1,500
To Interest on Investments	200	By Drawings	3,600
		By Cash purchases	12,000
		By Balance at Bank on 31st Dec.,14	6,400
		By Cash in hand on 31st Dec.	500
Total	**68,000**	**Total**	**68,000**

Particulars of other assets and liabilities are as follows:

Particular	1st January, 2021	31st December, 2022
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st December, 2022 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Solution:

A. Adamjee

Trading and Profit & Loss Account for the year ended 31st March 2022

	₹	₹		₹

To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Dep:				
Machinery @ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		
To Net profit				
carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet as on 31st March 2022

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital			Machinery	7,500	
on 1st April, 20X1	29,100		Less : Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the year	2,830		Less : Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	Less : Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bank		6,400
			Cash in hand		500
		42,230			42,230

Working Notes:

1. **Balance sheet of A. Adamjee as on 1st April 2021**

Liabilities	₹	Assets	₹
Sundry creditors	5,800	Machinery	7,500

A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		34,900

I. **Ledger Accounts**

A. Adamjee's Capital Account

		₹			₹
March 31	To Drawings	3,600	April 1 March 31	By Balance b/d By Net Profit	29,100 2,830
March 31	To Balance c/d (b.f.)	34,330	March 31	By Cash	6,000
		37,930			37,930

Sales Account

		₹			₹
March 31	To Trading A/c (b.f.)	62,100	March 31	By Cash	11,000
			March 31	By Total Debtors Account (Credit Sales)	51,100
		62,100			62,100

Total Debtors Account

		₹			₹
April 1	To Balance b/d	14,500	March 31	By Cash	48,000
March 31	To Credit sales (Balancing figure)	51,100	March 31	By Balance c/d	17,600
		65,600			65,600

Purchases Account

		₹			₹
March 31	To Cash A/c To total Creditors A/c (credit Purchases)	12,000 37,100	March 31	By Trading Account (b.f.)	49,100
		49,100			49,100

Total Creditors Account

		₹			₹
March 31	To Cash	35,000	April 1	By Balance b/d	5,800
March 31	To Balance b/d	7,900	March 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

9. ICAI – Illustration 9

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2021	As on 31st March 2022
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200

Cheques issued to trade creditors		60,270

Solution

In the books of Mr. Manoj

Trading Account for the year ending 31st March, 2022

To Opening Inventory		8,040	By Sales		
To Purchases	59,030		Cash	4,600	
(58,000 + 1,030)			Credit	67,210	
Less: Returns	(400)	58,630		71,810	
To Gross profit c/d		14,810	Less: Returns	(1,450)	70,360
			By Closing inventory		11,120
		81,480			81,480

Profit & Loss Account for the year ending 31st March, 2022

To Sundry expenses (W.N.(v))	9,300	By Gross profit b/d	14,810
To Discount	1,500	By Discount	700
To Bad Debts	420		
To Net Profit transfer to Capital	4,290		
	15,510		15,510

Balance Sheet of Mr. Manoj as on 31st March, 2022

Liabilities			Assets	
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

i) Cash sales

Combined Cash & Bank Account

To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales-Balancing Figure)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) Total Debtors Account

To Balance b/d (bal. fig.)	16,530	By Bank	62,500
To Sales (71,810–4,600[1])	67,210	By Discount(64,000 – 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) Total Creditors Account

To Bank	60,270	By Balance b/d (bal. fig.)	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		73,770

[1] From combined cash and bank account

(iv) Balance Sheet as on 1st April, 2021

Liabilities		Assets	
Capital (bal. fig.)	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)

Expenses paid in Cash	9,570

Add: Outstanding on 31-3-2022	330
	9,900
Less: Outstanding on 1-4-2021	(600)
	9,300

(vi) Due to lack of information, depreciation has not been provided on fixed assets.

10. ICAI Illustration 10

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

Particular	31-12-2021	31-12-2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021-22:

(i) Deposited to bank after payment of shop expenses @ 600 p.m., salary @ 9,200 p.m. and personal expenses @ 1,400 p.m. 7,62,750.

(ii) Cash Withdrawn from bank 1,21,000.

(iii) Cash payment to suppliers 77,200 for supplies and 25,000 for furniture.

(iv) Cheques collected from customers but dishonoured 5,700.

(v) Bills accepted by customers 40,000.

(vi) Bills endorsed 10,000.

(vii) Bills discounted 20,000, discount 750.0

(viii) Bills matured and duly collected 16,000.

(ix) Bills accepted 24,000.

(x) Paid suppliers by cheque 3,20,000.

(xi) Received 20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) Rent received 14,000 by cheque for the premises owned by proprietor.

(xiii) A building was purchased on 30-11-2014 for opening a branch for 3,50,000 and some expenses were incurred on this building, details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash 18,700, due 2,200.

Other transactions:

(i) Claim against the firm for damage 1,55,000 is under legal dispute. Legal expenses 17,000. The firm anticipates defeat in the suit.

(ii) Goods returned to suppliers 4,200.

(iii) Goods returned by customers 1,200.
(iv) Discount offered by suppliers 2,700.
(v) Discount offered to the customers 2,400.
(vi) The business is carried on at the rented premises for an annual rent of 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2022 and Balance Sheet as on that date.

Solution:

Trading and Profit & Loss Account of Mr. Anup
for the year ended 31st March 2022

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return	(4,200)	4,49,900	By Closing Inventory		1,90,000
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550
To salary (9,200 x 12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges (18,700 + 2,200)		20,900	By Discount		2,700
To Legal expenses		17,000			
To Discount (2,400 + 750)		3,150			
To Shop exp. (600 x 12)		7,200			
To Provision for claims for damages		1,55,000			

To Shop Rent		20,000			
To Net Profit (b.f.)		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31st March 20X2

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
Add : Net Profit	2,57,700		Bills receivable	6,000
	5,29,900		Cash at Bank	87,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) **Sundry Debtors Account**

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700

To Credit sales (Balancing Figure)	9,59,750	By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) **Bills Receivable Account**

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c (Bills discounted)	750
		By Bank	
		Bills collected on maturity	16,000
		By Sundry debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
To Bill Payable A/c	24,000	(Balancing figure)	4,54,100
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c	

		Bills accepted	24,000
	36,000		36,000

(v) Summary Cash and Bank A/c

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash By Shop exp. (600 x 12)	7,200	1,21,000
To Cash		7,62,750	By Salary (9,200 x 12)	1,10,400	
To Bank	1,21,000		By Drawing A/c (1,400 x 12)	16,800	
			By Bills Payable		22,000
To Sundry Debtors		5,700	By Sundry creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By Sundry Debtors		5,700
To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31st March 20X1

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

11. ICAI Practical Question 1

Company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is ₹ 1, 25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2022.

Solution:

Calculation of Credit Sales and Total sales

Credit Sales for the year ended 2021-22 = Debtors x 12 months / 1.5 months

= ₹1,25,000 x 12 months / 1.5 months

= ₹ 10,00,000

Total sales for the year ended 2021-22 = Credit sales x 100% / 80%

= ₹ 10,00,000 x 100% / 80%

= ₹ 12,50,000

12. ICAI Practical Question 2

Mr. A runs a business of ready made garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		**4,86,000**

You are furnished with the following information:

(1) His sales, for the year ended 31st March, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales. Total sales during the year 2020-21 were ₹ 5,00,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay be cheques only.

(4) Depreciation on furniture is to be charged 10% p.a.

(5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

Particulars	₹
Payment to creditors	3,00,000

Payment of rent up to 31st March, 2012	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2012:

Particulars	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2012, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31 st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

Solution:

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 2022

Particulars	₹	Particulars	₹
To Opening stock	2,80,000	By Sales (W.N. 3)	
To Purchases (W.N. 1)	3,64,000	Credit 4,80,000	
To Gross profit (b.f.)	1,16,000	Cash 1,20,000	6,00,000
		By Closing stock	1,60,000
	7,60,000		7,60,000
To Salary (2,000 x 12)	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses (1,200 x 12)	14,400		
To Loss of cash (W.N. 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit (b.f.)	34,000		
	1,16,000		1,16,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
A's Capital 4,04,000		Furniture 40,000	

Add: Net Profit 34,000		Less: Depreciation (4,000)	36,000
Less: Drawings (500 x 12) (6,000)	4,32,000	Stock	1,60,000
Creditors	1,46,000	Debtors	1,20,000
		Cash at bank	2,62,000
	5,78,000		5,78,000

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		4,46,000

(2) Calculation of total sales

	₹
Sales for the year 20X0-X1	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 20X1-X2	6,00,000

(3) Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000

	5,78,000		5,78,000

(6) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1st April 2021		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹2,000x12)	24,000	
Office expenses (₹1,200 x 12)	14,400	
Drawings of A (₹500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2022 (defalcated by the cashier)		23,600

13. ICAI Practical Question 3

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2021	As on 31.3.2022
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors ₹ 7,00,000

(b) Payment for business expenses ₹ 1,20,000

(c) Receipts from debtors ₹ 7,50,000s

(d) Loan ₹ 1,00,000 taken on 1.10.2020 at 10% per annum

(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis. You are required to prepare: Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

Solution:

Trading and Profit and Loss Account of Ram
for the year ended 31st March, 2022

		₹			₹
To	Opening stock	2,80,000	By	Sales	
To	Purchases	7,70,000		Cash 2,40,000	
To	Gross Profit @ 25%	3,10,000		Credit 10,00,000	12,40,000
			By	Closing Stock (bal.fig.)	1,20,000
		13,60,000			13,60,000
To	Salaries	40,000	By	Gross Profit	3,10,000
To	Business expenses	1,20,000			
To	Interest on loan (10% of 1,00,000 x6/12)	5,000			
To	Net Profit	1,45,000			
		3,10,000			3,10,000

Balance Sheet of Ram as at 31st March, 2022

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		-------
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

		₹			₹
To	Balance b/d	1,00,000	By	Bank A/c	7,50,000
To	Credit sales (Bal. fig)	10,00,000	By	Balance c/d	3,50,000

		11,00,000			11,00,000

2. Sundry Creditors Account

		₹			₹
To	Bank A/c	7,00,000	By	Balance b/d	40,000
To	Cash A/c	20,000	By	Purchases (Bal. fig.)	7,70,000
To	Balance c/d	90,000			
		8,10,000			8,10,000

3. Cash and Bank Account

		Cash	Bank			Cash	Bank
		₹	₹			₹	₹
To	Balance b/d	10,000		By	Balance b/d		50,000
To	Sales (bal. fig)	2,40,000		By	Bank A/c (C)	1,00,000	
To	Cash (C)		1,00,000	By	Salaries	40,000	
To	Debtors		7,50,000	By	Creditors	20,000	7,00,000
To	Loan		1,00,000	By	Drawings	80,000	
				By	Businessexpenses		1,20,000
				By	Balance c/d	10,000	80,000
		2,50,000	9,50,000			2,50,000	9,50,000

True and false

1. A Trial Balance cannot be drawn up from books kept under Single Entry.
   Ans:- True: Since incomplete records are maintained, trial balance cannot be prepared

2. Nominal Accounts are kept under Single Entry System.
   Ans:- False: Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained

3. Single Entry System can be adopted by small firms.
   Ans:- True: A single entry system is the one where financial transactions are recorded as a single entry in a log and is usually used by new small businesses.

4. Profit under single entry system is always correct and accurate.
   Ans:- . False: Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.

5. Profits computed under single entry system by different business entities are not comparable.
   Ans:- True: Since entry system has no fixed set of principles for recording the financial transaction, different organisations maintain records as per their needs. Hence their accounts are not comparable

Multiple Choice Questions

1. In case of net worth method, profit is determined by
   (a) Preparing a trading and profit and loss account.
   (b) Comparing the capital in the beginning with the capital at the end of the accounting period.
   (c) Comparing the net assets in the beginning with the net assets at the end of the accounting period.

   Ans:- b

2. Single entry system can be followed by
   a) Small firms.
   b) Joint stock companies.
   c) Co-operative societies.

   Ans:- a

3. Closing capital is calculated as
   a) Opening capital +Additional capital -Drawings.
   b) Opening capital +Additional capital –Drawings + Profit.
   c) Opening capital +Additional capital +Drawings - Profit.

   Ans:- b

4. Under single entry system, only personal accounts are kept and, in some cases,
   a) Cash book is maintained
   b) Fixed assets' accounts are maintained
   c) Liabilities' accounts are maintained.

   Ans:- a

5. The closing capital of Mr. B as on 31.3.2022 was ₹4,00,000. On 1.4.2021 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.2022 was ₹ 1,00,000. He introduced ₹30,000 as additional capital in February, 2022 Find out the amount drawn by Mr. B forhis domestic expenses.
   a) ₹ 1,00,000;
   b) ₹ 80,000;
   c) ₹1,20,000;

   Ans: b

6. Given information:

Opening capital:	60,000
Drawings:	5,000
Capital introduced during the period:	10,000
Closing capital:	90,000

Profit earned during the period ?

a) ₹ 20,000

b) ₹ 25,000

c) ₹ 30,000.

Ans:- b

Theoretical Questions

1. What is meant by Single entry System? What are the types of procedures adopted for this system?

Answer

Single entry system is an inaccurate and unsystematic method of recording business transactions. The procedures adopted are: Pure single entry; Simple entry and Queasy single entry. For details, Refer Para 1 and 2 of the chapter.

2. Differentiate between Statement of Affairs and Balance Sheet.

Answer

To understand the difference between Statement of Affairs and Balance Sheet, referpara 3.2 of the chapter.

Partnership

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1 /3/4				
2	ICAI Illustration 2				
3	ICAI Illustration 5				
4	ICAI Illustration 6				
5	ICAI Illustration 7				
6	ICAI Illustration 8				
7	ICAI practical Question 1				
8	ICAI practical Question 2				
9	ICAI practical Question 3				
10	ICAI Example				
11	ICAI Example				
12	Additional Questions				
13	Additional Questions				
14	RTP May 20				

Let's Get Started... With Class Work

1. ICAI Illustration 1 / ICAI Illustration 3 / ICAI Illustration 4

A and B start business on 1st January, 2022 with capitals of ₹ 30,000 and ₹ 20,000. According to the partnership Deed, B is entitled to a salary of ₹ 500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2022 the firm earned a profit, before charging salary to B and interest on capital amounting to ₹ 25,000. During the year A withdrew ₹ 8,000 and B withdrew ₹ 10,000 for domestic purposes.

Give journal entries relating to division of profit.

Prepare Capital Account of Partners A and B

Prepare P&L Appropriation Account.

Solution:

Journal Entries

2022	Particulars		Dr. (₹)	Cr. (₹)
Dec. 31	Profit and Loss Appropriation Account	Dr.	6,000	
	To B's Capital Account			6,000
	(Salary due to B @ ₹ 500 per month)			
	Profit and Loss Appropriation Account	Dr.	3,000	
	To A's Capital Account			1,800
	To B's Capital Account			1,200
	(Interest due on Capital @ 6% per month)			
	Profit and Loss Appropriation Account	Dr.	16,000	
	To A's Capital Account			10,000
	To B's Capital Account			6,000
	(Remaining profit of ₹ 16,000 divide between A and B in the ratio of 5:3)			

Now, let us learn the preparation of profit and loss appropriation account with the help of same illustration of partnership firm consisting of partners A and B.

Profit and Loss Appropriation Account for the year ended 31-Dec-22

Particulars	₹	Particulars	₹
To B's Capital Account-Salary	6,000	By Net Profit	25,000
To A's Capital Account-interest	1,800		
To B's Capital Account-interestTo	1,200		
Profit transferred to :			
A's Capital Account (5/8)	10,000		
B's Capital Account (3/8)	6,000		
	25,000		25,000

NOTE: Since date of drawing & rate of interest on drawing is not given, it is assumed drawings are made on last day of year.

Let us also learn the preparation of capital accounts of partners with the help of same illustration of partnership firm consisting of partners A and B.

Dr. **A's Capital Account** **Cr.**

2022	Particulars	₹	2022	Particulars	₹
Dec. 31	To Bank A/c- (Drawings)	8,000	Jan. 1	By Bank A/c	30,000
	To Balance c/d	33,800	Dec. 31	By Profit and Loss appropriation A/c Interest	1,800
				By Profit and Loss appropriation A/c- (5/8 Profit)	10,000
		41,800			41,800
			2020 Jan. 1	By Balance b/d	33,800

Dr. **B's Capital Account** **Cr.**

2022	Particulars	₹	2022	Particulars	₹
Dec. 31	To Bank A/c- (Drawings)	10,000	Jan. 1	By Bank A/c	20,000
Dec. 31	To Balance c/d	23,200	Dec. 31	By Profit and Loss A/c	
				- Salary	6,000
				-Interest	1,200
				By Profit and Loss A/c (3/8 Profit)	6,000
		33,200			33,200
			2020		
			Jan. 1	By Balance b/d	23,200

2. ICAI Illustration 2

Ram Rahim and Karim are partners in a firm. They have no agreement in respect of profit-sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits they have put forward the following claims.

(i) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio, But Rahim and Karim do not agree.

(ii) Rahim has devoted full time for running the business and demands salary at the rate of₹ 500 p.m. But Ram and Karim do not agree.

(iii) Karim demands interest on loan of₹ 2,000 advanced by him at the market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to₹ 45,000 at the end of the first year of their business.

Solution:

There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

(i) No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.

(ii) No remuneration is payable to any partner. Therefore, Rahim is not entitled to any salary.

(iii) Interest on loan is payable @ 6% p.a. Therefore, Karim is to get interest @ 6% p.a. on ₹ 2,000 instead of 12%.

(iv) The profits should be distributed equally.

Profit and Loss Appropriation Account for the year ended...

	Particulars		₹	Particulars	₹
To	Interest on Karim Loan A/c			By Profit and Loss A/c -	45,000
	(₹ 2,000 x 6/100)		120	(Net profit)	

To	Reserve A/c – 10% of				
	₹ (45,000-120)		4,488		
To	Share of Profit A/c :				
	Ram capital A/c	₹ 13,464			
	Rahim capital A/c	₹ 13,464			
	Karim capital A/c	₹ 13,464	40,392		
			45,000		45,000

3. ICAI Illustration 5

A and B are partners sharing profits and losses in the ratio of their effective capital. They had ₹ 1,00,000 and ₹60,000 respectively in their Capital Accounts as on Ist January, 2022. A introduced a further capital of ₹10,000 on Ist April, 2022 and another ₹ 5,000 on Ist July, 2022. On 30th September, 2022 A withdrew ₹ 40,000.

On Ist July, 2022, B introduced further capital oft 30,000.

The partners drew the following amounts in anticipation of profit.

A drew ₹ 1,000 per month at the end of each month beginning from January, 2022. B drew ₹ 1,000 on 30th June, and ₹ 5,000 on 30th September, 2022.

12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing 31.12.2022. Calculate: (a) Profit-sharing ratio; (b) Interest on capital; and (c) Interest on drawings.

Solution:

(a) **Calculation of Effective Capital**

A		B	
₹ 1,00,000 invested for 3 months i.e., ₹ 3,00,000 invested for 1 month ₹ 1,10,000 invested for 3 months i.e., ₹ 3,30,000 invested for 1 month.	3,00,000 3,30,000	₹ 60,000 invested for 6 months i.e., ₹ 3,60,000 invested for 1 month ₹ 90,000 invested for 6 months, i.e., ₹ 5,40,000 invested for 1 month	3,60,000 5,40,000
			9,00,000
₹ 1,15,000 invested for 3 months i.e., ₹ 3,45,000 invested for 1 month. ₹ 75,000 invested for 3 months, i.e., ₹ 2,25,000 invested for 1 month.	3,45,000 2,25,000		
	12,00,000		

(b) **Calculation of Interest on Capital**

A = ₹ 12,00,000 x 12/100 x 1/12 = ₹ 12,000

B = ₹ 9,00,000 x 12/100 x 1/12 = ₹ 9,000

(c) **Calculation of Interest on Drawings**

A = ₹ 12,000 x 10/100 x 5.5/12 = ₹ 550 B = ₹ 1,000 x 10/100 x 6/12 = ₹ 50

₹ 5,000 x 10/100 x 3/12 = ₹ 125

Effective capital is in the ratio 12 : 9 therefore profit sharing ratio is 12 : 9 i.e. 4 : 3.

4. ICAI Illustration 6

Ram and Rahim start business with capital of 50,000 and 30,000 on 1st January,2022. Rahim is entitled to a salary of 400 per month. Interest is allowed on capitals and is charged on drawings at 6% per annum. Profits are to be distributed equally after the above noted adjustments. During the year, Ram withdrew ₹ 8,000 and Rahim withdrew₹ 10,000. The profit for the year before allowing for the terms of the partnership Deed came to₹ 30,000. Assuming the capitals to be fixed. Prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

Solution:

Profit & Loss (Appropriation) Account

2022	Particulars	₹	2022	Particulars	₹
Dec. 31	To Rahim's Current A/cSalary	4,800	Dec. 31	By Net Profit	30,000
	To Sundries-Interest on			By Sundries-Interest on Drawings:	
	Capitals :			Ram's Current A/c	
	Ram's Current A/c	3,000		(6% on ₹ 8,000 for	
	Rahim's Current A/c	1,800		6 months)	240
	To Profit transferred to			Rahim's Current A/c	
	Ram's Current A/c (1/2)	10,470		(6% on ₹ 10,000 for	
	Rahim's Current A/c (1/2)	10,470		6 months)	300
		30,540			30,540

5. ICAI Illustration 7

With the help of same information given in illustration 6, let us prepare the Capital and Current Accounts of Ram and Rahim.

Solution:

Ram's Capital Account

2022	Particulars	₹	2022	Particulars	₹
Dec. 31	To Balance c/d	50,000	Jan. 1	By Bank A/c	50,000
			2023		
			Jan. 1	By Balance b/d	50,000

Rahim's Capital Account

2022	Particulars	₹	2022	Particulars	₹
Dec. 31	To Balance c/d	30,000	Jan. 1	By Bank A/c	30,000
			2023		
			Jan. 1	By Balance b/d	30,000

Ram's Current Account

2022	Particulars	₹	2022	Particulars	₹

Dec. 31	To Cash Bank A/C (Drawings)	8,000	Dec. 31	By Profit and Loss appropriation A/c - Interest	3,000
	To Profit and Loss appropriation A/c - Interest on Drawings	240		By Profit and Loss appropriation A/c -1/2 profit	10,470
	To Balance c/d	5,230			
		13,470			13,470
			2020		
			Jan. 1	By Balance b/d	5,230

Rahim's Current Account

2022	Particulars	₹	2022	Particulars	₹
	To Cash Bank A/c (Drawings)	10,000	Dec. 31	By Profit and Loss appropriation A/c Salary	4,800
Dec. 31	To Profit and Loss appropriation A/c Interest on Drawings	300		Interest	1,800
	To Balance c/d	6,770		By Profit and Loss appropriation A/c Profit	10,470
		17,070			17,070
			2020		
			Jan. 1	By Balance b/d	6,770

6. ICAI Illustration 8

A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹ 250,00,000. Total profits of the firm for the year ended 31st March, 2022 were ₹ 900,00,000. Calculate share of profits for each partner when:

1. Guarantee is given by firm.
2. Guarantee is given by A
3. Guarantee is given by A and B equally.

Solution:

Case1. When Guarantee is given by firm.

Profit and Loss Appropriation Account
For the year ending on 31st March, 2022

Particulars	₹	Particulars	₹
To A's Capital A/c (3/5 of ₹ 650,00,000)	3,90,00,000	By Profit and Loss, A/c	9,00,00,000
To B's Capital A/c (2/5 of ₹ 650,00,000)	2,60,00,000		
To C's Capital A/c (1/6 of ₹ 9,00,00,000			
or ₹ 25,000,000 which ever is more	2,50,00,000		
	9,00,00,000		9,00,00,000

Case2. When Guarantee is given by A

Profit and Loss Appropriation Account
For the year ending on 31st March, 2022

Particulars	₹	Particulars	₹
To A's Capital A/c (3/6 of ₹ 9,00,00,000) 4,50,00,000		By Profit and Loss, A/c (net profits)	9,00,00,000
Less: Deficiency borne for C (1,00,00,000)	3,50,00,000		
To B's Capital A/c (2/6 of ₹ 9,00,00,000)	3,00,00,000		
To C's Capital A/c (1/6 of ₹ 9,00,00,000) 1,50,00,000 Add: Deficiency Recovery from A 1,00,00,000	2,50,00,000		
	9,00,00,000		9,00,00,000

Case3. When Guarantee is given by A and B equally.

Profit and Loss Appropriation Account
For the year ending on 31st March, 2022

Particulars		₹	Particulars	₹
To A's Capital A/c			By Profit and Loss, A/c	9,00,00,000
(3/6 of ₹ 9,00,00,000) Less: Deficiency borne	4,50,00,000		(net profits)	
for C (1/2 of 1,00,00,000)	(50,00,000)	4,00,00,000		

To B's Capital A/c (2/6 of ₹ 9,00,00,000) Less: Deficiency borne	3,00,00,000			
For C (1/2 of 1,00,00,000)	(50,00,000)	2,50,00,000		
To C's Capital A/c (1/6 of ₹ 9,00,00,000)	1,50,00,000			
Add: Deficiency Recovery from A	50,00,000			
Add: Deficiency Recovery from B	50,00,000	2,50,00,000		
		9,00,00,000		9,00,00,000

7. ICAI Practical Question I

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1.

It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts).

The following are the particulars of the Capital and Drawings Accounts of the partners:

Particulars	Weak	Able	Lazy
	₹	₹	₹
Capital (1.1.2022)	75,000	40,000	30,000
Current Account (1.1.2022)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2022 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

(a) Life Insurance premium of Weak amounting to ₹ 750 paid by the firm on 30th June, 2022 has been charged to Miscellaneous Expenditure A/c.

(b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.

(c) Travelling expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2022 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2022.

Solution:

Weak, Able & Lazy
Profit and Loss Appropriation Account for the year ended
31st December, 2022

	₹	₹		₹	₹
To Interest on Capital :			By Net Profit (Adjusted)		55,750
Weak	7,500		By Interest on Drawings :		
Able	4,000		Weak	630	
Lazy	3,000	14,500	Able	520	
			Lazy	400	1,550
To Partner's Current A/c s -					
Share of profit:					
Weak	21,400				
Able	10,700				
Lazy	10,700	42,800			
		57,300			57,300

Working Notes:

(i) **Adjusted Profit**		
Net Profit as per Profit & Loss A/c	60,000	
Add : Drawings by Weak : Life Insurance Premium of Weak charged	750	
to Miscellaneous Expenditure A/c of the Firm		
Drawings by Able : Travelling expenses of Able in connection	3,000	
with pleasure trip to U.K. charged to travelling expenses A/c		
of the firm		63,750
Less: Repairs to Machinery wrongly capitalized	10,000	
Less : Depreciation charged @ 20%	(2,000)	(8,000)
		55,750

(ii) **Interest on Drawings :**

	Weak ₹	Able ₹	Lazy ₹

Drawings	15,000	10,000	10,000
Add : Rectification adjustments	750	3,000	—
	15,750	13,000	10,000
Interest @ 8% p.a. for 6 months	630	520	400

Partners' Current Accounts

	Weak ₹	Able ₹	Lazy ₹		Weak ₹	Able ₹	Lazy ₹
To Balance b/d			5,000	By Balance b/d	10,000	5,000	
To Drawings	15,000	10,000	10,000	By Profit & Loss App. A/c (Int. on capital)	7,500	4,000	3,000
To Life Insurance Premium	750			By Profit & Loss App. A/c (Share of profit)	21,400	10,700	10,700
To Travelling Exps.							
To Profit & Loss App. A/c (Int. on drawings)	630	520	400				
To Balance c/d	22,520	6,180		By Balance c/d			1,700
	38,900	19,700	15,400		38,900	19,700	15,400

8. ICAI Practical Question 2

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2022, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of₹ 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31,2022 is ₹ 1,10,000. Show the distribution of net profit amongst partners.

Solution:

Amount due to Ratan as a Chief Clerk

	₹
Salary	6,000
Add: Commission 4/104 (₹ 1,10,000 - ₹ 6,000)	4,000
	10,000
Less: Share of Profit as a partner (1/10th of 1,10,000)	(11,000)
Excess chargeable to Ram	(1,000)

Profit and Loss Appropriation Account for the year ended December 31,2022

	Particulars	₹	Particulars	₹
To	Share of Profit A/c		By Profit and Loss A/c	
	Ram [3/5 of (₹ 1,10,000 – ₹ 10,000) – ₹ 1,000]	59,000	(Net profit)	1,10,000
	Rahim [2/5 of (₹ 1,10,000 – ₹ 10,000)]	40,000		
	Ratan [1/10 of ₹ 1,10,000]	11,000		
		1,10,000		1,10,000

9. ICAI Practical Question 3

X and Y are partners. As per terms of agreement interest is allowed on capital at 8% p.a. and charge on drawing at 10% p.a. X withdrew₹ 40,000 pm at the end of each month and Y withdrew₹ 120,000 at the end of each quarter. You are required to fill the missing figures in following accounts:

Profit and Loss Appropriation Account for the year ended March 31,2022

Particulars	Rs.	Particulars	Rs.
To ....?		By Profit and Loss A/c	?
To Interest on Capital A/c		(Net Profit)	
X 160,000		By Interest on Drawings A/c	

Y	?	288,000	X	?	?
To profit transferred to Capital A/c			Y	?	
X (2/3)	?				
Y (1/3)	280,000	?			
		?			?

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To ....?	?	?	By .....?	?	?
To ....?	?	?	By Salary A/c	3,60,000	?
To ....?	?	?	By .....?	?	
			By......?	?	?
	?	?		?	?

Solution:

Profit and Loss Appropriation Account for the year ended March 31, 2022

Particulars		₹	Particulars		₹
To Salary to X		3,60,000	By Profit and Loss A/c (Net profit)		14,48,000
To Interest on Capital A/c			By Interest on Drawings A/c		40,000
X	1,60,000		X	22,000	
Y	1,28,000	2,88,000	Y	18,000	
To profit transferred to Capital A/c					
X (2/3)	5,60,000				
Y (1/3)	2,80,000	8,40,000			
		14,88,000			14,88,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Drawing A/c	4,80,000	4,80,000	By Balance b/d	20,00,000	16,00,000
To Interest on Drawings A/c	22,000	18,000	By Salary A/c	3,60,000	1,28,000
To Balance c/d	25,78,000	15,10,000	By Interest on Capital A/c	1,60,000	
			By Profit and Loss App A/c	5,60,000	2,80,000
	30,80,000	20,08,000		30,80,000	2,008,000

Working Notes:

1. X's Share of Profit 2,80,000 x 3/1 x 2/3 = 5,60,000
2. Interest on Drawings

   X = 4,80,000 x 11/2 x 1/12 x 10/100 = 22,000

   Y = 4,80,000 x 9/2 x 1/12 x 10/100 = 18,000
3. Y's Interest on Capital 2,88,000 – 1,60,000 = 128,000

10. ICAI Example

A, B and C are partners in a firm sharing profits and losses in the ratio 2:3:5. Their fixed capitals were₹ 15,00,000 , ₹ 3000,000 and ₹60,00,000 respectively. For the year 2022 interest on capital was credited to them @ 12% instead of 10%. Pass the necessary adjustment entry.

Solution:

Particulars	A	B	C	Firm
Interest that should have been credited @ 10%	1,50,000	3,00,000	6,00,000	10,50,000
Interest already credited @ 12%	1,80,000	3,60,000	7,20,000	12,60,000
Excess credit in partners account	(30,000)	(60,000)	(1,20,000)	(2,10,000)
By recovering the extra amount paid, the share				
of profits will increase and it will be credited in				
the ratio of 2:3:5	42,000	63,000	105,000	2,10,000
Net effect	12,000	3,000	(15,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
C's Capital A/c	15,000	
To A's Capital A/c		12,000
To B's Capital A/c		3,000
(Interest less charged now rectified)		

11. ICAI Example

Shilpa and Sanju are partners with a capital of₹ 1,00,000 and ₹ 1,60,000 on January 1,2022 respectively shilpa introduced additional capital of₹ 30,000 on July 1,2022 and another ₹ 20,000 on October 31,2022. Calculate interest on capital for the year ending 2022. The rate of interest is 9% p.a.

Solution:

Interest on Capital (Shilpa):

On ₹1,00,000 for 12 month @ 9% = 1,00,000 × 9/100 × 12/12

= ₹ 9,000

On ₹30,000 for 6 month @ 9% = 30,000 × 9/100 × 6/12

= ₹ 1,350

On ₹20,000 for 2 month @ 9% = 20,000 × 9/100 × 2/12

= ₹300

Total interest on shilpa capital = ₹ 9,000 + ₹ 1350 + ₹ 300

= ₹10,650

By product method

Amount (₹)	Months	Product
1,00,000	12	12,00,000
30,000	6	1,80,000
20,000	2	40,000
Total product		14,20,000

Interest on capital 14,20,000 × 09/100 × 1/12 = ₹ 10,650

Interest on Capital (Sanju):

On ₹1,60,000 for 12 month @ 9% = 1,60,000 × 9/100 × 12/12 = ₹14,400

By product method: = 1,60,000 × 12 = 19,20,000

= 19,20,000 x (9/100) x (1x/12) = 14,400

12. A and B formed a partnership with a capital contribution of ₹ 50,000 and ₹ 30,000 respectively on 1st January 2019. The profits were to be shared in the capital ratio. Calculate the capital ratio on the basis of following details:

	Capital Introduced		Capital Withdrawn	
	A	B	A	B
	Rs.	Rs.	Rs.	Rs.
31 March	5,000	-	-	2,000
1 July	-	9,000	3,000	-
1 September	5,500	-	-	1,000
1 November	-	4,000	4,500	-

Solution:

Total Capital Employed by A for one Month

Capital	Months for which capital has been used in the business	Product
(₹)		(₹)
50,000	3	1,50,000
55,000	3	1,65,000
52,000	2	1,04,000
57,500	2	1,15,000
53,000	2	1,06,000
Total		6,40,000

Total Capital Employed by B for one Month

Capital	Months for which capital has been used in the business	Product
(₹)		(₹)
30,000	3	90,000
28,000	3	84,000
37,000	2	74,000
36,000	2	72,000
40,000	2	80,000
Total		4,00,000

13. A, B and C entered into partnership on 1.1.2017 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2017 before providing for interest on partners capital was ₹ 1,59,000.

You are required to prepare the Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account
for the year ended 31st December, 2017

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts:					
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A [(5/10) of ₹ 1,25,000]	62,500				
	Less: Transferred to C	5,000	57,500			
	B[(3 / 10) of ₹1,25,000]		37,500			

14. RTP MAY 20

A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2019 before providing for interest on partners capital was ₹ 1,59,000.

You required to prepare the Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account
for the year ended 31st December, 2017

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts:					
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A [(5/10) of ₹ 1,25,000]	62,500				
	Less: Transferred to C	5,000	57,500			
	B[(3 / 10) of ₹1,25,000]		37,500			
	C [(2 / 10) of ₹1,25,000]	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

TEST YOUR KNOWLEDGE

True and False

1) In absence of any agreement partners share profits of the business in the ratio of their capital contribution.

False: In absence of any agreement partners share profits equally and not in capital contribution ratio.

2) Profit sharing ratio and capital contribution ratio need not be same.

True: Profit sharing can be different from the that of the capital introduced by each of the partner. Not necessary that partner contributing more capital should have a higher profit sharing ratio and vice versa.

3) Every partnership firm must register itself with Registrar of firms.

False: Registration of firms is not compulsory under Indian Partnership Act, 1932.

4) A partner can advance loan to the partnership firm in addition to capital contributed by him.

True: Where the partnership deed is absent, then the interest shall be paid at 6% per annum. So the interest on the loan to be paid to the partner.

5) A partner can demand interest on capital even if it is not provided in the partnership deed.

False: Interest on capital can be paid only if it is provided in the partnership deed.

6) If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit.

False: Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.

7) Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.

True: In absence of Partnership deed, Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm.

8) Husband and wife cannot be partners in the same firm.

False: Husband and wife can be partners in the same firm.

9) One senior partner is Principal and other partners are his agents.

False: There is no senior or junior partner. Every partner is agent/principal of other partners.

10) Partners are the agents of the firm and each other.

True: Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.

Multiple Choice Questions

1. If a firm prefers Partners' Capital Accounts to be shown at the amount introduced by the partners as capital in firm then entries for salary, interest, drawings, interest on capital and drawings and profits are made in

(a) Trading Account

(b) Profit and Loss Account

(c) Partners' Current Account

Ans: C

2. In the absence of any agreement, partners are liable to receive interest on their Loans @

(a) 12% p.a.

(b) 10% p.a.

(c) 6% p.a.

Ans: C

3. The relationship between persons who have agreed to share the profit of a business carried on by all or any of them acting for all is known as ....

(a) Partnership.

(b) Joint Venture.

(c) Association of Persons.

Ans: a

4. Firm has earned exceptionally high profits from a contract which will not be renewed. In such a case the profit from this contract will not be included in ....

(a) Profit sharing of the partners.

(b) Calculation of the goodwill.

(c) Both.

Ans: b

5. In the absence of an agreement, partners are entitled to

(a) Interest on Loan and Advances.

(b) Commission.

(c) Salary.

Ans: a

6. Partners are supposed to pay interest on drawings only when .... by the ....
(a) Provided, Agreement.
(b) Agreed, Partners
(c) Both (a) & (b) above.
Ans: c

7. When a partner is given a guarantee by the other partner, loss on such guarantee will be borne by
(a) Partner who gave the guarantee
(b) All the other partners.
(c) Partnership firm.
Ans: a

8. A, B and C had capitals of ₹ 50,000; ₹ 40,000 and ₹ 30,000 respectively for carrying on business in partnership. The firm's reported profit for the year was ₹ 80,000. As per provisions of the Indian Partnership Act, 1932, find out the share of each partner in the above amount after taking into account that no interest has been provided on an advance by A of ₹ 20,000, in addition to his capital contribution.
(a) ₹ 26,267 for Partner B and C & ₹ 27,466 for partner A.
(b) ₹ 26,667 each partner.
(c) ₹ 33,333 for A, ₹ 26,667 for B and ₹ 20,000 for C.
Ans: a

9. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and X wanted interest on capital @ 20% as his capital contributions was ₹ 1,00,000 as compared to that of Y and Z which was ₹ 75,000 and ₹ 50,000 respectively.
(a) Profits of ₹ 6,000 will be distributed equally with no interest on either Capital.
(b) X will get the interest of ₹ 20,000 and the loss of ₹ 14,000 will be shared equally.
(c) All the partners will get interest on capital and the loss of ₹ 39,000 will be shared equally.
Ans: a

10. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Y determined interest @ 24% p.a. on his loan of ₹ 80,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
(a) ₹ 2,000 to each partner.

(b) Loss of ₹ 4,400 for X and Z & Y will take home ₹ 14,800.

(c) ₹ 400 for X, ₹ 5,200 for Y and ₹ 400 for Z.

Ans: c

11. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹ 6,000 and Z demanded minimum profit of ₹ 5,000 as his financial position was not good. However, there was no written agreement. Profits to be distributed to X, Y and Z will be

(a) Other partners will pay Z the minimum profit and will suffer loss equally.

(b) Other partners will pay Z the minimum profit and will suffer loss in capital ratio.

(c) ₹ 2,000 to each of the partners

Ans: c

Theory questions

1. Write short notes on:

(a) Features of Partnership

(b) Powers of Partners

Answer

(a) The following four essential features of a partnership, namely:

i. Partnership is the result of an agreement: It means that the relation of partnership arises from contract and not from status.
ii. Business: A partnership can exist only in business.
iii. Sharing of profit: The persons concerned must agree to share the profits of the business.
iv. Mutual agency: It means that the business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners.

(b) Powers of partners are the following:

i. Buying and selling of goods;
ii. Receiving payments on behalf of the firm and giving valid receipt;
iii. Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
iv. Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
v. Engaging servants for the business of the firm.

2. Distinguish between fixed capital and fluctuating capital.

Answer

In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, Unless a decision is taken to change it, initial capital account balance is not changed. In fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

3. What are the liabilities of designated partners in case of LLP.

Answer

As per LLP Act, unless expressly provided otherwise in this Act, a designated partner should be-

a. responsible for the doing of all acts, matters, and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement, and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and.
b. liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

VALUATION AND ACCOUNTING OF GOODWILL

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI practical Question 1				
13	ICAI Example				
14	ICAI Example				
15	ICAI Example				
16	ICAI Example				
17	RTP May 20				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Lee and Lawson are in equal partnership. They agreed to take Hicks as one – fourth partner .for this it was decided to find out the value of goodwill .M/S. Lee and Lawson earned profits during 2019-2022 as follows:

Year	Profits ₹
2019	1,20,000
2020	1,25,000
2021	1,30,000
2022	1,50,000

On 31.12.2022 capital employed by M/S. Lee and Lawson was₹5,00,000. Rate of normal profit is 20%.

Required

Find out the value of goodwill following various methods.

Solution:

Average Profit:

Year	Profit	Weight	Weighted Profit ₹
2019	1,20,000	1	1,20,000
2020	1,25,000	2	2,50,000
2021	1,30,000	3	3,90,000
2022	1,50,000	4	6,00,000
		10	13,60,000

Weighted Average Profit = ₹13,60,000 divided by 10 = ₹1,36,000

Method(1): Average Profit Basis

Assumption: Goodwill is valued at 3 year's purchase

Value of Goodwill: ₹1,36,000 ×3 = ₹4,08,000

Method(2): Super Profit Basis

₹

Average Profit	1,36,000
Less: Normal Profit	
20% on ₹ 5,00,000	(1,00,000)
	₹ 36,000

Assumption: Goodwill is valued at 3 years' purchase.

Value of Goodwill = ₹36,000 × 3 = ₹1,08,000

Method (3): Annuity Basis

Assumptions:

(a) Interest rate is equivalent to normal profit rate i.e. 20%p.a.

(b Goodwill is valued at 3years'purchases Valuation of Goodwill: ₹36,000 × 2.1065 =₹75,834

Method (4): Capitalisation Basis

Normal Value of business: (₹ 1,36,000 / 20) x 100 = ₹ 6,80,000

Less: Capital Employed in M/s. Lee and Lawson	=	(₹ 5,00,000)
Goodwill	=	₹1,80,000

2. ICAI Illustration 2

The following particulars are available in respect of the business carried on by Rathore

Particulars		₹
1. Capital invested		1,50,000
2. Trading Results:		
2019	Profit	40,000
2020	Profit	36,000
2021	Loss	6,000
2022	Profit	50,000
3. Market Rate of interest on investment	10%	
4. Rate of risk return on capital invested in business	2%	
5. Remuneration from alternative		
Employment of the proprietor	₹ 6,000	
(if not engaged in business)	Per annum	

You are required to compute the value of goodwill on the basis of 5years purchase of super profit of the business calculated on the average profits of the last four years.

Solution:

Average maintainable profits:		₹
Trading profit during	2019	40,000
	2020	36,000
	2021	50,000
		1,26,000
Less: Loss during	2022	(6,000)
Total		1,20,000
Average Profits		30,000
Less: Remuneration for the proprietor		(6,000)
Average maintainable Profit		24,000
Less: Normal Profit (12% on capital employed of ₹ 1,50,000)		(18,000)
Super Profit		6,000
Goodwill at 5 year's purchase of super Profit		30,000

3. ICAI Illustration 3

The following is the balance sheet of yellow and Green as at 31st December,2022

Liabilities	₹	Assets	₹
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay ₹20,000 as Capital. Goodwill was to be valued at 3 years purchase of the average of four years profits which were.

Particulars	₹	Particulars	₹
2019	9,000	2021	12,000
2020	14,000	2022	13,000

The new profit sharing ratio is 6:5:5.

Give journal entries and Balance sheet if goodwill is adjusted through partners capital accounts.

Solution:

			₹	₹
(i)	Bank Account	Dr.	20,000	
	To Black's Capital Account (Amount brought in by Black as capital)			20,000
(ii)	Black's Capital Account	Dr.	11,250	
	To Yellow's Capital Account			8,100
	To Green's Capital Account			3,150
	(Black's share of goodwill adjusted through old partners' capital accounts in the profit sacrificing ratio 18:7)			

Balance Sheet as on....................

Liabilities	₹	₹	**Assets**	₹
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	33,100			
Green	23,150			
Black	8,750	65,000		
		85,000		85,000

Note: Calculation of Profit Sacrificing Ratio

Old Share – New Share = Share Sacrificed

Yellow 3/5–6/16=18/80

Green (2/5) – (5/16) = (7/ 80)

Calculation of Goodwill

Average profit = (9,000 + 14,000 + 12,000 + 13,000) / 4 = 12,000

Goodwill of the firm = 3 × 12,000 = 36,000

Black share = (36,000 / 16) × 5 = 11,250

4. ICAI Illustration 4

With the information given in illustration 3, let us give journal entries and prepare balance sheet assuming that goodwill is brought in cash.

Solution:

Goodwill brought in cash

Bank Account	Dr.	31,250	
To Black's Capital Account			20,000
To Yellow's Capital Account			8,100
To Green's Capital Account			3,150
(Amount brought in by Black as capital and as goodwill;			
goodwill credited to Yellow and Green's Capital accounts in the			
profit sacrificing ratio)			

Balance Sheet as on..................

Liabilities	₹	₹	**Assets**	₹
Trade payables		20,000	Cash at Bank	41,250
Capital:			Sundry Assets	55,000
Yellow	33,100			
Green	23,150			
Black	20,000	76,250		
		96,250		96,250

5. ICAI Illustration 5

Continuing with the same illustration 3, let us give journal entries and prepare balance sheet assuming that goodwill is brought in cash, but withdrawn.

Solution:

Goodwill brought in cash, but withdrawn

In addition to the treatment under Illustration 3 the following additional entry will be made:

Yellow's Capital Account	Dr.	8,100	
Green's Capital Account	Dr.	3,150	
To Bank Account			11,250
(Amount withdrawn by Yellow and Green in respect of goodwill			
credited to them)			

Balance Sheet as on....................

Liabilities	₹	₹	Assets	₹
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	25,000			
Green	20,000			
Black	20,000	65,000		
		85,000		85,000

6. ICAI Illustration 6

On the basis of information given in illustration 3, let us give journal entries and prepare balance sheet assuming that goodwill is paid privately.

Solution:

There will be no entry for goodwill but Black will pay ₹ 8,100 to Yellow and ₹ 3,150 to Green. For capital brought in by Black, the entry is:

Bank Account	Dr.	20,000	
To Black's Capital Account (Amount brought in by Black as capital)			20,000

Balance Sheet as on....................

Liabilities	₹	₹	Assets	₹
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000

Yellow	25,000			
Green	20,000			
Black	20,000	65,000		
		85,000		85,000

7. ICAI ILLUSTRATION 7

A, B & C are equal partners. They wanted to change the profit sharing ratio, into 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at₹ 90,000.

Solution:

Journal Entry

	₹	₹
A's Capital Dr. To C's Capital A/c	 10,000	10,000

In this case due to change in profit sharing ratio

A's gain is = 4/9 less 1/3 = 1/9

B's gain is = 1/3 less 1/3 = 0

C's loss is = 1/3 less 2/9 = 1/9

So, A should compensate C to the extent of 1/9th of goodwill i.e.

₹ 90,000 × 1/9 = ₹ 10,000

8. ICAI Illustration 8

A, B and C are in partnership sharing profits and losses in the ratio of 4:3:3. They decided to change the profit sharing ratio to 7:7:6. Goodwill of the firm is valued at₹ 20,000. Calculate the sacrifice / gain by the partners and make the necessary journal entry.

Solution:

Partner	New Share		Old Share		Difference
A	$\frac{7}{20}$	—	$\frac{4}{10}$	=	$(\frac{-1}{20})$
B	$\frac{7}{20}$	—	$\frac{3}{10}$	=	$\frac{1}{20}$
C	$\frac{6}{20}$	—	$\frac{3}{10}$	=	0

Thus, B gained 1/20th share while A sacrificed 1/20th share i.e. ₹20,000 x = ₹1,000. For C there was no loss no gain.

Journal Entry

	₹	₹
B's Capital A/c Dr.	1,000	
To A's Capital A/c		1,000
(Being goodwill adjusted through partners' capital accounts in sacrificing/gaining ratio)		

9. ICAI Illustration 9

A, B C and D are in partnership sharing profits and losses equally. They mutually agreed to change the profit sharing ratio to 3:3:2:2. Goodwill of the firm is valued at ₹ 20,000 Give necessary journal entry.

Solution:

A gains by $(3 / 10) - (1 / 4) = (1 / 20)$

B gains by $(3 / 10) - (1 / 4) = (1 / 20)$

C loses by $(1 / 4) - (2 / 10) = (1 / 20)$

D loses by $(1 / 4) - (2 / 10) = (1 / 20)$

A and B should pay @₹1,000 each (i.e.,₹20,000×1/20) as compensation to C and D respectively for their sacrifice.

Journal Entry

A's Capital Account	Dr.	1,000	
B's Capital Account	Dr.	1,000	
To C's Capital Account			1,000
To D's Capital Account			1,000
(Being goodwill adjusted through partners' capital A/cs at			
sacrificing/gaining ratio)			

10. ICAI Illustration 10

Antoo, Bantoo and Chintoo were in partnership sharing profits and losses 3:4:3 respectively. The accounts of the firm are made up to 31st March every year. The partnership provided, interalia, that: On the retirement of a partner the goodwill was to be valued at three years' purchase of average profits of the past four years up to the date of the retirement after deducting interest @12%p.a. on capital employed and remuneration of Rs. 2,000 p.m.to each partner. On 1st April 2022, Antoo retired and it was agreed on his retirement to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed that the capital employed would be Rs.6,50,000. Bantoo and Chintoo were to continue the partnership, sharing profits and losses equally after the retirement of Antoo. The following were the amounts of profits of earlier years before charging salary to partners and interest on capital employed.

Year	Profit
2018-19	2,60,000
2019-20	2,75,000
2020-21	2,65,000
2021-22	2,80,000

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

Solution:

VALUATON OF GOODWILL

Average Profit	
2018-19	2,60,000
2019-20	2,75,000

2020-21	2,65,000
2021-22	2,80,000
Total	10,80,000
Average Profit = 10,80,000/4	= 270,000
Less: interest on capital @ 12%p.a.	= 78000
Less: salaries of partners' 3 x 12 x 2,000	= 72,000
Adjusted Average profit	= 1,20,000
Goodwill = 3years purchase	= 3 x 1,20,000 = 3,60,000

Antoo's Share of Goodwill 3/10 i.e. = 1,08,000

Adjustment Journal entry for Goodwill

Particulars		Dr. ₹	Cr. ₹
Bantoo's Capital Account	Dr.	36,000	
Chintoo's Capital Account	Dr.	72,000	
To Antoo's Capital Account			1,08,000
(Adjusting entry passed for share of goodwill of Antoo through remaining partners' capital accounts in gaining ratio)			

Working Note:

Partner	New Share		Old Share		Difference
Antoo	0	–	3/ 10	=	–3/ 10
Bantoo	1/ 2	–	4/ 10	=	1/ 10
Chintoo	1/ 2	–	3/ 10	=	2/ 10

11. ICAI Illustration 11

Cu and Au were in partenership sharing profits and losses in the ration of 5:3. On 1st April 2022, they decide to admit Ag the partnership on the following terms.

1. Ag will bring ₹ 2,00,000/- as capital for ¼ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of ₹ 2,000/- p.m., it was revised to ₹ 3,000 p.m. from 1st October 2020.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2022 were Cu ₹ 4,00,000 Au ₹ 3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2018-19	2,10,000
2019-20	2,60,000
2020-21	2,10,000
2021-22	3,05,000

These profits were subject to following rectification

(a) A machine costing ₹ 40,000 purchased on 1st October 2020 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on w.d.v. method

(b) Stock on 31st March 2020 was over valued by ₹ 20,000/-

(c) There was a loss by fire amounting to ₹ 10,000/- in the year 2018-19 which was not considered in trading account but correctly debited in the Profit & Loss A/c for that year.

(d) Debtors as on 31st March 2022 included bad debts of ₹ 5 ,800/-

7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

Solution:

Valuation of goodwill

Particulars	2018-19	2019-20	2020-21	2021-22
Given profits	2,10,000	2,60,000	2,10,000	3,05,000
Less: Salary to Cu	(24,000)	(24,000)	(30,000)	(36,000)
Less: Interest on Capitals	(56,000)	(56,000)	(56,000)	(56,000)
Add: Machine to be capitalised			40,000	
Less: Depreciation on above			(4,000)	(7,200)
Less: Over valuation of closing stock		(20,000)		
Add: Over valuation of opening stock			20,000	
Add: Loss by fire	10,000			
Less: Bad debts to be written off				(5,800)
Adjusted profits	1,40,000	1,60,000	1,80,000	2,00,000
Weights	1	2	3	4
Product	1,40,000	3,20,000	5,40,000	8,00,000

Weighted Average profit = total product/ total weights

= 18,00,000/10

= 1,80,000

Goodwill = 3 years purchase = 3 X 1,80,000

= 5,40,000

Ag's share ¼ th = 5,40,000/4

= 1,35,000

Adjustment Journal entry for Goodwill

Particulars	Dr. ₹	Cr. ₹
Bank A/c Dr.	36,000	
To Cu's Capital Account		67,500
To Au's Capital Account		67,500
(Adjusting amount brought in by Ag towards goodwill credited to remainingpartners' capital accounts in sacrifice ratio)		

Working Note:

Partner	New Share		Old Share		Difference
Cu	2/4	–	5/8	=	1/8
Au	1/4	–	3/8	=	1/8
Ag	1/ 4	–		=	1/4

12. ICAI Practical Question 1

Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm are made upto 31st December every year. The partnership provided, interalia, that:

On the death of a partner the goodwill was to be valued at three year's purchase of average profits of the three years upto the date of the death after deducting interest @ 8 percent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly thoughout the year.

On 30th June, 2022, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet,

It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be₹ 15,000 per annum and that the capital employed would be₹ 1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

Year	Profit ₹
2019	67,200

2020	75,600
2021	72,000
2022	62,400

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

Solution:

Computation of the value of goodwill:

(i)	Average Profit for three years, ending 30th June; before death:	₹	₹
	Year ending 30th June, 2020 :		
	1/2 of 2019 profits	33,600	
	1/2 of 2020 Profits	37,800	71,400
	Year ending 30th June, 2021 :		
	1/2 of 2020	37,800	
	1/2 of 2021 Profits	36,000	73,800
	Year ending 30th June, 2022 :		
	1/2 of 2021	36,000	
	1/2 of 2022 Profits	31,200	67,200
	Total		2,12,400
	Average Profits Alternatively it can be calculated as below : 1/2 profit of 2019 + profit of 2020 + profit of 2021 + profit of 2022 = (33,600 + 75,600 + 72,000 + 31,200) / 3 = 70,800		70,800
(ii)	Average future maintainable profit :		
	Average profits earned		70,800
	Less : Partner's remuneration	45,000	
	Less: 8% on capital employed	12,480	(57,480)
			13,320
(iii)	Goodwill of the firm @ three years' purchase		39,960
(iv)	Wise's share of Goodwill = 4/10 of 39,960 =15,948		

Adjustment entry for Goodwill

Journal Entry

		Dr.	Cr.
		₹	₹
Clever's Capital Account	Dr.	7,992	
Dull's Capital Account	Dr.	7,992	
To Wise's Capital Account			15,984
(Adjusting entry passed for share of goodwill of Wise through remaining partners' capital accounts in gaining ratio)			

Working Note:

Partner	New Share		Old Share		Difference
Wise	-	–	4/ 10	=	4/10
Clever	1/2	–	3/10	=	2/10
Dull	1/2	–	3/10	=	2/10

There is no change in profit sharing ratio of containing partners therefore gain ratio will be same as profit sharing ratio.

13. ICAI Example

The past profits of five years of a partnership firm are: ₹ 50,000; ₹ 40,000; ₹ 52,000; ₹ 48,000 and ₹ 56,000 respectively. Calculate the value of goodwill on the basis of 4 year's purchase of the average profits of the last five years.

Solution:

Total profits for five years = ₹(50,000 + 40,000 + 52,000 + 48,000 + 56,000) = ₹ 2,46,000

Average profit = Sum of profits/No. of years

Average Profit = ₹ 2,46,000 ÷ 5 = ₹ 49,200

Value of goodwill (being four years' purchase of the average profit of five years) = 4 × ₹ 49,200 = ₹1,96,800.

14. ICAI Example

A firm of A, B and C has a total capital investment of Rs4,50,000. The firm earned net profits during the last four years as: I-Rs 70,000; II-Rs 80,000; III-1,20,000 and IV-Rs 1,00,000. The reasonable expected return is 15 percent having regard to the risk involved. Find out the value of goodwill of the business if it is based on 3 years purchase of the average super profits of the past four years.

Solution:

Average Profit = Sum of profits/no. of years

Normal Profit = NRR x Capital Employed

Super Profit = Average maintable profit- Normal Profit

Total profits earned during four years :	3,70,000
Average annual profit ₹3,70,000 ÷ 4	92,500
Normal Profit (15% of ₹4,50,000)	67,500
Super Profit ₹92,500–₹67,500	25,000
Value of goodwill (being 3 years' purchase of the average super profit :	
₹25,000 x 3 =	75,000

15. ICAI Example

Calculate the goodwill by annuity method of super profit from the following facts:

(a) Annual maintainable profit after tax is Rs 65,000.

(b) Capital employed is Rs 4,00,000.

(c) Normal rate of return is expected at 12% p.a

(d) Present value of an annuity of Rs 1 for five years is 3.604776.

Solution:

	₹
Annual maintainable profit	65,000
Less: Normal profit based on capital employed and normalrate of return i.e., 12% of ₹4,00,000	(48,000)
Super profit	17,000
The present value of an annuity of ₹1 for five years at 12% compound interest is	3.604776

The present value of annuity of ₹ 17,000 for five years at 12% compound interest = 17,000 x 3.604776 = ₹61,281 (Approx.)

Capitalization of Super Profit: Goodwill = Super Profit/ Normal rate of Return (NRR) = ₹17,000/ 12% = ₹14,167

16. ICAI Example

The net tangible assets of a firm are worth₹4,10,000 and the average profit of last four years amount to₹ 60,000. Find out the value of goodwill under capitalization method if the reasonable return on capital invested is 12%.

Solution:

	₹
Capital invested in the business	4,10,000
Normal rate of return	12%
Average profit earned by the firm	60,000
Value of the firm (Capitalization of average profit):	
60,000/12%=	5,00,000
Goodwill = Value of the firm –Net Assets = ₹ 5,00,000 - ₹ 4,10,000	90,000

Above methods are explained below with the help of following illustrations:

17. RTP MAY 20

J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

i. By Capitalization Method; and
ii. By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Solution:

(i) Capitalisation Method:

Total Capitalised Value of the firm

= (AverageProfit x 100 / Normal Rate of Return) = (₹1,50,000x100) / 20 = ₹ 7,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

TEST YOUR KNOWLEDGE

True and False

1) Goodwill is intangible asset therefore it cannot be valued.
   False: Even though Goodwill is intangible asset it can be valued in terms of money.

2) Goodwill is valued whenever there is change in the profit sharing ratio among the partners.
   True: Goodwill has to be valued every time whenever there is a reconstitution.

3) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.
   True: Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market.

4) At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
   False: At the time of admission or retirement of a partner, goodwill should not be raised in the books of account of partnership firm because no consideration in money or money worth has been paid for it.

5) Only simple average method can be used for valuation of goodwill.
   False: Weighted average profit method, capitalisation method, super profits methods also can be used for valuation of Goodwill.

6) Super profit means excess of actual average profit over normal profit.
   True: Super profit means excess profit that can be earned by the firm over and above the normal profit usually earned by similar firms under similar circumstances.

7) Normal profit means profit earned by similar companies in the same industry.
   True: The rate of return is considered as an average for the industry, which is applied to the capital employed in the concerned firm.

8) Normal profit depends upon Normal Rate of Return and past profits.
   False: Normal profit depends upon Normal rate of return only and not on past profits.

9) At the time of admission/retirement of a partner, since goodwill can not be raised in the books of accounts is recorded through capital accounts of the partners.
   True: Generally, the goodwill at the time of admission is adjusted through the capital accounts and not shown in the books of the firm.

10) At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

False: Goodwill brought in by new partner is shared by old partners in sacrificing ratio and not equally

Multiple Choice Questions

1. Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their.........ratio.

(a) Capital.

(b) New Profit Sharing.

(c) Sacrificing.

Ans: c

2. A & B are partners sharing profits and losses in the ratio 5:3. On admission, C brings ₹ 70,000 cash and ₹ 48,000 against goodwill. New profit sharing ratio between A, B and C are 7:5:4. Find the sacrificing ratio of A:B.

(a) 3:1.

(b) 4:7.

(c) 5:4.

Ans: a

Following are the factors affecting goodwill except:

(a) Nature of business.

(b) Efficiency of management.

(c) Location of the customers.

Ans: c

4. Weighted average method of calculating goodwill should be followed when:

(a) Profits has increasing trend.

(b) Profits has decreasing trend.

(c) Either 'a' or 'b'.

Ans: c

5. In the absence of any provision in the partnership agreement, profits and losses are shared

(a) In the ratio of capitals.

(b) Equally.

(c) In the ratio of loans given by them to the partnership firm.

Ans: b

6. The profits and losses for the last 4 years are 2018-19 Losses ₹ 10,000; 2019-20 Losses ₹ 2,500; 2020-21 Profits ₹ 98,000 & 2021-22 Profits ₹ 76,000. The average capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 12%.

The remuneration of partners is estimated to be ₹ 1,000 per month not charged in the above losses/profits. Calculate the value of goodwill on the basis of two years purchase of super profits based on the average of four years.

(a) ₹ 9,000.

(b) ₹ 8,750.

(c) ₹ 8,250.

Ans: b

7. A, B and C are partners sharing profits and losses in the ratio 3:2:1. They decide to change their profit sharing ratio to 2:2:1. To give effect to this new profit sharing ratio they decide to value the goodwill at ₹ 30,000. Pass the necessary journal entry if Goodwill not appearing in the old balance sheet and should not appear in the new balance sheet.

(a) B's Capital Account Dr. ₹ 2,000

C's Capital Account Dr. ₹ 1,000

To A's Capital Account ₹ 3,000

(b) Goodwill Account Dr. ₹ 30,000

To A's Capital Account ₹ 15,000

To B's Capital Account ₹ 10,000

To C's Capital Account ₹ 5,000

(c) A's Capital Account Dr. ₹ 12,000

B's Capital Account Dr. ₹ 12,000

C's Capital Account Dr. ₹ 6,000

To Goodwill Account ₹ 30,000

Ans: a

Theory questions

1. Write short note on methods for valuation of goodwill.

Answer

There are three methods for valuation of goodwill

(i) Average profit basis - Simple and Weighted

(ii) Super profit basis - Number of Year Purchase, Annuity basis, and Capitalization of Super Profit

(iii) Capitalization basis

2. Explain Accounting treatment of goodwill in case of change in profit sharing ratio.

Answer

In case of change in profit sharing ratio, the value of goodwill should be determined and preferably adjusted through capital accounts of the partners on the basis of profit sacrificing ratio.

3. Distinguish between Super profit basis and Capitalisation Basis.

Answer

Super Profit Basis: In case of average profit basis, goodwill is calculated on the basis of average profit multiplied by certain number of years.

Super Profit=Actual Profit-Normal Profit

Actual Profit is average profit and Normal Profit = Normal rate of Return (NRR)

Capitalization Basis: Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill.

ADMISSION OF A NEW PARTNER

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI practical Question 1				
13	ICAI practical Question 2				
14	ICAI Example				
15	ICAI Example				
16	ICAI Example				
17	ICAI Example				
18	ICAI Example				
19	ICAI Example				
20	ICAI Example				
21	Additional Questions				
22	QP Nov 20				

Let's Get Started... With Class Work

1. ICAI Illustration 1

The following is the is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January. 2022:

Liabilities	₹	Assets	₹
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mojan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		**60,000**

On this date Shyam was admitted on the following:

1. He is to pay ₹25,000 as his capital and ₹10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.
3. The assets are to be revalued as under:

Particulars	₹
Building	25,000
Plat and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for ₹ 1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

Solution:

Journal Entries

2020			Dr. (₹)	Cr. (₹)
Jan. 1	Bank Account	Dr.	35,000	
	To Shyam's Capital Account			35,000
	(Being amount brought in by Shyam for capital and goodwill)			
	Shyam's Capital Account	Dr.	10,000	
	To Ram's Capital Account			5,000
	To Mohan's Capital Account			5,000
	(Being Shyam's share of goodwill adjusted to existing partners' capital accounts in the profit sacrificing ratio 1:1)			
	Revaluation Account	Dr.	5,000	
	To Plant and Machinery Account			3,000
	To Provisions for Doubtful Debts Account			500
	To Trade payables Account			1,500
	(Being recording of the reduction in the value of assets and the liability which had been previously omitted)			
	Building Account	Dr.	7,000	
	To Revaluation Account			7,000
	(Being increase in the value of building brought into account)			
	Revaluation Account	Dr.	2,000	
	To Ram's Capital Account			1,200
	To Mohan's Capital Account			800
	(Being profit on revaluation credited to Ram and Mohan in the old profit sharing ratio)			

Working Note:

Profit sacrificing ratio:

Ram = 3/5 less 1/2 = 1/10

Mohan= 2/5 less 3/10 = 1/10

Balance Sheet of Ram, Mohan and Shyam as at January 1, 2022

Liabilities	₹	₹	Assets	₹	₹
Trade payables		16,500	Buildings		25,000
Capital Accounts :			Plant and Machinery		12,000
Ram	26,200		Inventories		12,000
Mohan	30,800		Trade receivables	10,000	
Shyam	25,000	82,000	Less: Provision for		

			Doubtful Debts	(500)	9,500
			Bank		40,000
		98,500			98,500

2. ICAI Illustration 2

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2022 is given below.:

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		**3,50,000**

On 1.4.2022 they admit C on the following terms:

(1) C will bring ₹50,000 as a capital and ₹10,000 for goodwill for 1/5 share;

(2) Provision for doubtful debts is to be made on Trade receivables @ 2%

(3) Inventory to be written down by 10%.

(4) Freehold premises is to be revalued at ₹2,40,000, plant at ₹35,000, furniture ₹25,000 and office equipment ₹27,500.

(5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

Solution:

Memorandum Revaluation Account

	Particulars	₹		Particulars	₹
To	Provision for Bad Debts A/c	500	By	Freehold premises A/c	40,000

To	Inventory A/c	3,000	By	Furniture A/c	5,000
To	Plant A/c	5,000	By	Office equipment A/c	2,500
To	Profit on Revaluation A/c				
	A's Capital-3/5	23,400			
	B's Capital-2/5	15,600			
		47,500			47,500
To	Freehold premises A/c	40,000	By	Provision for Bad Debts A/c	500
To	Furniture A/c	5,000	By	Inventory A/c	3,000
To	Office equipment A/c	2,500	By	Plant A/c	5,000
				Loss on Revaluation A/c	
				A's Capital -12/25	18,720
				B's Capital-8/25	12,480
				C's Capital-5/25	7,800
		47,500			47,500

Partners' Capital Accounts

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To A's Capital A/c			6,000	By Balance b/d	2,00,000	1,00,000	-
To B's Capital A/c			4,000	By Bank A/c			
To Loss on revaluation				By C's Capital A/c			60,000
A/c	18,720	12,480	7,800	By Profit on			
To Balance c/d	2,10,680	1,07,120	42,200	revaluation A/c	6,000	4,000	-
					23,400	15,600	-
	2,29,400	1,19,600	60,000		2,29,400	1,19,600	60,000

Note : Amount brought in by new partner shall be distributed among the old partner's in their profit sacrifing ratio, which is same as old profit sharing ratio in this case.

Balance Sheet as at 1.4.2022

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
		Plant	40,000
Capital A/c :		Furniture	20,000
A	2,10,680	Office equipment	25,000
B	1,07,120	Inventories	30,000
C	42,200	Trade receivables	25,000
		Bank	70,000
	4,10,000		4,10,000

3. ICAI Illustration 3

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2020 was as follows:

Liabilities	Amount		Assets	Amount	
	₹	₹		₹	₹
Trade payables		17,000	Buildings		26,000
			Furniture		5,800
Bank overdraft		9,000	Inventories		21,400
			Trade receivables	35,000	
Capital Accounts:			Less : Provision	(200)	34,800
A	44,000		Investment		2,500
B	36,000	80,000	Cash		15,500
		1,06,000			**1,06,000**

'C' was admitted to the firm on the above date on the following terms:

i) C is admitted for 1/6 share in the future profits and to introduce a capital of ₹ 25,000.

ii) The new profit sharing ratio of A,B and C will be 3:2:1 respectively.

iii) 'C' is unable to bring in cash for his share of goodwill, they decided to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

iv) Furniture is to be written down by₹ 870 and Inventory to be depreciated by 5% . A provision is required for trade receivables @ 5% for bad debts. A provision would also be made for outstanding wages for₹ 1,560. The value of buildings having appreciated be brought upto ₹29,200. The value of investments is increased by₹ 450.

v) It is found that the trade payable included a sum of₹ 1,400 which is not to be paid off.

Prepare the following:

i) Revaluation Account

ii) Partner's Capital Accounts.

Solution:

Revaluation Account

		₹			₹
To	Furniture	870	By	Building	3,200
To	Inventory	1,070	By	Trade payables	1,400
To	Provision for doubtful debts		By	Investment	450

	(₹1,750 - ₹200)	1,550			
To	Outstanding wages	1,560			
		5,050			5,050

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To A			4,500	By Balance b/d	44,000	36,000	—
To B			3,000	By Cash A/c	—	—	25,000
To Balance c/d	48,500	39,000	17,500	By C (working note 2)	4,500	3,000	—
	48,500	39,000	25,000		48,500	39,000	25,000

Working Notes:

1. Calculation of goodwill:

C's contribution of ₹25,000 consists of only 1/6th of capital.

Therefore, total capital of firm should be ₹25,000 x 6 = ₹1,50,000

But combined capital of A, B and C amounts ₹44,000 + 36,000 + 25,000 = ₹1,05,000 Thus, the hidden goodwill of the firm is ₹45,000 (₹1,50,000- ₹1,05,000).

C's share 1/6th = 7,500

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	3/6	3/5	- (3/30)	
B	2/6	2/5	-(2/30)	
C	1/6			1/6

4. ICAI Illustration 4

Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities	Amount		Assets	Amount
	₹	₹		₹
Trade payables		12,850	Land and Buildings	25,000
Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Inventory of goods	11,750
Capital Account:			Trade receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash in Bank	960
Mr. Mallick	5,000	29,000		
		49,850		**49,850**

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2022 on the following terms:

(1) Mr. Mistri shall bring₹ 5,000 towards his capital.

(2) The value of Inventory should be increased by₹2, 500 and Furniture should be depreciated by 10%.

(3) Reserve for bad doubtful debts should be provided at 10% of the Trade receivables.

(4) The value of land and buildings should be enhanced by 20%.

(5) The value of the goodwill be fixed at ₹15, 000.

(6) General Reserve will be transferred to the Partner's Capital Accounts.

(7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15 M. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare i) Revaluation account, ii) The capital Accounts of the partners, iii) Balance Sheet of the firm after admission of Mr. Mistri.

Solution:

Revaluation Account

2022			₹	2022		₹
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory in trade	2,500
	To Furniture and fittings		650			
	To Capital A/cs: (Profit on revaluation transferred)				By Land and Building	5,000
	Dalal	2,520				
	Banerji	2,520				
	Mallick	1,260	6,300			
			7,500			7,500

Partners' Capital Accounts

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Benerji	Mallick	Mistri
	₹	₹	₹	₹		₹	₹	₹	₹

To Dalal				1,000	By Balance b/d	12,000	12,000	5,000	–
To Banerji				1,000	By General Reserve	2,600	2,600	1,300	
To Balance c/d	19,120	18,120	7,560	3,000	By Cash	–	–	–	5,000
					By Mistri	1,000	1,000	–	–
					By Outstanding Liabilities	1,000	–	–	
					By Revaluation A/c	2,520	2,520	1,260	–
	19,120	18,120	7,560	5,000		19,120	18,120	7,560	5,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dalal	5 /15	2/ 5	- 1 / 15	
Banerji	5/15	2/ 5	- 1 / 15	
Mallick	3/15	1/5	No gain No loss	—
Mistri	2/15			2/15

Sacrifice by Mr. Dalal and Mr. Banerji= ₹15,000× (1 / 15)= ₹1,000 each

Balance Sheet of M/s. Dalal, Banerji, Mallick and Mistri as on 1-4-2022

Liabilities	₹	₹	Assets	₹	₹
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities		500	Furniture		5,850
Capital Accounts of Partners			Inventory of goods		14,250
:Mr. Dalal	19,120		Trade receivables	5,500	
Mr. Banerji	18,120		Less :Provisions	(550)	4,950
Mr. Mallick	7,560	47,800	Cash in hand		140
Mr. Mistri	3,000		Cash at Bank		5,960
		61,150			61,150

5. ICAI Illustration 5

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if-

i) C purchase 1/10 share from A

ii) A and B agree to sacrifice 1/10th share to C in the ratio of 2:3

iii) Simply gets 1/10th share of profit.

Solution:

(i) New profit sharing ratio:

A = 3/5 – 1/10 = 5/10

B = 2/5 i.e. 4/10

C = 1/10

i.e. 5:4: 1

(ii) A's sacrifice 1/10× 2/5 = 2/50

B's sacrifice 1/10 × 3/5 = 3/50

New profit sharing ratio

A = 3/5 – 2/50 = 28/50

B = 2/5 – 3/50 = 17/50

C = 1/10 i.e. 5/50

i.e. 28:17: 5

(iii) Let total share be 1

C's share=1/10

Remaining share=1-1/10=9/10

Distribution:

A = 9/10 × 3/5 = 27/50

B = 9/10 × 2/5 = 18/50

C = 1/10. i.e. = 5/50

i.e. 27:18: 5

6. ICAI Illustration 6

A and B are in partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2022 was as follows:

Cash₹ 1,000; trade receivables₹ 25,000; Inventory₹ 22,000; Plant and Machinery₹ 4,000; trade payable₹ 12,000; bank overdraft₹ 15,000; A's capital₹ 15,000; B's capital₹ 10,000.

On 1st April, 2022, they admitted C into partnership on the following terms:

i) C to purchase one- third of the goodwill for₹ 2000 and provide₹ 10,000 as capital. Goodwill not to appear in books.

ii) Further profits and losses are to be shared by A, B and C equally.

iii) Plant and machinery is to be reduced by 10% and ₹ 500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of₹ 24,940.

iv) By bringing in or withdrawing cash and capitals of A and B are to made proportionate to that of C on their profit – sharing basis.

Set out entries to the above arrangement in the firm's journal and give the partner's capital accounts in tabular form.

Solution:

Journal Entries as on Ist April, 2022

		Dr. (₹)	Cr. (₹)
Revaluation Account	Dr.	900	
To Plant and machinery Account			400
To Provision for bad debts Account			500
(Plant & machinery reduced by 10% and ₹500 provided for			
bad debts)			
Inventory Account	Dr.	2,940	
To Revaluation Account			2,940
(Value of inventory increased by ₹2,940)			
Revaluation Account	Dr.	2,040	
To A's capital Account			1,530
To B's capital Account			510
(Profit on revaluation transferred)			
Cash Account	Dr.	12,000	
To C's capital Account			12,000
(Cash brought in by C as his capital)			
C's Capital Account	Dr.	2,000	
B's capital Account	Dr.	500	
To A's capital Account			2,500
(Entry for goodwill purchased by B and C)			
A's capital Account	Dr.	9,030	

B's capital Account	Dr.	10	
To Cash Account			9,040
(Excess amount of capital withdrawn)			

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To A's capital A/c	-	500		By Balance b/d	15,000	10,000	—
To Cash	9,030	10		By Revaluation A/c	1,530	510	—
To Balance c/d	10,000	10,000	10,000	By Cash	2,000	—	10,000
				By B's Capital A/c	500		
	19,030	10,510	10,000		19,030	10,510	10,000

Working Note:

Calculation of goodwill

C pays ₹2,000 on account of goodwill for 1/3rd share of profit/loss. Total goodwill is ₹2,000 x 3 = ₹6,000.

Gaining ratio:

B: 1/3-1/4 = 1/12

C: 1/3

Goodwill to be paid to A:

By B ₹ 6,000 x 1/12 =	₹ 500
By C ₹ 6,000 x 1/3 =	₹ 2,000
Total	₹ 2,500

7. ICAI Illustration 7

A and B are partners of X & Co. sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2020, the balance sheet of the firm was as follows:

Balance Sheet of X & Co. as at 31.3.2022

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Plant and machinery	20,000
A	37,000		Furniture and fittings	5,000
B	28,000			
		65,000	Inventories	15,000
Trade Payables		5,000	Trade receivables	20,000
			Cash in hand	10,000
		70,000		**70,000**

X agrees to join the business on the following conditions as and form 1.4.2022:

a) He will introduce ₹ 25,000 as his capital and pay ₹ 15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.

b) A revaluation of assets of the firm will be made by reducing the value of plant and machinery to ₹ 15,000, Inventory by 10%, furniture and fitting by ₹ 1,000 and by making a provision of bad and doubtful debts at ₹ 750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

Solution:

Profit and Loss Adjustment Account

2022 April 1	₹	2022 April 1		₹
To Plant and machinery A/cTo Inventory A/c To Furniture and fitting A/c To Provision for bad and doubtful debts	5,000 1,500 1,000 750	By Partners' capital ccounts - Loss on revaluation A (3/5) B (2/5)	 4,950 3,300	 8,250
	8,250			8,250

Partners' Capital Accounts

	A ₹	B ₹	X ₹		A ₹	B ₹	X ₹
To Profit & loss	4,950	3,300	–	By Balance b/d	37,000	28,000	–
adjustment A/c				By Cash A/c	–	–	40,000
To A's & B's capital A/cs	–	–	15,000	By X's capital A/c	12,000	3,000	–
To Balance c/d	44,050	27,700	25,000	[W. N. (ii)]			
	49,000	31,000	40,000		49,000	31,000	40,000

Working Notes:

(i) New profit sharing ratio:

On admission of X who will be entitled to 1/3rd share of the future profits of the firm. A and B would share the remaining 2/3rd share in equal proportion i.e. 1:1.

A: 2/3 x 1/2 = 1/3

B: 2/3 x 1/2 = 1/3

X:1/3

A, B and X would share profits and losses in equal ratio.

(ii) Adjustment of goodwill:

X pays ₹15,000 as premium for goodwill for 1/3rd share of the future profits. Thus, total value of goodwill is ₹15,000 x 3 i.e. ₹45,000

Sacrificing ratio:

A: 3/5 - 1/3 = 4/15

A: 2/5 - 1/3 = 1/15

Hence, sacrificing ratio is 4:1

Adjustment of X's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

A: 15,000 x 4/5 =	12,000
B: 15,000 x 1/5 =	3,000
	15,000

8. ICAI Illustration 8

A and B are partners with capitals of ₹ 7,000 each. They admit C as a partner with $1/4^{th}$ share in the profits of the firm. C brings ₹ 8,000 as his share of capital. Give the necessary journal entry to record goodwill.

Solution:

Journal Entry

Particulars		**Dr. (₹)**	**Cr. (₹)**
C's Capital A/c [₹10,000 x 1/4]	Dr.	2,500	
To A's Capital A/c			1,250
To B's Capital A/c			1,250
(Being the share of C in the hidden goodwill adjusted through capital			
accounts by crediting sacrificing partners in their sacrificing ratio)			

Note: Hidden Goodwill= [8,000 × (4 / 1)] –(₹ 7,000 + ₹ 7,000+8,000) = ₹10,000

9. ICAI Illustration 9

A and B are in partnership sharing profits and losses equally. The Balance Sheet M/s. A and B as on 31.12.2022, was as follows:

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed Assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade Payables	20,000		
	1,10,000		**1,10,000**

On 1.1.2023 they agreed to take C as 1/3rd partner to increase the capital base to ₹ 1,35,000. C agrees to pay ₹ 60,000. Show the necessary journal entries and prepare partners' capital accounts.

Solution:

In the Books of M/s. A, B and C

Journal Entries

		₹	₹
Bank A/c	Dr.	60,000	
To C's Capital A/c			60,000
(Cash brought in by C for 1/3rd share)			
C's Capital A/c	Dr.	15,000	
To A's Capital A/c			7,500
To B's Capital A/c			7,500
A's Capital A/c	Dr.	7,500	
B's Capital A/c	Dr.	7,500	
To Bank A/c			15,000
(Amount of goodwill due to A and B withdrawn)			

Workings:

(1) Old Profit Sharing Ratio:1: 1

(2) New Profit Sharing Ratio: 1:1:1

(3) C's share of capital ₹1,35,000 × 1/3 = ₹45,000

(4) Goodwill ₹60,000 – ₹45,000 = ₹15,000 for 1/3rd share.

Total Goodwill:₹15,000 × 3 = ₹45,000

Partners' Capital A/cs

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To A			7,500	By Balance b/d	45,000	45,000	—
To B			7,500	By Bank	—	—	60,000
To Bank	7,500	7,500	—	By C	7,500	7,500	—
To Balance c/d	45,000	45,000	45,000				
	52,500	52,500	60,000		52,500	52,500	60,000

Note : In this problem it is mentioned that total capital should be at ₹ 1,35,000 hence excess capital is to be withdrawn by partners hence third entry is passed.

10. ICAI Illustration 10

Leena and Meena were in partnership business sharing profits and losses in the ratio of 2:3 Their Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	60,000
Leena	60,000	Plant	45,000
Meena	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills Receivable	12,500
Bills Payable	17,400	Stock	42,600
		Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022, they decided to admit Neena into the partnership giving her a 1/5th share in future profits. She brings in ₹ 80,000 as his share of capital. Goodwill was valued at Rs. 1,00,000 at the time of admission of Neena.

The partners decided to revalue the Assets as follows :

Goodwill ₹ 1,00,000 Plant ₹ 40,000, Debtors ₹ 38,000, Stock ₹ 42,000, Building ₹ 90,000, Furniture ₹ 20,000, Bills Receivable ₹ 12,000.

You are required to show the following accounts in the books of the firm

(a) Profit & Loss Adjustment Account

(b) Partners' Capital Accounts

(c) The Balance Sheet of the new firm.

Solution:

In the books of Leena, Meena and Neena

(a) Profit & Loss Adjustment Account

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	30,000
To DebtorsTo	400		
Stock	600		
To Furniture	3,500		
To bills receivable	500		
To profit on revaluation			
Leena	8,000		
Meena	12,000		
	30,000		30,000

Partners' Capital A/c

Particulars	Leena	Meena	Neena	Particulars	Leena	Meena	Neena
To Goodwill (balance sheet)	24,000	36,000		By Balance b/d	60,000	1,40,000	
To Leena , Meena			20,000	By Bank			80,000
Goodwil adjustment							
entry							
				By Neena	8,000	12,000	
				By General Reserve	16,000	24,000	
				By Revaluation	8,000	12,000	
To Balance c/d	68,000	1,52,000	60,000				
	92,000	1,88,000	80,000		92,000	1,88,000	80,000

Balance Sheet as on 1st April 2022 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Building	90,000
Leena	68,000	Plant	40,000
Meena	152,000	Furniture	20,000
Neena	60,000	Debtors	38,000
Creditors	42,600	Bills Receivable	12,000
Bills Payable	17,400	Stock	42,000
		Bank	98,000
	3,40,000		3,40,000

11. ICAI Illustration 11

Alpha and Beeta were partners in a firm namely Meta-Chem sharing profits and losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2022

Liabilities		₹	Assets	₹
Capital :			Factory Building	4,78,000
Alpha	3,00,000		Plant & Machinery	3,41,000
Beeta	2,00,000	5,00,000	Office Furniture	55,850
General Reserve		1,80,000	Inventory	77,740
Workmen compensation fund		60,000	Trade Receivables	1,43,210
Term loan from IDFC bank		2,78,000	Bank	44,200
Trade payables		1,22,000		
		11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2022 on the following terms:

1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1
3. He shall bring Rs.2,50,000 as his capital.
4. Goodwill of the firm is valued at Rs. 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at Rs. 70,000.
6. Machinery to be appreciated by 20%.and Office furniture to be revalued at Rs.50,000
7. Of the trade receivables Rs. 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

Solution:

In the books of Meta-Chem

Revaluation A/c

Liabilities		₹	Assets	₹
To Bad debts		3,210	By Factory Building	95,600
To R.D.D.		7,000	By Plant and Machinery	68,200
To Office Furniture		5,850		
To Inventory		7,740		

To Profit on revaluation				
Alpha	70000			
Beeta	70000	1,40,000		
		1,63,800		1,63,800

Partners' Capital A/c

Particulars	Alpha	Beeta	Gyama	Particulars	Alpha	Beeta	Gyama
				By balance b/d	3,00,000	2,00,000	
To Beeta			50,000	By Bank			2,50,000
				By Gyama		50,000	
To Bank		25,000		By General Reserve	90,000	90,000	
				By Workman comp. fund	30,000	30,000	
To Balance c/d	4,90,000	4,15,000	2,00,000	By Revaluation A/c	70,000	70,000	
	4,90,000	4,40,000	2,50,000		4,90,000	4,40,000	2,50,000

Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	44,200	By Beeta's capital	25,000
To Gyama's capital	2,50,000	By Balance c/d	2,69,200
	2,94,200		2,94,200

Balance Sheet of Meta-Chem as on 1st April 2020 (after admission)

Liabilities		₹	Assets		₹
Capital Accounts:			Factory Building		5,73,600
Alpha	4,90,000		Plant & Machinery		4,09,200
Beeta	4,15,000		Office Furniture		50,000
Gyama	2,00,000	11,05,000	Inventory		70,000
Term Loan from IDFC bank		2,78,000	Trade Receivables	1,40,000	
			Less : RDD	7,000	1,33,000
Trade Payables		1,22,000	Bank		2,69,200
		15,05,000			15,05,000

Working Note:

Partner	New Share		Old Share		Difference
Alpha	1/2	–	3/6	=	0
Beeta	1/2	–	2/6	=	1/6
Gyama		–	1/6 (gain)	=	1/6 (gain)

12. ICAI Practical Question 1

The following was the balance sheet of A,B and C who were partners on January 1,2022

Liabilities	₹	Assests	₹
Bills payable	3,000	Cash	1,000
Creditors	6,000	Debtors	10,000
Capital Accounts:		Stock	12,000
A	20,000	Furniture	5,000
B	15,000	Buildings	25,000
C	10,000	Bills Receivable	1,000
	54,000		**54,000**

They agree to take D into partnership and give him a ¼ share in the profits on the following terms:

1) D should bring in₹ 6,000 for goodwill and₹ 10,000 as capital;
2) one – half of the goodwill shall be withdrawn by old partners;
3) stock and furniture be depreciated by 10 %
4) a liability of₹ 1,300 be created against bills discounted.
5) the building be valued at₹ 40,000
6) the values of liabilities and assets other than cash are not to be altered.

Give the necessary entries to give effect to the above arrangement; prepare revaluation account and opening balance sheet of the firm as newly constituted.

Solution:

	₹	₹
Cash Account Dr.	16,000	
To D's Capital Account		16,000
(Amount of goodwill and capital brought in by D)		
D's Capital Account Dr.	6,000	
To A's Capital Account		2,000
To B's Capital Account		2,000
To C's Capital Account		2,000
(Goodwill brought in by D credited to old partners in sacrifice ratio)		

A's Capital Account	Dr.	1,000	
B's Capital Account	Dr.	1,000	
C's Capital Account	Dr.	1,000	
To Cash Account			3,000
(Half the amount of goodwill withdrawn by existing partners)			
Memorandum Revaluation Account	Dr.	12,000	
To A's Capital Account			4,000
To B's Capital Account			4,000
To C's Capital Account			4,000
(Profit on revaluation credited to old partners)			
A's Capital Account	Dr.	3,000	
B's Capital Account	Dr.	3,000	
C's Capital Account	Dr.	3,000	
D's Capital Account	Dr.	3,000	
To Memorandum Revaluation Account			12,000
(The profit credited previously to old partners written off to all partners including D in the new profit-sharing ratio)			

Memorandum Revaluation Account

Stock	1,200	Buildings	15,000
Furniture	500		
Liability for bills discounted	1,300		
Profit transferred to capital accounts:			
A	4,000		
B	4,000		
C	4,000		
	15,000		15,000
Buildings	15,000	Stock	1,200
		Furniture	500
		Liability for bills discounted	1,300
		Profit transferred to capital accounts:	
		A	3,000
		B	3,000
		C	3,000
		D	3,000
	15,000		15,000

Balance Sheet of M/s. A, B, C and D
As at Ist January, 2022

Liabilities		₹	**Assets**	₹
Bills Payable		3,000	Cash	14,000
Creditors		6,000	Debtors	10,000
Capital Accounts:			Stock	12,000
A	22,000		Furniture	5,000
B	17,000		Buildings	25,000
C	12,000		Bills Receivable	1,000
D	7,000	58,000		
		67,000		67,000

13. ICAI Practical Question 2

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firm's alance sheet as on 31.03.2022 was as follows:

Liabilities	₹	**Assests**	₹
Capital Accounts:			
Gopal	1,20,000	Fixed assets	3,00,000
Govind	80,000	Investments	50,000
Long term loan	2,00,000	Current assets	2,00,000
Current liabilities	2,50,000	Loan and advances	1,00,000
	6,50,000		**6,50,000**

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2022 on the following terms:

Guru will be paid 40% of the profits.

Guru will bring in cash ₹ 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 year's normal average profits of the firm and Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

For the year ended 31.3.2020: profit₹ 20,000 (includes insurance claim received of₹ 40,000).

For the year ended 31.3.2021: loss₹ 80,000 (includes voluntary retirement compensation paid₹ 1,10,000).

For the year ended 31.3.2022: Profit of₹ 1,05,000 (includes a profit of ₹ 25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2022 as follows:

Particulars	₹
Fixed assets (net)	4,00,000
Investments	Nil
Current assets	1,80,000
Loan and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass journal entries on admission, show goodwill calculation and prepare revaluation account, partner's capital accounts and balance sheet as on 01.04.2022 after the admission of Guru.

Solution:

Calculation of Profit/ Loss for the year ended

	31.3.2020	31.3.2021	31.3.2022
Profit/(loss) for the year	20,000	(80,000)	1,05,000
Add/(less): Abnormal items	(40,000)	1,10,000	(25,000)
Net Profit/(loss)	(20,000)	30,000	80,000

Average profit=[(20,000)+30,000+ 80,000]/ 3 = ₹ 30,000

Two years' purchase of average profits= 30,000 x 2= ₹ 60,000

Goodwill to be brought in by Guru=₹ 60,000 x 40%=₹ 24,000

Goodwill brought in by Guru shared (at the profit sacrificing ratio) by:

	₹
Gopal (₹ 24,000 x 5/8)	15,000
Govind (₹ 24,000 x 3/8)	9,000
	24,000

(ii) Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1.4.2022	Bank A/c To Guru's capital A/c (Amount of capital and goodwill brought in by Guru)	Dr.	1,24,000	1,24,000
1.4.2022	Guru's capital A/c	Dr.	24,000	

	To Gopal's capital A/c To Govind's capital A/c (Amount of goodwill brought in by Guru credited to capital accounts of the old partners in the profit sacrificing ratio 5:3)			15,000 9,000
1.4.2022	Revaluation A/c To Investment A/c To Current assets A/c (Writing down the value of investments to nil and current assets from ₹ 2,00,000 to ₹ 1,80,000 on the occasion of admission of Guru)	Dr.	70,000	 50,000 20,000
1.4.2022	Fixed assets A/c To Revaluation A/c (Writing up the value of fixed assets from ₹ 3,00,000 to ₹ 4,00,000 on the occasion of admission of Guru)	Dr.	1,00,000	 1,00,000
1.4.2022	Revaluation A/c To Guru's capital A/c To Govind's capital A/c (Net revaluation profit credited to the capital accounts of the old partner in the old profit sharing ratio of 60:40)		30,000	 18,000 12,000

(iii) **Revaluation Account**

Particulars	₹	**Particulars**	₹
To Investments A/c	50,000	By Fixed assets A/c	1,00,000
To Current assets A/c	20,000		
To Partner's capital A/c:			
(Profit on revaluation)			
Gopal (60%)	18,000		
Govind (40%)	12,000		
	1,00,000		1,00,000

(iv) **Partner's Capital Accounts:**

Gopal's Capital Account

Particulars	₹	**Particulars**	₹
To Balance c/d	1,53,000	By Balance b/d	1,20,000
		By Bank A/c	15,000
		By Revaluation A/c	18,000

	1,53,000		1,53,000

Govind's Capital Account

Particulars	₹	Particulars	₹
To Balance c/d	1,01,000	By Balance b/d	80,000
		By Bank A/c	9,000
		By Revaluation A/c	12,000
	1,01,000		1,01,000

Guru's Capital Account

Particulars	₹	Particulars	₹
To Balance c/d	1,00,000	By Bank b/d	1,00,000
	1,00,000		1,00,000

Balance Sheet (after admission of Guru) as on 1.4.2020

Liabilities		₹	Assets	₹
Capital accounts:			Fixed assets	4,00,000
Gopal	1,53,000		Current assets	3,04,000
Govind	1,01,000		(including bank balance of ₹ 1,24,000)	
Guru	1,00,000	3,54,000	Loans & advances	1,00,000
Long term loan		2,00,000		
Current liabilities		2,50,000		
		8,04,000		8,04,000

Working Notes:

1. **Calculation of profit sacrificing ratio**

Profit sacrificed by Gopal=60%-35%=25%

Profit sacrificed by Govind =40%-25%=15%

Sacrificing ratio =25%: 15% or 5:3

2. **Bank balance after admission of Guru:**

Bank Account

Particulars	₹	Particulars	₹
To Guru's capital A/c	1,24,000	By Balance c/d	1,24,000
	1,24,000		1,24,000

14. ICAI Example

A and B are partners sharing profits in the ratio 3:2. They admit C For 1/3 share in future profits. Calculate the new ratio.

Solution:

Share in Firm = 1 C's Share = 1/3

Remaining Profit = 1 - 1/3 = 2/3

This remaining share of 2/3 is divided between A and B in the ratio 3:2 So A's share = 2/3 × 3/5 = 6/15

B's share = 2/3 × 2/5 = 4/15

C's share = 1/3 × 5/5 = 5/15

New ratio = 6/15: 4/15: 5/15 = 6:4:5

15. ICAI Example

A and B are partners sharing in the ratio 3:2. They admit C as a new partner for 1/3rd share in future profits which he gets 1/9 from A and 2/9 from B. Calculate the new ratio.

Solution:

A's old share = 3/5; A sacrifice in favour of C = 1/9

So A's new share = 3/5 - 1/9 = 22/45

B's old share = 2/5; B sacrifice in favour of C = 2/9

So B's new share = 2/5 - 2/9 = 8/45

C's new share = 1/9 x 5/5 = 5/45

New ratio = 22: 8: 5

16. ICAI Example

A and B are partners sharing in the ratio 3:2. They admit C as the new partner. A surrender 1/3rd of his share and B surrenders 2/3rd of his share in favour of C. Calculate the new ratio.

Solution:

A's old share = 3/5; A surrender in favour of C = 3/5 x 1/3 = 3/15

A's new share = 3/5 - 3/15 = 6/15

B's old share = 2/5; B surrender in favour of C = 2/5 x 2/3 = 4/15

B's new share = 2/5 - 4/15 = 2/15

C's share = 3/15 + 4/15 = 7/15

New ratio = 6:2:7

17. ICAI Example

A and B are partners sharing in the ratio 3:2. They admit C for 1/5th share in profits which he acquires entirely from A. Calculate then new ratio.

Solution:

A's old share = 3/5; Sacrifice in favour of C = 1/5

A's new share = 3/5 - 1/5 = 2/5

B's share = 2/5

C's share = 1/5

New ratio = 2:2:1

18. ICAI Example

A and B are partners sharing in the ratio 3:2. C admitted for 1/5th share which he acquires from A and B in the ratio of 2:1. Calculate the new ratio.

Solution:

A's old share = 3/5, A's sacrifice = 1/5 × 2/3 = 2/15

A's new share = 3/5 - 2/15 = 7/15

B's old share = 2/5, B's sacrifice = 1/5 × 1/3 = 1/15

B's new share = 2/5 - 1/15 = 5/15

C's share = 1/3 × 5/5 = 5/15

New ratio = 7:5:5

19. ICAI Example

X and Y are partners in a firm sharing profits losses in the 5:3. They admit Z into partnership the new ratio 3:2:1. Calculate the sacrificing Ratio.

Solution:

X's sacrifice = X's old share - X's new ratio = 5/8 - 3/6 = 6/48

Y's sacrifice = Y's old share - Y's new ratio = 3/8 - 2/6 = 2/48

Thus, sacrificing ratio = 6:2 or 3:1

20.ICAI Example

A, B and C are sharing profits and losses in the ratio of 5:3:2. Calculate the new profit sharing ratio and the sacrificing ratio in each of the following alternative cases:

Case (a) If C acquires $1/10^{th}$ share from B

Case (b) If C acquired $1/10^{th}$ share equally from A and B

Case (c) If C's share is increased by $1/10^{th}$ share by acquiring from A.

Case (d) If C's share is increased by $3/10^{th}$ by acquiring from B.

Case (e) If A, B and C decide to share future profits and losses in the ratio of 5:2:3

Case (f) If A, B and C decide to share future profits and losses in the ratio of 2:3:5

Case (g) If A, B and C decide to share future profits and losses in the ratio of 2:1:2

Case (h) If A, B and C decide to share future profits and losses equally.

Case (i) If A, B and C decide that the future profit sharing ratio between B and C shall be the same as existing between A and B

Solution:

Case (a)	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from B	-	-1/10	+1/10
Their new shares	5/10	2/10	3/10

New Profit sharing ratio of A, B and C = 5 : 2 : 3

Share sacrificed by B = 1/10

Case (b)	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from A and B	-1/20	-1/20	+1/10
Their new shares	9/20	5/20	3/10

New Profit sharing ratio of A, B and C = 9 : 5 : 6

Sacrificing ratio of A and B = 1 : 1

Case (c)	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from B	-1/10	-	+1/10
Their new shares	4/10	3/10	3/10

New Profit sharing ratio of A, B and C = 4 : 3 : 3

Share sacrificed by A = 1/10

Share acquired by C = New Share – Old share = 3/10 -2/10 = 1/10

Case (d)	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from B	-	-1/10	+1/10
Their new shares	5/10	2/10	3/10

New Profit sharing ratio of A, B and C = 5 : 2 : 3

Share sacrificed by B = 1/10

Case (e)	A	B	C
Their existing sharesTheir new shares	5/10 5/10	3/10 2/10	2/10 3/10
	-	1/10	-1/10

C gains by 1/10th share &B sacrifice 1/10th Share

Case (f)	A	B	C
Their existing sharesTheir new shares	5/10 2/10	3/10 3/10	2/10 5/10
	3/10	-	-3/10

C gains by 3/10th share &A sacrifice 3/10th Share

Case (g)	A	B	C
Their existing sharesTheir new shares	5/10 2/5	3/10 1/5	2/10 2/5
	1/10	1/10	-2/10

C gains by 2/10th share &A sacrifices 1/10th Share &B sacrifices 1/10th share.

Case (h)	A	B	C
Their existing sharesTheir new shares	5/10 1/3	3/10 1/3	2/10 1/3
	5/30	-1/30	-4/30

B gains by 1/30th share, C gains by 4/30th share and A sacrifices by 5/30th Share

Case (i)

Ratio of A and B= 5 : 3

Ratio of B and C should be= 5 : 3

Since B's share in relation to A is 3/5 or 60% of A's share, C's share should also be 60% of B's share

Thus C's share	= 60% of 3	= 1.8	
New ratio of A, B and C		= 5 : 3 : 1.8	or 25 : 15 : 9

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new share	25/49	15/49	9/49
	-5/490	-3/490	8/490
C sacrifices by 8/490 and A gains by 5/490 and B gains by 3/490			

21. A, B and C were in partnership, sharing profits and losses as to A one – half, B one – third and C one – sixth. As from 1st January,2016 they admitted D into partnership on the following terms:

D to have a one – sixth share which he purchased entirely from A paying A₹ 8,000 for that share of goodwill. Of this amount, A had withdrawn₹ 6,000 and put the balance in the firm as additional capital. As a condition to admission of D as a partner, D also brought₹5,000 capital into the firm. It was further agreed that the investments should be valued at its market value of₹ 3,600 and plant be valued at₹ 5,800.

The balance sheet of the old firm on 31.12.2015 was as follows:

Cash at bank₹ 8,000; debtors₹12,000; stock₹10,000; investments at cost₹ 6,000; furniture₹2,000; plant₹7,000; creditors₹21,000; capital: A₹12,000 and the drawings were A₹6,000, B₹6,000, C₹ 3,000 and D₹3,000.

You are required to journalese the opening adjustments, prepare the opening balance sheet of the new firm as on 1st January, 2016 and give the capital account of each as on 31st December. 2016.

Solution:

Journal Entries

	Particulars		₹	₹
1.	Bank A/c	Dr.	8,000	
	To A's Capital A/c			8,000
	(Being Amount paid by D for Share of Goodwill Purchased From A)			
2.	A's Capital A/c	Dr.	6,000	
	To Bank A/c			6,000
	(Being amount withdrawn by A)			
3.	Bank A/c	Dr.	5,000	
	To D's capital A/c			5,000
	(Being capital brought in by D)			
4.	Revaluation A/c	Dr.	3,600	
	To Investments A/c			2,400
	To Plant A/c			1,200
	(Being revaluation of investments and plant recorded)			
5.	A's capital A/c	Dr.	1,800	
	B's capital A/c	Dr.	1,200	
	C's capital A/c	Dr.	600	

	To Revaluation A/c		3,600
	(Being loss on revaluation transferred to old partners in 3:2:1 ratio)		

Balance Sheet of new firm

as on 1 st January, 2016

Liabilities	₹	Assets	₹
Capital accounts:		Plant	5,800
A	12,200	Furniture	2,000
B	6,800	Investments	3,600
C	3,400	Stock	10,000
D	5,000	Debtors	12,000
Creditors	21,000	Cash at bank	15,000
	48,400		48,400

A's Capital Account

2016		₹	2016		₹
Dec 31	To Drawings	6,000	Jan.1	By Balance B/d	12,200
	To Balance C/d	10,200	Dec. 31	By Profit	4,000
		16,200			16,200

B's Capital Account

2016		₹	2016		₹
Dec 31	To Drawings	6,000	Jan.1	By Balance B/d	6,800
	To Balance C/d	4,800	Dec. 31	By Profit	4,000
		10,800			10,800

C's Capital Account

2016		₹	2016		₹
Dec 31	To Drawings	3,000	Jan.1	By Balance B/d	3,400
	To Balance C/d	2,400	Dec. 31	By Profit	2,000
		5,400			5,400

D's Capital Account

2016		₹	2016		₹
Dec 31	To Drawings	3,000	Jan.1	By Balance B/d	5,000
	To Balance C/d	4,000	Dec. 31	By Profit	2,000
		7,000			7,000

Working Notes:

1.

Balance Sheet of Old Firm as on 31st December, 2015

Liabilities	₹	₹	Assets	₹
Capital accounts:			Plant	7,000
A	12,000		Furniture	2,000
B	8,000		Investments	6,000
C	4,000	24,000	Stock	10,000
Creditors		21,000	Debtors	12,000
			Cash at bank	8,000
		45,000		45,000

2. New Profit Sharing Ratio:

	Old Ratio:	New Ratio:
A	3/6	3/6-1/6=2/6
B	2/6	2/6
C	1/6	1/6
D	-	1/6

22. QP NOV 20

M/s. TB is partnership firm with the partners A, B and C sharing profit and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June,2020 was as under:

Balance sheet of M/s. TB as on 30-6-2020

Liabilities (₹)	Amount	Assets	Amount (₹)
A's Capitals A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investment	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payable	2,13,000	Trade Receivables	1,59,000
	10,77,000		**10,77,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustment are to be made.

a. Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantages but the same will not appear as an assets in the books of the reconstituted firm

b. Building and plant and Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investment are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

c. In the reconstituted firm, the total capital will be ₹ 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3

d. The amount due to rctiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Solution:

Revaluation Account

2020		₹	2020		₹
July 1	To Building	11,000	July 1	By Investments	4,000
	To Plant and Machinery	80,000		(46,000 - 42,000)	
	To Trade receivable (Bad Debts)	23,850		By Partners' Capital A/cs	
				(loss on revaluation)	
				A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850
		1,14,850			1,14,850

Dr. **Partners' Capital Accounts** Cr.

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	-	-	-	90,000	By D's Capital A/c (W.N.1)	-	60,000	30,000	-
To Investments A/c	-	46,000	-	-	By Bank A/c	29,255	-	25,425	2,10,000
To B's loan A/c	-	87,830	-	-					

To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 3 lakhs Sacrificing ratio:

A 3/10 - 3/10 = 0

B 2/10 - 0 = 2/10

C 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		₹
B:	90,000 x 2/3 = 60,000	
C:	90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

TEST YOUR KNOWLEDGE

True or False

1. A newly admitted partner does not have same rights as old partners.
   False: All the partners have same rights at all times, unless contrary is provided in the partnership deed/or agreed by the partners.

2. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.
   True: With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrificing ratio.

3. Revaluation account is also called as Profit and Loss Adjustment Account.
   True: Revaluation is also called as profit and loss adjustment account.

4. Any appreciation in the value of an asset is credited to Revaluation account.
   True: Increase in asset is an income hence credited to revaluation account.

5. All the partners may decide not to change the values of assets and liabilities in the books of accounts.
   True: This can be done by opening Memorandum Revaluation Account.

6. New partner is entitled to have share in reserves appearing in the balance sheet prior to his admission.
   False: New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.

7. If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.
   False: If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.

8. New partner brings necessary amount as his capital.
   True: Every incoming partner shall bring in some amount of capital for the firm.

9. New partner is entitled to share in revaluation profit.
   False: New partner is not entitled to profit on revaluation, it belongs to old partners in their old profit sharing ratio.

Multiple Choice Questions

1. A and B are partners sharing profits and losses in the ratio 5:3. They admitted C and agreed to give him 3/10th of the profit. What is the new ratio after C's admission?

(a) 35:42:17.

(b) 35:21:24.

(c) 49:22:29.

Ans: b

2. A and B are partners sharing profits in the ratio 5:3, they admitted C giving him 3/10th share of profit. If C acquires 1/5 from A and 1/10 from B, new profit sharing ratio will be:

(a) 5:6:3.

(b) 2:4:6.

(c) 17:11:12

Ans: c

3. C was admitted in a firm with 1/4th share of the profits of the firm. C contributes ₹ 15,000 as his capital, A and B are other partners with the profit sharing ratio as 3:2.
Find the required capital of A and B, if capital should be in profit sharing ratio taking C's as base capital:

(a) ₹ 27,000 and ₹ 16,000 for A and B respectively.

(b) ₹ 27,000 and ₹ 18,000 for A and B respectively.

(c) ₹ 32,000 and ₹ 21,000 for A and B respectively.

Ans: b

4. A, B and C are partners sharing profits and losses in the ratio 6:3:3, they agreed to take D into partnership for 1/8th share of profits. Find the new profit sharing ratio.

(a) 12:27:36:42.

(b) 14:7:7:4.

(c) 1:2:3:4.

Ans: b

5. A and B are partners sharing profits and losses in the ratio of 3:2 (A's Capital is ₹ 30,000 and B's Capital is ₹ 15,000). They admitted C and agreed to give 1/5th share of profits to him. How much C should bring in towards his capital?

(a) ₹ 9,000.

(b) ₹ 12,000.

(c) ₹ 11,250.

Ans: c

6. A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who brings in ₹ 25,000 against capital and ₹ 10,000 against goodwill. New profit sharing ratio is 1:1:1. In what ratio will this amount will be shared among the old partners A & B.

(a) ₹ 8,000: ₹ 2,000.

(b) ₹ 5,000: ₹ 5,000.

(c) Old partners will not get any share in the goodwill brought in by C.

Ans: a

7. A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who is supposed to bring ₹ 25,000 against capital and ₹ 10,000 against goodwill. New profit sharing ratio is 1:1:1. C brought cash for his share of Capital and agreed to compensate to A and B outside the firm. How this will be treated in the books of the firm.

(a) Cash brought in by C will only be credited to his capital account.

(b) Goodwill will be raised to full value in old ratio.

(c) Goodwill will be raised to full value in new ratio.

Ans: a

8. X and Y are partners sharing profits in the ratio of 3: 1. They admit Z as a partner who pays ₹ 4,000 as Goodwill the new profit sharing ratio being 2:1: 1 among X, Y and Z respectively. The amount of goodwill will be credited to:

(a) X and Y as ₹ 3,000 and ₹ 1,000 respectively.

(b) X only

(c) Y only.

Ans: b

9. P and Q are partners sharing Profits in the ratio of 2:1. R is admitted to the partnership with effect from 1st April on the term that he will bring ₹ 20,000 as his capital for 1/4th share and pays ₹ 9,000 for goodwill, half of which is to be withdrawn by P and Q. If profit on revaluation is ₹ 6,000 and opening capital of P is ₹ 40,000 and of Q is ₹ 30,000, find the closing balance of each capital.

(a) ₹ 47,000: ₹ 33,500: ₹ 20,000

(b) ₹ 50,000: ₹ 35,000: ₹ 20,000.

(c) ₹ 40,000: ₹ 30,000: ₹ 20,000

Ans: a

10. Adam, Brain and Chris were equal partners of a firm with goodwill ₹ 1,20,000 shown in the balance sheet and they agreed to take Daniel as an equal partner on the term that he should bring ₹ 1,60,000 as his capital and goodwill, his share of goodwill was evaluated at ₹ 60,000 and

the goodwill account is to be written off before admission.

What will be the treatment for goodwill?

(a) Write off the goodwill of ₹ 1,20,000 in old ratio.

(b) Cash brought in by Daniel for goodwill will be distributed among old partners in sacrificing ratio.

(c) Both (a) & (b)

Ans: c

Theory Questions

1. Write short note on Revaluation account.

Answer

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

2. What is the difference between revaluation account and memorandum revaluatio account?

Answer

Difference between revaluation account and memorandum revaluation account

(i) Revaluation account is prepared to find out the profit or loss on revaluation of assets and liabilities which appear in the new balance sheet at the new or revalued figures. Memorandum revaluation account is also prepared to record the effect of revaluation of assets and liabilities which of course are recorded at their old figures in the new balance sheet.

(ii) Revaluation account is not divided into two parts. But the memorandum revaluation account has two parts: first part for old partners and second part for all partners including the new partner.

RETIREMENT OF PARTNER

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5/ Similar as Mock Test Oct 21 (series 1)				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI practical Question 1				
13	ICAI practical Question 2				
14	ICAI Example				
15	ICAI Example				
16	ICAI Example				
17	RTP Nov 20				
18	QP Nov 20				

Let's Get Started... With Class Work

1. ICAI Illustration 1

A and B are partners in a business sharing profit and losses as A- 3/5th and B-2/5th. Their balance sheet as on 1st January, 2022 is given below:

Liabilities	₹	₹	Assets	₹
Capital Accounts			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15.000
Reserve Account		15,000	Balance at Bank	6.000
Trade payables		7,500	Cash in hand	500
		57,500		57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:

1) The goodwill of the firm is valued at ₹ 25,000.
2) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.
3) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required:

Journalise the above transaction in the books of the firm and close the partner's Accounts as on 1st January 2022. Give also the opening Balance Sheet of A.

Solution:

Journal Entries

2022		Dr. (₹)	Cr. (₹)
Jan 1.	A's Capital Account Dr.	10,000	
	To B's Capital Account (The amount of share of goodwill adjusted on B's retirement)		10,000
	Reserve Account Dr. To A's Capital AccountTo	15,000	
	B's Capital Account (Transfer of reserve to A's Capital Account and B's Capital		9,000 6,000

	Account in the profit sharing ratio)		
	Profit and Loss Adjustment Account Dr.	4,650	
	To Plant and Machinery AccountTo		1,500
	Inventory Account		2,400
	To Provision for Doubtful Debts Account		750
	(Reduction in the values, assets and creation of provision fordoubtful debts as per agreement with B)		
	Reserve for Discount on Trade payables A/c Dr.	150	
	To Profit and Loss Adjustment Account		150
	(Creation of reserve for discount on trade payables at 2%)		
	A's Capital Account Dr.	2,700	
	B's Capital Account Dr.	1,800	
	To Profit and Loss Adjustment Account		4,500
	(Transfer of loss on revaluation of assets and liabilities to Capital Accounts of A and B in the profit sharing ratio)		
	B's Capital Account Dr.	29,200	
	To B's Loan Account		29,200
	(Transfer of B's Capital Account to his Loan A/c)		

Balance Sheet of A as on Ist January, 2022

Liabilities	₹	₹	Assets	₹	₹
A's CapitalAccount		16,300	Plant and Machinery		18,500
B's Loan Account		29,200	Inventories		13,600
Trade payables	7,500		Trade receivables	15,000	
Less: Reserve for Discount	(150)	7,350	*Less:* Prov. for Bad debts	(750)	14,250
			Balance at Bank		6,000
			Cash		500
		52,850			52,850

2. ICAI Illustration 2

F, G and K were partners sharing profits and losses at the 2:2:1. K wants to retire on 31.12.2022. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2022

Liabilities	₹	Assets	₹
Capital A/cs			
F	1,20,000	Sundry Fixed Assets	1,50,000
G	80,000	Inventories	50,000
K	60,000	Trade receivables	70,000
Reserve	10,000	(Including Bills receivable 20,000)	
Trade Payables	50,000	Bank	50,000
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3:2 in future. Value of Goodwill is taken to be₹ 50,000. Sundry Fixed Assets are revalued upward by₹ 30,000 and Inventories by₹ 10,000. Bills Receivable dishonored₹ 5,000 on 31.12.2022 but not recorded in the books. Dishonor of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain₹ 75,000 bank balance for working capital.

Required:

Pass necessary journal entries and draft the Balance Sheet of M/s F & G. Also prepare capital accounts of partners and draft the Balance Sheet of Ms/F & G after K's retirement.

Solution:

Journal Entries

		₹	₹
(1)	F's Capital A/c Dr.	10,000	
	To K's Capital A/c		10,000
	(Being the adjustment for goodwill on K's retirement) - Refer W.N.		
(2)	Reserve A/c Dr.	10,000	
	To F's Capital A/c		4,000
	To G's Capital A/c		4,000
	To K's Capital A/c		2,000
	(Transfer of Reserve to Partners' Capital A/cs on K's retirement)		
(3)	Sundry Fixed Assets A/c Dr.	30,000	
	Inventory A/c Dr.	10,000	

	To Profit and Loss Adjustment A/c (Increase in the value of Sundry Fixed Assets and inventory recorded)		40,000
(4)	Profit and Loss Adjustment A/c Dr. To Trade Receivable A/c (Loss arising out of dishonoured bill recorded)	5,000	5,000
(5)	Profit and Loss Adjustment A/c Dr. To F's Capital A/cTo G's Capital A/cTo K's Capital A/c (Profit on revaluation transferred to Partners' Capital A/cs on K's retirement)	35,000	14,000 14,000 7,000
(6)	Bank A/c Dr. To F's Capital A/cTo G's Capital A/c (Cash brought in by F and G as per agreement)	1,04,000	70,000 34,000
(7)	K's Capital A/c Dr. To Bank A/c (Payment made to K on retirement)	79,000	79,000

Working Note:

Adjusting entry for goodwill

Partner	Old Share	New Share	Gain	Sacrifice
F	2 /5	3/5	1/5	–
G	2/5	2/5	–	–
K	1/5	–	–	1/5

Adjusting entry:

		₹	₹
F's Capital A/c (50,000 x 1/5)	Dr.	10,000	
To K's Capital A/c			10,000

Balance Sheet (after K's retirement)

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Fixed Assets	1,80,000
F	1,98,000	Inventories	60,000
G	1,32,000	Trade receivables	65,000
Trade payables	50,000	Bank	75,000
	3,80,000		3,80,000

Partners' Capital Accounts

	F ₹	G ₹	K ₹		F ₹	G ₹	K ₹
To K's Capital A/c	10,000	—	—	By Balance b/d	1,20,000	80,000	60,000
To Balance c/d	1,28,000	98,000	79,000	By F's Capital A/c			10,000
				By P & L Adj. A/c	14,000	14,000	7,000
				By Reserve	4,000	4,000	2,000
	1,38,000	98,000	79,000		1,38,000	98,000	79,000
To Bank	—	—	79,000	By Balance b/d	1,28,000	98,000	79,000
To Balance c/d	1,98,000	1,32,000	—	By Bank	70,000	34,000	—
	1,98,000	1,32,000	79,000		1,98,000	1,32,000	79,000

Working Notes:

1.	**Total Capital**	₹
	Sundry Fixed Assets (₹ 1,50,000 + ₹ 30,000)	1,80,000
	Inventory (₹ 50,000 + ₹ 10,000)	60,000
	Trade receivables	65,000
	(Including Bill Receivable of ₹ 15,000)	
	Bank	75,000
		3,80,000
	Less: Sundry Creditors	(50,000)
		3,30,000
	F's share (3,30,000 × 3/5)	1,98,000
	G's share (3,30,000 × 2/5)	1,32,000

2. **Bank Account**

	₹		₹
To Balance b/d	50,000	By K's Capital A/c	79,000
To F's Capital A/c	70,000	By Balance c/d	75,000
To G's Capital A/c	34,000		
	1,54,000		1,54,000

3. ICAI Illustration 3

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2022 was as under:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	40,000
A	1,35,930	Fixtures	8,200
B	95,120	Inventories	1,57,300

C	61,170	Trade receivables	93,500
Trade Payables	41,690	Cash	74,910
	3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. A agreement was, therefore, entered into as on 31st March. 2022, the terms of which were as follows:

i) The profit and loss account for the year ended 31st March, 2022 which showed a net profit of₹ 48,000 was to be re-opened. B was to be credited with₹ 4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2021 as 3:4:4.

ii) Goodwill was to be valued at two year's purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. The valuations arising out of the above agreement were goodwill₹ 56,800 and fixtures₹ 10,980. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and to retain the fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.

Required:

Submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

Solution:

Journal Entries

Particulars		**Dr. (₹)**	**Cr. (₹)**
A's Capital Account	Dr.	20,000	
B's Capital Account	Dr.	16,000	
C's Capital Account	Dr.	12,000	
To Profit and Loss Adjustment Account			48,000
(Profit written back for making adjustments)			
Profit and Loss Adjustment Account	Dr.	4,000	
To B's Capital account			4,000
(Bonus Credited to B's Capital Account)			
Profit and Loss Adjustment Account	Dr.	44,000	

To A's Capital Account			12,000
To B's Capital Account			16,000
To C's Capital Account			16,000
(Distribution of profits in the new ratio)			
Fixtures Account	Dr.	2,780	
To Provision for Doubtful debts Account @ 2%			1,870
To A's Capital Account			248
To B's Capital Account			331
To C's Capital Account			331
(Revaluation of assets on A's retirement)			
A's Capital AccountB's	Dr.	16,667	
Capital Account C's	Dr.	13,333	
Capital Account	Dr.	10,000	
To Goodwill			40,000
(Old goodwill shown in the balance sheet has been written off)			
A's Capital Account	Dr.	1,27,002	
To A's Loan Account			1,27,002
(Transfer of A's Capital Account to his Loan Account)			
B's Capital Account	Dr.	2,244	
C's Capital Account	Dr.	1,496	
To Provision for Doubtful Debts Account			3,740
(Raising provision for bad debts)			
B's Capital Account	Dr.	13,425	
C's Capital Account	Dr.	2,066	
To A's Capital Account			15,491
(Adjusting entry of goodwill passed through partners' capital accounts in gaining/sacrificing ratio)			

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To Profit and Loss Adjustment A/c	20,000	16,000	12,000	By Balance b/d	1,35,930	95,120	61,170
To Goodwill	16,667	13,333	10,000	By Profit and Loss Adjustment A/c	—	4,000	—
To A's Loan A/c	1,27,002	—	—				
To Provision for Doubtful				By Profit and loss Adjustment A/c	12,000	16,000	16,000

Debts A/c	—	2,244	1,496	By Fixtures Less			
To A	—	13,425	2,066	provision for			
To Balance c/d	—	70,449	51,939	DD A/c	248	331	331
				By B	13,425		
				By C	2,066		
	1,63,669	1,15,451	77,501		1,63,669	1,15,451	77,501

Note: The balance of A's Capital Account has been transferred to A's Loan Account.

Working Note:

Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
A	3/11	—	—	3/11
B	4/11	3/5	13/55	—
C	4/11	2/5	2/55	—

4. ICAI Illustration 4

K, L & M are partner sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire form the firm on 31.3.2022 and admit his son N in his place.

Balance Sheet of K, L and M as on 31.3.2022

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventory in Trade	50,000
M	30,000	1,30,000	Cash and Bank balances	80,000
Reserve		50,000		
Trade Payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: Furniture₹ 10,000 and Inventory in trade₹ 30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill was valued at Rs.50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.

You are required to give:

i) Necessary Journal entries; ii) balance sheet of M/s K, M and N as on 1.4.2022; iii) capital accounts of partners.

Solution:

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2022	K's Capital A/c	Dr.	15,000	
	L's Capital A/c	Dr.	9,000	
	M's Capital A/c	Dr.	6,000	
	To Goodwill A/c			30,000
	(Being old goodwill of balance sheet written off)			
	Profit and Loss Adjustment A/c	Dr.	30,000	
	To Furniture A/c			10,000
	To Inventory in Trade A/c			20,000
	(Being revaluation of Furniture and inventory in traderecorded)			
	K's Capital A/c L's	Dr.	15,000	
	Capital A/c M's	Dr.	9,000	
	Capital A/c	Dr.	6,000	
	To Profit and Loss Adjustment A/c			30,000
	(Being net revaluation loss debited to capital accounts of K, L and M in the ratio 5 : 3 : 2)			
	Reserve A/c	Dr.	50,000	
	To K's Capital A/cTo			25,000
	L's Capital A/c			15,000
	To M's Capital A/c			10,000
	(Being reserve transferred to capital accounts, K, L and M)			
	L's Capital A/c	Dr.	72,000	
	To Cash A/c			36,000
	To N's Capital A/c			36,000
	(Being 50% of the amount due to L was paid off in cashand balance was retained in the firm as capital of N)			
	N's Capital A/c	Dr.	15,000	
	To L's Capital A/c			15,000
	(Being adjusting entry for goodwill passed in gaining/sacrificing ratio)			
	M's Capital A/c	Dr.	14,000	

	To Bank A/c (Being amount paid to M to make his capital proportionate)			14,000

Working Note:

1. Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
K	5/10	5/10	—	—
L	3/10	—	—	3/10
M	2/10	2/10	—	—
N	—	3/10	3/10	—

2. Calculation of excess capital paid off to M to make capital proportionate.

Partner	Capital Balance	Capital Ratio (After all Adjustments)	P/L Ratio	Excess Capital Paid off
K	35,000	5	5	—
N	21,000	3	3	—
M	28,000	4	2	28,000/4 x2=14,000

Partners' Capital Accounts

	K ₹	L ₹	M ₹	N ₹		K ₹	L ₹	M ₹	N ₹
To Goodwill	15,000	9,000	6,000	-	By Balance b/d	40,000	60,000	30,000	-
To Profit and Loss Adjustment A/c	15,000	9,000	6,000		By Reserve	25,000	15,000	10,000	-
					By L's Capital A/c	-	-	-	36,000
					By N's Capital A/c	-	15,000	-	-
To Cash A/c	-	36,000	-	-					
To N's Capital A/c	-	36,000	-	-					
To L's Capital A/c	-	-	-	15,000					
To Bank A/c									
(Balancing figure)	-	-	14,000	-					
To Balance c/d	35,000	-	14,000	21,000					
	65,000	90,000	40,000	36,000		65,000	90,000	40,000	36,000
					By Balance b/d	35,000	—	14,000	21,000

Balance Sheet of M/s K, M & N as on 1st April, 2022

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Furniture	10,000
K	35,000		Trade receivables	50,000

M	14,000		Inventory in Trade	30,000
N	21,000	70,000		
Trade payables		20,000		
		90,000		90,000

5. ICAI Illustration 5 / Similar As Mock Test Oct 21 (series I)

Dowell & Co. is a partnership firm with partners Mr. A, Mr. B, and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2022 is as under.:

Liabilities	₹	₹	Assets	₹
Capitals:			Land	10,000
Mr. A	80,000		Buildings	2,00,000
Mr. B	20,000		Plant and Machinery	1,30,000
Mr. C	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt			Trade receivables	1,39,000
Bank Overdraft		3,00,000		
Trade payable		44,000		
		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. B will retire for partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2022. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at₹ 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

c) In the reconstituted firm, the total capital will be₹ 2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which s 2:2:1.

   i) The surplus funds, if any, will be used for repaying bonk overdraft.

   ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

a) Revaluation account:

b) Partner's capital accounts:

c) Bank account; and

d) Balance sheet of the reconstituted firm as on 1st April, 2022.

Solution:

Revaluation Account

	₹				₹
To Buildings A/c	10,000	By Investments A/c			3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:			
To Provision for Doubtful Debts A/c	27,800		A	30,400	
			B	18,240	
			C	12,160	60,800
	63,800				63,800

A's Capital Account

	₹		₹
To Revaluation A/c	30,400	By Balance b/d	80,000
To Balance c/d	80,000	By Reserves A/c	10,000
		By C and D's Capital A/c	10,000
		By Bank A/c (balancing figure)	10,400
	1,10,400		1,10,400

B's Capital Account

	₹		₹
To Revaluation A/c	18,240	By Balance b/d	20,000
To Investments A/c	15,000	By Reserves A/c	6,000
To B's Loan A/c	22,760	By C and D's Capital A/c	30,000
	56,000		56,000

C's Capital Account

	₹		₹
To Revaluation A/c	12,160	By Balance b/d	30,000
To A and B's Capital A/c	20,000	By Reserves A/c	4,000
To Balance c/d	80,000	By Bank A/c (balancing figure)	78,160
	1,12,160		1,12,160

D's Capital Account

	₹		₹

To A and B's Capital A/cs	20,000	By Bank A/c	60,000
To Balance c/d	40,000		
	60,000		60,000

Bank Account

	₹		₹
To A's Capital A/c	10,400	By Bank Overdraft A/c	44,000
To C's Capital A/c	78,160	By Balance c/d	1,04,560
To D's Capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of Dowell Co. as at 1st April, 2022

Liabilities		₹	**Assets**		₹
Capital Accounts:			Land		10,000
A	80,000		Buildings		1,90,000
C	80,000		Plant and Machinery		1,04,000
D	40,000	2,00,000	Furniture		43,000
			Inventories		1,30,000
Long Term Debts		3,00,000	Trade receivables	1,39,000	
Trade payables		1,70,000	Less: Provision for Doubtful Debts)	(27,800)	1,11,200
B's Loan Account		22,760	Balance at Bank		1,04,560
		6,92,760			6,92,760

Note: Even though the problem says goodwill ₹ 1,00,000 to appear in new Balance Sheet, it is written off so as to company with Accounting Standard. Net entry for goodwill is :

C's capital	Dr.	20,000	
D's capital	Dr.	20,000	
To A's capital			10,000
To B's capital			30,000

6. ICAI Illustration 6

M/s X is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2022, was as under:

Balance Sheet of M/s. X
As on 30.06.2022

Liabilities	₹	Assets	₹
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Buildings	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long Term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000
	9,57,000		9,57,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2022. For this purpose, the following adjustments are to be made:

a) Goodwill of the firm is to be valued at₹ 2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.
b) Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.
c) In the reconstituted firm, the total capital will be ₹ 3 lakhs, which will be contributed by A,C and D in their new profit sharing ratio, which is 3:4:3.
d) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare Revaluation Account and Partners' Capital Accounts.

Solution:

Revaluation Account

2022		₹	2022			₹
July 1	To Building	20,000	July 1	By Investments (25,000-22,000)		3,000
	To Plant and Machinery	57,000		By Partners' Capital A/cs (Loss on revaluation)		

	To Bad Debts	13,900				
				A (3/10)	26,370	
				B (2/10)	17,580	
				C (5/10)	43,950	87,900
		90,900				90,900

Partners' Capital Accounts

	A ₹	B ₹	C ₹	D ₹		A ₹	B ₹	C ₹	D ₹
To Revaluation A/c	26,370	17,580	43,950	—	By Balance b/d	1,04,000	76,000	1,40,000	-
To B's and C's Capital A/cs	—	—	—	60,000	By D's Capital A/c (W.N.1)	—	40,000	20,000	—
To Investments A/c	—	25,000	—	—	By Bank A/c	12,370	—	3,950	1,50,000
To B's Loan A/c	—	73,420	—	—					
To Balance c/d (W.N. 2)	90,000	-	1,20,000	90,000					
	1,16,370	1,16,000	1,63,950	1,50,000		1,16,370	1,16,000	1,63,950	1,50,000

Working Notes:

Goodwill of the firm is valued at ₹ 2 lakhs Sacrificing ratio:

A 3/10-3/10 = 0

B 2/10-0 = 2/10

C 5/10-4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

₹

B : ₹ 60,000 x 2/3 = 40,000

C : ₹ 60,000 x 1/3 = 20,000 60,000

2. Capital of partners in the reconstituted firm :	₹
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000

7. **ICAI Illustration 7**

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2016 for ₹50,000, a premium of₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows : 2018 nil; 2019 ₹900; 2020 ₹ 2,000; 2021 ₹3,600.

Black retires on 15th April, 2022.

Required

Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

Solution:

Joint Life Policy Premium Account

		₹			₹
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	3,000
10th June, 2019	To Bank Account	3,000	31st Dec., 2019	By Profit and Loss A/c	3,000
10th June, 2020	To Bank Account	3,000	31st Dec., 2020	By Profit and Loss A/c	3,000
10th June, 2021	To Bank Account	3,000	31st Dec., 2021	By Profit and Loss A/c	3,000

Profit and Loss Account

		₹		₹
31st Dec., 2018	To Joint Life Policy Premium Account	3,000		
31st Dec., 2019	To Joint Life Policy Premium Account	3,000		
31st Dec., 2020	To Joint Life Policy Premium Account	3,000		
31st Dec., 2021	To Joint Life Policy Premium Account	3,000		

Joint Life Policy Account

		₹			₹
15th April, 2022	To Capital A/cs:		15th April, 2022	By Bank Account	3,600

	(Transfer)				
	Red 5/10	1,800			
	White 3/10	1,080			
	Black 2/10	720			
		3,600			3,600

8. ICAI Illustration 8

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2018 for ₹50,000, a premium of ₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows : 2018 nil; 2019 ₹ 900; 2019 ₹ 2,000; 2020 ₹3,600.

Black retires on 15th April, 2022.

Required

Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

Solution:

Joint Life Policy Account

		₹			₹
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	3,000
10th June, 2019	To Bank Account	3,000	31st Dec., 2019	By Profit and Loss A/c	2,100
		3,000		By Balance c/d	900
1st January, 2020	To Balance b/d	900			3,000
10th June, 2020	To Bank Account		31st Dec., 2020	By Profit and Loss A/c	1,900
		3,900		By Balance c/d	2,000
1st January, 2021	To Balance b/d	2,000			3,900
10th June, 2021	To Bank Account	3,000	31st Dec., 2021	By Profit and Loss A/c	1,400
				By Balance c/d	3,600
		5,000			5,000
1st January, 2022	To Balance b/d		15th April, 2022	By Bank	3,600

		3,600			3,600

Profit and Loss Account

		₹			₹
31st Dec., 2018	To Joint Life Policy Account	3,000			
31st Dec., 2019	To Joint Life Policy Account	2,100			
31st Dec., 2020	To Joint Life Policy Account	1,900			
31st Dec., 2021	To Joint Life Policy Account	1,400			

9. ICAI Illustration 9

A, B and C are in partnership sharing profits and losses at the ratio of 5:3:2. The balance sheet of the firm on 31.12.2021 was as follows:

Balance Sheet

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2022, A wants to retire, B and C agreed to continue at 2:1 Joint Life Policy was taken on 1.1.2017 for₹1,00,000 and its surrender value as on 31.12.2021 was₹ 25,000. For the purpose of A's retirement goodwill was raised for₹1,00,000. Sundry Fixed Assets was revalued for₹ 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance₹25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries.

Solution:

Journal Entries

			₹	₹
1.	B's Capital A/c	Dr.	49,500	
	C's Capital A/c	Dr.	18,000	
	To A's Capital A/c (Share of revaluation profit ₹ 67,500 including good will dueto A borne by B and C at the gaining ratio 11 : 4)			67,500
2.	A's Capital A/c	Dr.	1,17,500	
	To A's Loan A/cTo			58,750
	Bank A/c (Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c).			58,750
3.	Bank A/c	Dr.	73,750	
	To B's Capital A/cTo			60,333
	C's Capital A/c (Cash brought in by the continuing partners).			13,417

Working Notes:

1. Revaluation Profit ₹

Goodwill	1,00,000
Sundry Fixed Assets	30,000
Joint Life Policy	5,000
	1,35,000

A's Share ₹ 1,35,000 × 5/10 = ₹ 67,500.

2. Gaining Ratio

B : 2/3 – 3/10 = 11/30

C : 1/3 – 2/10 = 4/30

Gaining Ratio : B : C

11 : 4

3. Total Capital

	₹
Assets as per Balance Sheet	1,90,000
Additional Bank Balance	15,000
	2,05,000
Less : Bank Loan	40,000
Sundry Creditors	30,000

A's Loan	58,750	(1,28,750)
		76,250
B's Share		50,833
C's Share		25,417

10. ICAI Illustration 10

Aarav, Nirav and Purav are partners sharing profits and losses in the ratio of 3:2:1 Their Balance Sheet as on 31st March 2022 was as follows:

BALANCE SHEET AS ON 31st March 2020

Liabilities	₹	Assets	₹
Capital: Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Cash in hand	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2022 on the following terms:

1.Goodwill was to be valued at 2 years purchase of average profit of past 3 years.

31st March 2020 Rs. 39,000

31st March 2021 Rs. 50,000

31st March 2022 Rs. 55,000

2. Goodwill was not to be raised in the books of accounts.

3. Provision for Doubtful Debts was to be created on debtors at 5%. Machinery is to be depreciated by 10% and stock is revalued at Rs. 71,000.

5. Building to be appreciated by 20%.

6. Aarav and Nirav to bring in additional capital of Rs. 35,000 and Rs.25,000 respectively.

7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account

2. Partners capital accounts.

3. Bank account.

4. Balance Sheet after retirement.

Solution:

In The Books of Aarav Nirav and Purav

Revaluation A/c

Particulars	₹	Particulars		₹
To RDD	3,250	By building		10,000
To Machinery	6,750	By Loss on revaluation		
To Stock	9,000	Aarav	4,500	
		Nirav	3,000	
		Purav	1,500	9,000
	19,000			19,000

Partners Capital A/c

Particulars	Aarav	Nirav	Purav	Particulars	Aarav	Nirav	Purav
To Loss on Revaluation	4,500	3,000	1,500	By Balance b/d	80,000	50,000	35,000
To cash			59,500	By General Reserve	30,000	20,000	10,000
To Purav capital	9,600	6,400		By Aarav, Nirav capital			16,000
Balance C/d	1,30,900	85,600		By Cash	35,000	25,000	
	1,45,000	95,000	61,000		1,45,000	95,000	61,000

Cash A/c

Particulars	₹	Particulars	₹
To Balance b/d	12,500	By Purav's Capital	59,500
To Aarav's Capital	35,000		
To Nirav's Capital	25,000	By Balance c/d	13,000
	72,500		72,500

Balance Sheet as on 1st April 2020

Liabilities		₹	Assets		₹
Capital : Aarav	1,30,900		Building		60,000
Nirav	85,600	2,16,500	Machinery		60,750
Trade Creditors		50,000	Debtors	65,000	
			Less: RDD	3,250	61,750
			Stock		71,000
			Cash in hand		13,000
		2,66,500			2,66,500

Working note :

Valuation of Goodwill

31st March 2020 ₹ 39,000

31st March 2021 ₹ 50,000

31st March 2022 ₹ 55,000

Total ₹ 1,44,000

Average profit = 1,44,000/3

= 48,000

Goodwill = 2 years purchase

= 2 x 48,000 = ₹ 96,000

Purav's share= 1/6th = 96,000/6 = 16,000

Journal entry for adjustment of goodwill

Aarav capital A/c Dr. 9,600

Nirav capital Dr. 6,400

To Purav capital 16,000

11. ICAI Illustration 11

Satyam Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2.

On 31st March 2020 their Balance Sheet was as under :

Liabilities		₹	Assets	₹
Capitals :				
Satyam	1,95,000		Building	2,50,000
Shivam	1,48,000		Plant	1,60,000
Sundaram	1,12,000	4,55,000	Investments	85,000
General Reserve		80,000	Stock	45,280
Loan from Satyam		94,000	Trade Receivable	68,000
Sundry Creditors		75,000	Bank	95,720
		7,04,000		7,04,000

On 1st April 2022 Shivam retired on the following terms:

1. Goodwill is to be revalued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %
3. Investments are to be taken over by the Satyam in full settlement of his loan
4. Provision of 5% is to be made on Trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam And Sunderam in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

Solution:

In the books of Satyam Shivam & Sundaram

Journal entries:

Sr No	Particulars	Dr. ₹	Cr. ₹
1	General Reserve A/c Dr.	80,000	
	To Satyam Capital A/c		20,000
	. To Shivam Capital A/c		20,000
	To Sunderam Capital A/c		40,000
	(being General reserve distributed among old partners)		
1.	Satyam Capital A/c Dr.	15,000	
	Shivam Capital A/c Dr.	15,000	
	Sunderam Capital A/c Dr.	30,000	
	To Goodwill A/c		60,000
	(being old goodwill written off)		
2.	Satyam Capital A/c Dr.	18,000	
	Sunderam Capital A/c Dr.	12,000	
	To Shivam Capital A/c		30,000
	(being adjustment entry for goodwill passed)		
3.	Building A/c Dr.	50,000	
	To Revaluation A/c		50,000
	(Being Building appreciated)		
4.	Satyam loan A/c Dr.	94,000	
	To Revaluation A/c		9,000
	To Investments A/c		85,000
	(Being investments taken over by Satyam)		

5.	Revaluation A/c	Dr	19,400	
	To Plant			16,000
	To RDD			3,400
	(Being Assets revalued)			
6.	Revaluation A/c	Dr.	39,600	
	To Satyam Capital A/c			9,900
	To Shivam capital A/c			9,900
	To Sundaram Capital A/c			19,800
	(Being profit on Revaluation distributed)			
7	Shivam Capital A/c	Dr.	1,92,900	
	To Shivam loan a/c			1,92,900
	(being amount payable to Shivam transferred to his Loan A/c)			
8.	Satyam Capital A/c	Dr.	11,900	
	Sundaram capital A/c	Dr	9,800	
	To Bank A/c			21,700
	(Being Capital accounts adjusted in PSR)			

Balance Sheet as on Ist April 2022 :

Liabilities		₹	Assets		₹
Capitals :			Building		3,00,000
Satyam	1,80,000		Plant		1,44,000
Sundaram	1,20,000	3,00,000	Stock		45,280
Shivam loan A/c		1,92,900	Trade Receivable	68,000	
Sundry Creditors		75,000	Less RDD	3,400	64,600
			Bank		14,020
		5,67,900			5,67,900

Working Note:

Revaluation A/c

Particulars		₹	Particulars	₹
To RDD		3,400	By building	50,000
To Plant		16,000	By Investments	9,000
To Revaluation profit				
Satyam	9,900			
Shivam	9,900			
Sundaram	19,800	39,600		

		59,000		59,000

Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	35,720	By Satyam Capital	11,900
		By Sundaram Capital	9,800
		By Balance c/d	14,020
	35,720		35,720

Partners Capital A/c

Particulars	Satyam	Shivam	Sundaram	Particulars	Satyam	Shivam	Sundaram
To Goodwill	15,000	15,000	30,000	By Balance b/d	1,95,000	1,48,000	1,12,000
To Shivam	18,000		12,000	By Satyam and Sunderam		30,000	
				By General Reserve	20,000	20,000	40,000
To Shivam loan A/c		19,2900		By Revaluation	9,900	9,900	19,800
To bank	11,900		9,800	By bank			
To balance c/d	1,80,000		1,20,000				
	2,24,900	2,07,900	1,71,800		2,24,900	2,07,900	1,71,800

Partner	Old Share		New share		Gain Share
Satyam	1/4	-	2/5	=	3/20
Shivam	1/4	-	-	=	(5/20)
Sundaram	2/4	-	3/5	=	2/20

12. ICAI Practical Question 1

On 31st March, 2022, the balance sheet of M/s. Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Land & Building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing Stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry Debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2022, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liability on that date on the following basis:

1. Land and building be appreciated by 30%.

2. Machinery be depreciated by 20%.
3. Closing stock to be valued at Rs. 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors Rs. 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained Rs. 60,000
7. Goodwill of the entire firm be valued at Rs.1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:
   50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul &Rohit, loan account of Ram, cash account and balance sheet as on 1,4,2022 of M/s Rahul & Rohit.

Solution:

Revaluation Account

		₹		₹
To Machinery A/c		40,000	By Land and Buildings A/c By Sundry Creditors A/c	60,000
To Closing Stock A/c		20,000	By Cash and Bank A/c – joint lifepolicy surrendered	10,000
To Provision for Bad Debts A/c		10,000		60,000
To Partners' Capital A/cs:				
Ram	30,000			
Rahul	20,000			
Rohit	10,000	60,000		
		1,30,000		1,30,000

Partners' Capital Accounts

		Rahul ₹	Rohit ₹			Rahul ₹	Rohit ₹
31.3.2022	To Ram's Capital A/c	30,000	60,000	1-3-2022	By Balance b/d	2,00,000	1,00,000

	To Balance c/d	3,00,000	3,00,000		ByRevaluation A/c	20,000	10,000
					By Cash&bank A/c	1,10,000	2,50,000
					–cash brought in by Rahul and Rohit		
		3,30,000	3,60,000			3,30,000	3,60,000
				1-4-2022	By Balance b/d	3,00,000	3,00,000

Ram's Loan Account

		₹			₹
31-3-2022	To Balance c/d	2,10,000	31-3-2022	By Ram's Capital A/c	2,10,000
		2,10,000			2,10,000
			1-4-2022	By Balance b/d	2,10,000

Cash and Bank Account

		₹			₹
31-3 2022	To Balance b/d	1,00,000	31-3-2022	By Ram's capital A/c	2,10,000
	To Revaluation A/c- joint life policy surrendered	60,000		By Balance c/d	3,10,000
	To Rahul's Capital A/cTo Rohit's Capital A/c	1,10,000			
		2,50,000			
		5,20,000			5,20,000
1-4-2022	To Balance b/d	3,10,000			

M/s Rahul & Rohit Balance Sheet as on 1-4-2022

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Land and buildings		2,60,000
Rahul	3,00,000		Machinery		1,60,000
Rohit	3,00,000	6,00,000	Closing stock		80,000
Ram's loan account		2,10,000	Sundry debtors	2,00,000	
Sundry creditors		1,90,000	Less: Provision for bad debts	(10,000)	1,90,000

			Cash and bank balances		3,10,000
		10,00,000			10,00,000

Working Notes:

1. Gaining ratio of existing partners:

Rahul 1/2-1/3=1/6

Rohit 1/2-1/6=2/6

2. Total goodwill of firm is ₹ 1,80,000

Ram's share (1/2 x ₹ 1,80,000)=₹ 90,000

Ram's share of goodwill is to be borne by Rahul and Rohit in their gaining ratios i.e. Rahul=1/3 x ₹ 90,000= ₹ 30,000

Rohit = 2/3 x ₹ 90,000=₹ 60,000

3. Ram's Capital Account

		₹			₹
31-3-2022	To Cash and Bank A/c	2,10,000	31-3-2022	By Balance b/d	3,00,000
	To Ram's Loan A/c -Transfer	2,10,000		By Revaluation A/c	30,000
				By Rahul's Capital A/c - Goodwill	30,000
				By Rohit's Capital A/c - Goodwill	60,000
		4,20,000			4,20,000

13. ICAI Practical Question 2

A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.2.2022 was as under:

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Fixtures	30,000
A	1,50,000		Stock	1,70,000
B	1,00,000		Sundry Debtors	90,000
C	50,000	3,00,000	Cash	50,000
Sundry creditors		40,000		
		3,40,000		3,40,000

A, on account of ill-health, gave notice that the wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2022, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2022, which showed a net profit of Rs. 42,000 was to be re-opened. B was to be credited with Rs. 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2021.

(b) Goodwill was to be valued at two year's purchase of the simple average profits of five years, Profits for these five years ending on 31st March were as under:

Date	₹
31.3.2018	15,000
31.3.2019	23,000
31.3.2020	25,000
31.3.2021	35,000
31.3.2022	42,000

(c) Fixtures are to be valued at₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6%. Total capital of the firm will be₹ 3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C after giving effect to the above arrangements on the retirement of A.

Solution:

Journal Entries

			₹	₹
1.	A's Capital account	Dr.	21,000	
	B's Capital account	Dr.	14,000	
	C's Capital account	Dr.	7,000	
	To Profit and loss adjustment account			42,000
	(Profit written back for making adjustments)			
2.	Profit and loss adjustment account	Dr.	6,000	
	To B's Capital account			6,000
	(Bonus credited to B's capital account)			
3.	Profit and loss adjustment account	Dr.	36,000	

	To A's Capital account			12,000
	To B's Capital account			18,000
	To C's Capital account			6,000
	(Distribution of profits in the new ratio)			
4.	Goodwill account (56,000 - 40,000)	Dr.	16,000	
	Fixtures account	Dr.	9,800	
	To Provision for bad debts account			1,800
	To A's Capital account			8,000
	To B's Capital account			12,000
	To C's Capital account			4,000
	(Revaluation of assets on A's retirement)			
5.	B's capital account	Dr.	44,700	
	C's capital account	Dr.	14,900	
	To Goodwill account			56,000
	To Provision for bad debts account			3,600
	(Written off goodwill and raising provision for bad debts)			
6.	A's capital account	Dr.	1,49,000	
	To B's Capital account			1,49,000
	(Amount payable to A paid by B)			

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To P & L adjustment A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To Goodwill and provision for bad debts A/c	-	44,700	14,900	By P & L adjustment account	-	6,000	-
To B's Capital A/c	1,49,000	-	-	By P & L adjustment account	12,000	18,000	6,000
To Cash A/c	-	1,300	-	By Goodwill and fixtures A/c	8,000	12,000	4,000
To Balance c/d	-	2,25,000	75,000	By A's capital A/c	-	1,49,000	-
				By Cash A/c			36,900
	1,70,000	2,85,000	96,900		1,70,000	2,85,000	96,900

Cash Account

	₹		₹
To Balance b/d	10,000	By B's capital A/c	1,300
To C's capital A/c	36,900	By Balance b/d	45,600
	46,900		46,900

Balance Sheet of B and C

as on 31st March, 2022 (after retirement of A)

Liabilities		₹	Assets	₹	₹
Capital accounts:			Fixtures		39,800
B	2,25,000		Stock		1,70,000
C	75,000	3,00,000	Sundry debtors	90,000	
Sundry creditors		40,000	Less: Provision for bad debts	(5,400)	84,600
			Cash		45,600
	3,40,000				3,40,000

Working Notes:

Calculation of goodwill:

1. **Average of last five year's profit**

Year ended on	Profit ₹
31.3.2018	15,000
31.3.2019	23,000
31.3.2020	25,000
31.3.2021	35,000
31.3.2022	42,000
	1,40,000

2. **Goodwill at two years' purchase**

₹ 28,000 x 2=₹56,000

14. ICAI Example

Alok, Bhaskar and Chetan are sharing in the ratio 3:2:1. Calculate new ratio if :

(a) If Alok retires.

(b) If Bhaskar retires.

(c) If Chetan retires.

Solution:

Old Profit ratio = 3:2:1

(a) If Alok retires new profit ratio will be 2:1

(b) If Bhaskar retires new profit ratio will be 3:1

(c) If Chetan retires new profit ratio will be 3:2

15. ICAI Example

Aarav Banta and Chunmun are partners sharing in the ratio 3:2:1. Aarav retires and his share is taken over by the remaining partners as follows

Banta takes $2/6^{th}$ from Aarav.

Chunmun takes $1/6^{th}$ from Aarav.

Calculate the ratio.

Solution:

Banta's New Share = Banta's old share + Banta's gain = 2/6 + 2/6 = 4/6

Chunmun's New Share = Chunmun's old share + Chunmun's gain = 1/6 + 1/6 = 2/6 So the new share = 4/6: 2/6 = 2:1

16. ICAI Example

Deepu, tasha and honey are partners sharing profits in the ratio 3:2:1. Tasha retires and his share was acquired by Deepu and honey in the ratio 2:1. Calculate new ratio.

Solution:

Share acquired by Deepu = 2/6 × 2/3 = 4/18

Share acquired by Honey = 2/6 × 1/3 = 2/18

Deepu's new Share = Deepu 's old share + Deepu's gain = 3/6 + 4/18 = 13/18

Honey's new Share = Honey's old share + Honey's gain = 1/6+ 2/18 = 5/18

New Ratio = 13:5

17. RTP NOV 20

On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On Ist April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

i. Land and Building be appreciated by 20%.
ii. Plant and Machinery be depreciated by 30%.
iii. Stock of goods to be valued at ₹10,000.
iv. Old credit balances of Sundry creditors, ₹2,000 to be written back.
v. Provisions for bad debts should be provided at 5%.
vi. Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
vii. Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
viii. (viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio
ix. Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04. 2020..

Solution:

a.

Revaluation Account

Date		Particulars	₹	Date		Particulars	₹
2020				2020			
April	To	Plant & Machinery	6,000	April	By	Land and	6,000

						building	
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
	Mr. 2,000	P (2/7)					
	Mr. 3,000	Q (3/7)					
	Mr. <u>2,000</u>	R (2/7)	<u>7,000</u>				
			<u>15,550</u>				<u>15,550</u>

b.

Partners' Capital Accounts

Dr.							**Cr.**		
Particulars		**P**	**Q**	**R**	**Particulars**		**P**	**Q**	**R**
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		<u>26,000</u>	<u>36,000</u>	<u>38,000</u>			<u>26,000</u>	<u>36,000</u>	<u>38,000</u>

c.

Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c –		By	Balance b/d	20,550
	surrender value of joint life policy	7,550			
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

d.

Balance Sheet of M/s Q & R as on 01.04.2020

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		Add: Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	Less: Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ = 4000 or ₹1,000

R will bear = ¾ = 4000 or ₹3,000

18. QP NOV 20

M/s. TB is partnership firm with the partners A,B and C sharing profit and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June,2020 was as under :

Balance sheet of M/s. TB as on 30-6-2020

Liabilities (₹)	Amount	Assets	Amount (₹)
A's Capitals A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investment	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payable	2,13,000	Trade Receivables	1,59,000
	10,77,000		**10,77,000**

It Was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustment are to be made.

a. Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantages but the same will not appear as an assets in the books of the reconstituted firm
b. Building and plant and Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investment are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.
c. In the reconstituted firm, the total capital will be ₹ 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3
d. The amount due to rctiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Solution:

Revaluation Account

2020		₹	2020		₹
July 1	To Building	11,000	July 1	By Investments	4,000
	To Plant and Machinery	80,000		(46,000 - 42,000)	
	To Trade receivable (Bad Debts)	23,850		By Partners' Capital A/cs	
				(losson revaluation)	
				A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850
		1,14,850			1,14,850

Dr. **Partners' Capital Accounts** **Cr.**

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	–	–	–	90,000	By D's Capital A/c (W.N.1)	–	60,000	30,000	-
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255	–	25,425	2,10,000
To B's loan A/c	–	87,830	–	–					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 3 lakhs

Sacrificing ratio:

A 3/10 - 3/10 = 0

B 2/10 - 0 = 2/10

C 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		₹
B:	90,000 x 2/3 = 60,000	
C:	90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

TEST YOUR KNOWLEDGE

True and False

1. Business of a partnership has to be closed if any one of the partners retires.
   False: Business of a partnership is not closed if any one of the partners retires, remaining partners continue to carry on the business.

2. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
   False: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their old profit sharing ratio.

3. After retirement of a partner, profit sharing ratio of continuing partners remains the same.
   False: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.

4. If any partner wants to retire from the business, he must retire on 1st day of the accounting year.
   False: A partner can retire on any day as per his own wish.

5. Retiring partner has to forego his share of goodwill in the firm.
   False: Retiring partner is entitled to his share of goodwill in the firm.

6. If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.
   False: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.

7. If the firm has taken any joint life policy then it is to be surrendered at the time of retirement of a partner.
   True: The firm is eligible for the surrender value on the Joint Life Policy taken on the partners at the time of their retirement.

8. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.
   True: As per the surrender policy method, the JLP reserve is distributed to the partners in their profit sharing ratio through capital account.

9. No revaluation account is necessary on retirement of a partner.
   False: Revaluation account is necessary on retirement of a partner.

10. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.
11. False: Profit on revaluation is credited to all the partners in their profit sharing ratio.

Multiple Choice Questions

1. C, D and E are partners sharing profits and losses in the proportion of 1/2, 1/3 and 1/6.
D retired and the new profit sharing ratio between C and E is 3:2 and the Reserve of ₹ 12,000 is divided among the partners in the ratio:

(a) ₹ 2,000: ₹ 4,000: ₹ 6,000.

(b) ₹ 5,000: ₹ 5,000: ₹ 2,000.

(c) ₹ 6,000: ₹ 4,000: ₹ 2,000.

Ans: c

2. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement, A and C decides to share profits equally. They had taken a Joint Life Policy of ₹ 2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy premium is fully charged to revenue as and when paid?

(a) ₹ 50,000 credited to all the partners in old ratio.

(b) ₹ 2,50,000 credited to all the partners in old ratio.

(c) ₹ 2,00,000 credited to all the partners in old ratio.

Ans: a

3. A, B and C take a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹ 2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?

(a) ₹ 50,000 credited to all the partners in old ratio.

(b) ₹ 2,50,000 credited to all the partners in old ratio.

(c) No treatment is required.

Ans: c

4. A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹ 30,000. Find the contribution of A and C to compensate B.

(a) ₹ 20,000 and ₹ 10,000.

(b) ₹ 8,000 and ₹ 4,000.

(c) They will not contribute anything.

Ans: b

5. A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹ 50,000 for A and B, for C ₹ 25,000. B declared to retire from the firm and balance in reserve on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050 then what amount will be transferred to the loan account of B.

(a) ₹ 70,820.

(b) ₹ 50,820.

(c) ₹ 25,820.

Ans: a

6. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and Goodwill of the firm is to be valued at ₹ 60,000. Find the amount payable to retiring partner on account of goodwill.

(a) ₹ 30,000.

(b) ₹ 20,000.

(c) ₹ 10,000.

Ans: c

7. A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and Goodwill of the firm is to be valued at ₹ 24,000. What will be the treatment for goodwill?

(a) Credited to Revaluation Account at ₹ 24,000.

(b) Adjusted through partners' capital accounts in gaining/sacrificing ratio.

(c) Only A's capital account credited with ₹ 12,000.

Ans: b

8. Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as A - ₹ 2,00,000; B - ₹ 3,00,000 and C - ₹ 2,00,000. A desired to retire from the firm, B and C share the future profits equally, Goodwill of the entire firm be valued at ₹ 1,40,000 and no Goodwill account being raised.

(a) Credit Partner's Capital Account with old profit sharing ratio for ₹ 1,40,000.

(b) Credit Partner's Capital Account with new profit sharing ratio for ₹ 1,40,000.

(c) Credit A's Account with ₹ 40,000 and debit B's Capital Account with ₹ 10,000 and C's Capital Account with ₹ 30,000.

Ans: c

Theoretical questions

1. Write short notes on:

(a) Calculation of gaining ratio.

(b) Final payment of a retiring partner.

Answer:

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

(b) The following adjustments are necessary in the Capital A/c: (i) Transfer of reserve, (ii) Transfer of goodwill, (iii)Transfer of profit/loss on revaluation. After adjustment of these items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him. The continuing partners may discharge the whole claim at the time of retirement.

2. What is joint life policy? What is the objective of taking such a policy?

Answer:

A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

DEATH OF A PARTNER

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI practical Question 1				
7	ICAI practical Question 1				
8	ICAI Example				

Let's Get Started... With Class Work

1. ICAI Illustartion 1

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2022 Mr. Z died on 31st December, 2022. His account has to settled under the following terms.

Balance sheet of Om & Co. as on 31.3.2022

Liabilities		Rs.	Assets	Rs.
Trade payables		20,000	Building	1,20,000
Bank Loan		50,000	Computers	80,000
General reserve		30,000	Inventories	20,000
Capital A/cs:			Trade receivables	20,000
X	40,000		Cash at bank	50,000
Y	80,000		Investments	10,000
Z	80,000	2,00,000		
		3,00,000		**3,00,000**

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three year's profits and losses. The profits and losses for the three years were detailed as below.

Year Ending on	Profit/Loss
31.3.2022	30,000
31.3.2021	20,000
31.3.2020	(10,000) Loss

Profit for the period from 1.4.2022 to 31.12.2022 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31.3.2022 a car costing₹ 40,000 was purchased on 1.4.2021 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Inventory at₹ 16,000, building at₹ 1,40,000, computers at₹ 50,000; investments at₹ 6,000. Trade receivables were considered good.

Required:

i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2022 to 31.12.2022.

ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

iii) Prepare partner's capital accounts and balance sheet of the firm Om & Co. as on 31.12.2022.

Solution:

(i) **Calculation of goodwill and Z's share of profit**

(a)	Adjusted profit for the year ended 31.3.2022:	₹	₹
	Profit (Given)		30,000
	Add: Cost of car wrongly written off	40,000	
	Less: Depreciation for the year 2021-22	(8,000)	32,000
	(20% on 40, 000)		
			62,000
(b)	Average of last three year's profits and losses		
	Year ended on	Profit/(loss)	
		₹	
	31.3.2020	(10,000)	
	31.3.2021	20,000	
	31.3.2022	62,000	
		72,000	
	Average profit (72,000/3)	24,000	
(c)	Goodwill at 2 years' purchase		
	₹ 24,000 x 2 = ₹ 48,000		
(d)	Z's share of profits from the period 1.4.2022 to 31.12.2022		
	₹ 24,000 x 9/12 x 2/5 = ₹ 7,200		

(ii) **Revaluation Account**

	₹			₹
To Inventory account	4,000	By Building account		20,000
To Computers account	30,000	By Loss transferred to		
To Investments account	4,000	X	3,600	
		Y	7,200	
		Z	7,200	18,000
	38,000			38,000

Partners' Capital Accounts

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Revaluation A/c	3,600	7,200	7,200	By Balance b/d	40,000	80,000	80,000
To Z's Executor's A/c			1,12,000	By General reserve	6,000	12,000	12,000
To Goodwill A/c	6,000	12,000	12,000	By X and Y	–	–	19,200
To Z	6,400	12,800	–	By Car A/c	6,400	12,800	12,800
To Balance c/d	36,400	72,800		By Profit and Loss suspense A/c	–	–	7,200
	52,400	1,04,800	1,31,200		52,400	1,04,800	1,31,200

Balance Sheet of Om & Co. as 31.12.2019

Liabilities	₹	**Assets**	₹
Trade payables	20,000	Building	1,40,000
Bank loan	50,000	Car	32,000
Capital accounts:		Inventories	16,000
X	36,400	Computers	50,000
Y	72,800	Investments	6,000
Z's Executor's account	1,12,000	Trade receivables	20,000
		Cash at bank	20,000
		Profit and Loss suspense Account	7,200
	2,91,200		2,91,200

Working Note:

Goodwill calculated at the time of death of partner Z ₹ 48,000

Partner	Old Share	New Share	Gain	Sacrifice
X	1/5	1/3	2/15	–
Y	2/5	2/3	4/15	–
Z	2/5	–	–	2/5

Adjusting entry:			
X's Capital Account	Dr.	6,400	
Y's Capital Account To Z's Capital Account	Dr.	12,800	19,200

(Adjustment for goodwill on the death of Z on the basis of gaining ratio)

2. ICAI Illustration 2

The partnership agreement of a firm consisting of three partners – A, B, C (who share profits in proportion of ½, 1/4, and ¼ and whose fixed capitals are ₹ 10,000, ₹ 6,000 and ₹ 4,000 respectively) provides as follows:

a) That partners be allowed interest at 10 percent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.
b) That upon the death of a partner, the goodwill of the firm be valued at two year's purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
c) That an insurance policy of ₹ 10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.
d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.
e) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
f) That the partnership books be closed annually on 31st December.

A died on 30th September 2022, the amount standing to the credit of his current account on 31st December, 2018 was ₹ 450 and from that date to the date of death he had withdrawn ₹ 3,000 from the business.

An unrecorded liability of ₹ 2,000 was discovered on 30th September,2022. It was decided to record it and be immediately paid off.

The trading result of the firm (before charging interest on capital) had been as follows: 2019 Profit ₹ 9,640; 2020 Profit ₹ 6,720; 2021 Loss ₹ 640; 2022 Profit ₹ 3,670.

Assuming the surrender value of the policy to be 20 percent of the sum assured.

Required

Prepare an account showing the amount due to A's legal representative as on 31st December, 2022.

Solution:

A's Capital Account

2022		₹	2022		₹
Sep. 30	To Current A/c (3,000 - 450)	2,550	Jan. 1	By Balance b/d	10,000
			Dec. 31	By Profit and Loss A/c :	
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	1,000		Interest on Capital	1,000
				Share of Profit	835
	To Balance Transferred to A's Executor's A/c	18,525		B & C (Goodwill)	3,240
				Insurance Policies A/c	7,000

		22,075			22,075

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2016	9,640	2,000	7,640
2017	6,720	2,000	4,720
2018	(-) 640	2,000	(-) 2,640
	15,720	6,000	9,720

		₹
	Average	3,240
	Goodwill at two years purchase of average net profits	6,480
	Share of A in the goodwill	3,240
(ii)	**Profit on Separate Life Policy**	
	A's policy	10,000
	B and C's policy @ 20%	4,000
		14,000
	Share of A (1/2)	7,000
(iii)	**Share in profit for 2019**	
	Profit for the year	3,670
	Less : Interest on capitals	(2,000)
		1,670
	A's share in profit (1/2)	835

(iv) As unrecorded liability of ₹ 2,000 has been charged to Capital Accounts through Profit and Loss Adjustment Account, no further adjustment in current year's profit is required.

(v) Profits for 2019, 2020 and 2021 have not been adjusted (for valuing goodwill) for unrecorded liability for want of precise information.

3. ICAI Illustration 3

The following is the Balance Sheet of M/s. ABC Bros as at 31st December, 2021.

Balance Sheet as at 31st December, 2021

Liabilities	Rs.	Assets		Rs.
Capital		Machinery		5,000
A	4,100	Furniture		2,800
B	4,100	Fixture		2,100
C	4,500	Cash		1,500

General Reserve	1,500	Inventories		950
Trade payables	2,350	Trade receivables	4,500	
		Less: Provision for Doubtful debts	300	4,200
	16,550			16,550

C died on 3rd January, 2022 and the following agreement was to be put into effect.

a) Assets were to be revalued: Machinery to ₹ 5,850: Furniture to ₹ 2,300; Inventory to ₹ 750.

b) Goodwill was valued at ₹ 3,000 and was to be credited with his share, without using a Goodwill Account.

c) Rs. 1,000 was to be paid away to the executors of the dead partner on 5th January, 2022.

Required to show:

i) The Journal Entry for Goodwill adjustment.

ii) The Revaluation Account and Capital Accounts of the partners.

iii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

Solution:

(i) Journal Entry in the books of the firm

Date	Particulars		₹	₹
Jan 3	A's Capital A/c	Dr.	500	
2022	B's Capital A/c	Dr.	500	
	To C's Capital A/c			1,000
	(Being the required adjustment for goodwill through the partner's capital accounts)			

(ii) Revaluation Account

Particulars	₹	Particulars	₹
To Furniture A/c (₹ 2,800 - 2,300)To	500	By Machinery A/c (₹ 5,850 - 5,000)	850
Inventory A/c (₹ 950 - 750)	200		
To Partners' Capital A/cs (A - ₹ 50, B - ₹ 50, C - ₹ 50)	150		
	850		850

Partners Capital Accounts

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To C (Goodwill)	500	500	—	By Balance b/d	4,100	4,100	4,500
To Cash A/c	—	—	1,000	By General Reserve A/c	500	500	500
To Executors A/c	—	—	5,050	By Revaluation A/c (Profit)	50	50	50
To Balance c/d	4,150	4,150	—	By A (Goodwill)	—	—	500
				By B (Goodwill)	—	—	500
	4,650	4,650	6,050		4,650	4,650	6,050

(iii) Provision for Doubtful Debts Account is a credit balance. To close, this account is to be debited. It becomes a gain for the partners. Therefore, either Partners' Capital Accounts (including C) or Revaluation Account is to be credited.

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	A	B	C
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	—
Gain/(Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Profit sharing ratio is equal before or after the death of C because nothing has been mentioned in respect of profit-sharing ratio.

4. ICAI Illustration 4

B and N were partners. The partnership deed provides inter alia:

i) That the accounts be balanced on 31st December each year.

ii) That the profits be divided as follows:

B: One-half; N: One-third; and carried to Reserve Account: One-sixth

iii) That in the event of death of a partner, his executor will be entitled to the following:

a) The capital to his credit at the date of death; b) his proportion of profit to date of death based on the average profits of the last three completed year; c) his share of goodwill based on three year's purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2021

Particulars	Dr. (Rs.)	Cr. (Rs.)
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	

Cash	1,10,000	
Trade Payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2017: ₹ 42,000; 2018: ₹. 39,000 and 2021: ₹ 45,000. N died on 1st May, 2022. Show the calculation of N (i) Share of Profits;(ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the ledger transferring the amount to the Loan Account.

Solution:

(i)	**Ascertainment of N's Share of Profit**		(ii)	**Ascertainment of Value of Goodwill**	
	2019	42,000		2019	42,000
	2020	39,000		2020	39,000
	2021	45,000		2021	45,000
	Total Profit	1,26,000		Total Profit for 3 years	1,26,000
	Average Profit	42,000		Average Profit	42,000
	4 months' Profit	14,000		Goodwill - 3 years	
				Purchase of Average Profit	1,26,000
	N's Share in Profit				
	(2/5th* of ₹14,000)	5,600		N's Share of goodwill	
				(2/5 of ₹1,26,000)	50,400

Profit sharing ratio between B and N = 1/2; 1/3; = 3: 2, Therefore N's share of Profit = 2/5

N's Executors Account

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2022			2022		
May 1,	To N's Loan A/c	1,28,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves	
				(2/5th of ₹30,000)	12,000
			May 1	By B's Capital A/c	
				(Share of goodwill)	50,400
			May 1	By P/L Suspense A/c	
				(Share of Profit)	5,600
		1,28,000			1,28,000

5. ICAI Illustration 5

Diya Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2.

On 31st March 2022 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals:		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2022.

The partnership deed provides as follows:

a. That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

b. Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000
2021-22	1,96,000

Average capital during preceding four years may be assumed as Rs. 3,00,000

c. Profits till the date of death to be ascertained on the basis of average profit of previous four years

d. Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. ₹ 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare

1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2022, assuming other Assets and liabilities remaining the same.

Solution:

Revaluation A/c

Particulars		₹	Particulars	₹
To Furniture		7,500	By Land & Building	33,000
To Inventory		8,740		
To Bad Debts		1,760		
To Profit on Revaluation				
Diya	6,000			
Riya	3,000			
Kiya	6,000	15,000		
		33,000		33,000

Partners Capital A/c

Particulars	Diya	Riya	Kiya	Particulars	Diya	Riya	Kiya
	₹	₹	₹		₹	₹	₹
To Goodwill	32,000	16,000	32,000	By Balance b/d	1,50,000	1,80,000	70,000
				By General Reserve	56,000	28,000	56,000
				By Joint life Policy	56,000	28,000	56,000
				By Interest on Capital			4,200
				By revaluation	6,000	3,000	6,000
To Kiya capital			60,000	By Diya & Riya capital	40,000	20,000	
To Bank			1,27,800	By Profit & loss suspense Ac			27,600
To Balance c/d	2,76,000	2,43,000					
	3,08,000	2,59,000	2,19,800		3,08,000	2,59,000	2,19,800

Bank A/c

Particulars	₹	Particulars	₹
To Balance B/dTo Bank	34,510 2,00,000	By Kiya's Capital By Balance C/d	1,27,800 1,06,710
	2,34,510		2,34,510

Balance Sheet as on 30th September 2022

Liabilities	₹	Assets	₹
Capitals :		Land & Building	1,98,000
Diya	2,76,000	Furniture	67,500
Riya	2,43,000	Inventory	80,000
		Trade Receivable	94,990
Trade payables	60,000	Bank	1,06,710
		Profit and loss Suspense	31,800
	5,79,000		5,79,000

Working Notes:

1. Goodwill valuation

2018-19 1,62,000

2019-20 1,99,000

2020-21 1,87,000

2021-22 1,96,000

Total 7,44,000

Average = 7,44,000/4 = 1,86,000

Less: Interest on Capital 3,00,000 X 12% = 36,000

Adjusted Average Profit =1,50,000

Goodwill (1 year's purchase) = 1,50,000

Kiya's share (2/5) = 60,000

2. Journal entry for adjustment of goodwill

Particulars		₹	₹
Diya's Capital A/c	Dr.	40,000	
Riya's Capital A/c	Dr.	20,000	
To Kiya's Capital A/c			60,000
(Share of goodwill adjusted)			

3. Kiya's share of profit till the date of death

Average profit for full year before interest on capital = 186000

6 month's profit	=	93,000
Less: interest on capital 4,00,000 X 12% X 6/12	=	24,000
Adjusted profit till the date of death	=	69,000
Kiya's share 2/5th	=	27,600

4. The Joint life policy in this question is based on the surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner.- ₹ 2,00,000- 60,000 (bs value)=₹ ,40,000- divided in profit sharing ratio between the partners.

6. ICAI Practical Qusetion I

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2021 was as under:

Liabilities		Rs.	Assets	Rs.
Trade payables		20,000	Fixed Assets	40,000
General Reserve		5,000	Debtors	10,000
Capital			Bills Receivable	4,000
Seed	25,000		Inventories	16,000
Plant	15,000		Cash at Bank	10,000
Flower	15,000	55,000		
		80,000		80,000

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2022 Plant died. It was agreed that:

a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:

2018	Rs. 10,000	2020	Rs. 12,000
2019	Rs. 13,000	2021	Rs. 15,000

b) The deceased partner to be given share of profits upto the date of death on the basis of the previous year.

c) Fixed Assets were to be depreciated by 10%. A bill for ₹ 1,000 was found to be worthless. These are not to affect goodwill.

d) A sum of₹ 7,750 was to be paid immediately; the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed and Flower agreed to share profits and losses in future in the ratio of 3:2

Give necessary journal entries.

Solution:

Journal Entries

2022		₹	₹
May 1	General Reserve Account Dr.	5,000	
	To Seed's Capital Account		2,500
	To Plant's Capital Account		1,500
	To Flower's Capital Account		1,000

	(General Reserve transferred to Capital Account on the death of Plant)		
	Seed's Capital Account Dr. Flower's Capital Account Dr. To Plant's Capital Account (Adjustment for goodwill on the death of Plant on the basis of gaining ratio) (Value = 3 × (10,000 + 13,000 + 12,000 + 15,000)/4)	3,750 7,500	 11,250
	Revaluation Account Dr. To Fixed Assets Account To Bills Receivable Account (Depreciation of fixed assets @ 10% and writing off of one bill for ₹ 1,000 on Plant's death)	5,000	 4,000 1,000
	Seed's Capital Account Dr. Plant's Capital Account Dr. Flower's Capital Account Dr. To Revaluation Account (Loss on Revaluation transferred to capital accounts)	2,500 1,500 1,000	 5,000
	Profit and Loss Suspense Account Dr. To Plant's Capital Account (Plant's share of four month's profit based on the previous year)	1,500	 1,500
	Plant's Capital Account Dr. To Plant's Executor's Account (Amount standing to the credit of Plant's Capital Account transferred to the credit of his Executor's Account)	27,750	 27,750
	Plant's Executor's Account Dr. To Bank Account (Amount paid to Plant's Executors)	7,750	 7,750

7. ICAI Practical Qusetion 2

Peter, Paul and Prince were partner's sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement / death of a partner he/his legal representatives would be paid:

i. The balance in the capital Account.

ii. His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.

iii. His share of profits from the beginning of the accounting year of to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%.

iv. Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

v. All the asset are to be revalued on the date of retirement or death and the profit and loss be debited / credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2022. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2022 were Peter₹ 10,000, Paul₹ 5,000 and Prince₹5,000. The balance in the Current Account as on 1st January, 2022 were Peter₹20,000, Paul₹10,000 and Prince₹7,000. Drawings of Peter till 30th September, 2022 were₹10,000. The profits of the firm before charging interest on capital for the calendar years 2019, 2020 and 2021 were ₹ 1,00,000 ₹ 1,20,000 and ₹ 1,50,000 respectively. The profits include the following abnormal items of credit:

	2019 Rs.	2020 Rs.	2021 Rs.
Profit on sale of assets	5000	7000	10,000
Insurance claim received	3000	-	12,000

The firm has taken out a Joint Life Policy for ₹ 1,00,000. Besides the partners had severally insured their lives for ₹ 50,000 each, the premium in respect there of being charged to the Profit and Loss account. The surrender value of the Policies were 30% of the face value. On 30th June, 2022 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹ 6,000 in the year 2021 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹ 20,000. Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2022 along with necessary workings.

Solution:

In the books of M/s Paul and Price

Executors of Peter Account

	₹		₹
To Balance c/d	2,91,031	By Peter's capital A/c (W.N.6)	20,000
		By Peter's Current A/c (W.N.7)	2,71,031
	2,91,031		2,91,031

Working Notes:

		2019 ₹	2020 ₹	2021 ₹
1.	**Valuation of Goodwill:**			
	Profit as per Profit and loss A/c	1,00,000	1,20,000	1,20,000
	Less: Interest on capital @ 10%	2,000	2,000	2,000
	Abnormal Items:			
	Profit on sale of asset	5,000	7,000	10,000
	Insurance claim received	3,000	-	12,000
	Insurance premium undercharged	-	-	6,000
		90,000	1,11,000	1,20,000
	Total profit of three years		3,21,000	
	Average profit		1,07,000	
	Goodwill (2 x Average profit)		2,14,000	
	Peter's share of goodwill (2/4)		1,07,000	

2. Peter's share of profit:

Profit for the year 2021			1,50,000
Less: Insurance premium undercharged		6,000	
Interest on capital	1,000*		7,000
		1,43,000	
Add: 25% increase thereof			35,750
Estimated profit for 2022			1,78,750
Estimated profit upto 30.9.22			1,34,062
Peter's Share (2/4)			67,031

Since Peter was not entitled to interest on capital in the year of death, interest is payable only to the remaining two partners.

3. Profit on revaluation of assets:

Upward revision in the value of assets	20,000
Peter's share (2/4)	10,000

4. Peter's share in insurance premium undercharged:

Insurance premium undercharged in 2021	6,000
Peter's share	3,000
5. Share of life policy: Joint life policy	1,00,000
Maturity value of Peter's individual life policy	50,000
Surrender value of individual life policies of Paul & Prince (30 % of face value)	30,000
	1,80,000
Peter's share (2/4)	90,000

Peter's Capital Account

		₹			₹
30.9.22	To Executors of Peter A/c	20,000	1.1.22	By Balance b/d	10,000
			30.9.22	By Profit on revaluation of assets	10,000
		20,000			20,000

This is generally transferred to Peter's current account. But as per the requirement of adjustment No. (v) of question, it is transferred to capital account.

Peter's Current Account

		₹			₹
30.9.22	To Drawings	10,000	1.1.22	By Balance b/d	20,000
	To Insurance premium undercharged	3,000	30.9.22	By Share of goodwill	1,07,000
	To Executor's of Peter's Account (balance transferred)	2,71,031		By share of profit	67,031
				By Share of life policy	90,000
		2,84,031			2,84,031

Note: The share of goodwill given to peter would be borne by remaining partners in their gaining ratio, so that goodwill account does not appear in the balance sheet.

8. ICAI Example

Arun, Tarun and Neha are partners sharing profits in the ratio of 3:2:1. Neha dies on 31st May 2022. Sales for the year 2021-2022 amounted to₹ 4,00,000 and the profit on sales is₹ 60,000. Accounts are closed on 31 March every year. Sales form 1st April 2022 to 31st May 2022 is ₹ 1,00,000. Calculate the decreased partner's share in the profit upto the date of death.

Solution:

Profit from 1st April 2022 to 31st May 2022 on the basis of sales:

If sales are ₹4,00,000, profit is ₹60,000

If the sales are ₹1,00,000 profit is: $60,000/4,00,000 \times 1,00,000$

= ₹15,000

Neha's share = $15,000 \times 1/6$ = ₹2,500

Alternatively profit is calculated as

Rate of profit = $(60,000 / 4,00,000) \times 100 = 15\%$

Sale upto date of death = 1,00,000

Profit = $1,00,000 \times 15/100$ = ₹15,000

The above adjustments are made in the capital account of the deceased partner and then the balance in the capital account is transferred to an account opened in the name of his/her executor. The payment of the amount of the deceased partner depends on the agreement. In the absence of an agreement, the legal representative of a deceased partner is entitled to interest @ 6% p.a. on the amount due from the date of death till the date of final payment

True and False

1. Business of partnership comes to an end on death of a partner.
   False: Surviving partners continue to carry on the business.

2. Legal heir of a deceased partner automatically becomes partner in the firm.
   False: Legal heirs of deceased partners are entitled to dues of the deceased partner.

3. A revaluation account is opened in the books of accounts on death of a partner.
   True: To find out the actual values of the assets and liabilities, revaluation account is prepared.

4. Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio.
   True: reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.

5. Legal heirs of a deceased partner are entitled to his capital account balance only.
   False: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

6. It is not necessary to adjust goodwill on death of a partner.
   False: It is very much necessary to adjust goodwill on death of a partner.

7. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.
   True: Yes, it can be continued in the earlier share or in new share- in either case it leads to computing a new profit sharing ratio

8. On death of a partner, the firm gets surrender value of the joint life policy.
   False: On death of a partner the firm gets full value of sum assured of the joint life policy.

9. Only legal heirs of deceased partner are entitled to amount received from joint life policy.
   False: All the partners are entitled to amount received from joint life policy.

Multiple Choice Questions

1. In the absence of proper agreement, representative of the deceased partner is entitled to the Dead partner's share in
(a) Profits till date, goodwill, joint life policy, share in revalued assets and liabilities.
(b) Capital, goodwill, joint life policy, interest on capital, share in revalued assets and liabilities.
(c) Capital, profits till date, goodwill, joint life policy, share in revalued assets and liabilities.
Ans: c

2. A, B and C are the partners sharing profits and losses in the ratio 2:1:1. Firm has a joint life policy of ₹ 1,20,000 and in the balance sheet it is appearing at the surrender value i.e. ₹ 20,000. On the death of A, how this JLP will be shared among the partners.
(a) ₹ 50,000: ₹ 25,000: ₹ 25,000.
(b) ₹ 60,000: ₹ 30,000: ₹ 30,000.
(c) ₹ 40,000: ₹ 35,000: ₹ 25,000.
Ans: a

3. R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022.
It was decided to value the goodwill on the basis of three year's purchase of last five years average profits. If the profits are ₹ 29,600; ₹ 28,700; ₹ 28,900; ₹ 24,000 and ₹ 26,800. What will be D's share of goodwill?
(a) ₹ 20,700.
(b) ₹ 27,600.
(c) ₹ 82,800.
Ans: a

4. R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022 and profits for the accounting year 2021-2022 were ₹ 24,000. How much share in profits for the period 1st April 2022 to 30th June 2022 will be credited to D's Account.
(a) ₹ 6,000.
(b) ₹ 1,500.
(c) ₹ 2,000.
Ans: b

5. Revaluation account is prepared at the time of
(a) Admission and retirement of a partner
(b) Death of a partner
(c) All of the above

Ans: c

6. If three partners A, B & C are sharing profits as 5:3:2, then on the death of a partner A, how much B & C will pay to A's executer on account of goodwill. Goodwill is to be calculated on the basis of 2 years purchase of last 3 years average profits. Profits for last

three years are: ₹ 3,29,000; ₹ 3,46,000 and ₹ 4,05,000.

(a) ₹ 2,16,000 & ₹ 1,42,000.

(b) ₹ 2,44,000 & ₹ 2,16,000.

(c) ₹ 2,16,000 & ₹ 1,44,000.

Ans: c

Theory Questions

1. Explain distinction between retirement and death of a partner as relating to finalisation of amount payable.

Answer

The basic distinction between retirement and death of a partner relates to finalization of amount payable to the Executor of the deceased partner. Although, revaluation of goodwill is done in the same way as it has been done in case of retirement, in addition, the executor of the deceased partner is entitled to share of profit upto the date of death.

2. What amount is payable to legal representatives of dead partner?

Answer

When the partner dies the amount payable to him/her is paid to his/her legal representatives. The representatives are entitled to the followings :

(a) The amount standing to the credit to the capital account of the deceased partner;

(b) Interest on capital, if provided in the partnership deed upto the date of death;

(c) Share of goodwill of the firm;

(d) Share of undistributed profit or reserves;

(e) Share of profit on the revaluation of assets and liabilities;

(f) Share of profit upto the date of death;

(g) Share of Joint Life Policy.

ADDITIONAL BOOKLET

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	RTP May 18				
2	RTP Nov 19				
3	QP Nov 18				
4	RTP May 19				
5	RTP May 19				
6	RTP May 18				
7	RTP Nov 18				
8	QP May 18				
9	Mock Test 1				
10	Mock Test 2				
11	QP May 19				
12	Mock Test 2				
13	RTP Nov 19				
14	RTP May 20				
15	QP Jan 21				
16	QP Dec 21				
17	RTP May 21				
18	RTP Nov 21				
19	RTP May 21				
20	QP Dec 21				
21	Mock Test Nov 21				
22	QP July 21				
23	RTP Nov 21				
24	QP July 21				
25	RTP May 22				
26	RTP May 22				
27	RTP May 22				
28	RTP Nov 22				
29	RTP Nov 22				

30	RTP Nov 22				
31	ICAI Exam May 22				
32	ICAI Exam May 22				
33	MTP Nov 22 Series 1				
34	MTP Nov 22 Series 2				
35	ICAI Exam Nov 22				
36	ICAI Exam Nov 22				
37	RTP May 23				
38	RTP May 23				
39	RTP May 23				
40	QP June 23				
41	QP June 23				
42	RTP Dec 23 (Calculation of Goodwill)				
TEST IN TIME PASS IN TIME					
1	RTP Dec 23 (Retirement of Partner)				
2	QP Dec 23				

1. RTP May 2018

J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the nor malrate of return is 20%, calculate the value of goodwill on the firm: (RTP May 2018)

By Capitalization Method; and

By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Solution:

(i) Capitalisation Method:

Total Capitalised Value of the firm

(AverageProfit x 100)/ Normal Rate of Return = (₹1,50,000x100)/20 = ₹ 7,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

2. RTP Nov 2019

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000

Trade payables	30,000		
	6,55,000		**6,55,000**

The partnership earned profit ₹ 2,00,000 in 2017 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Solution:

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	Super Profit :	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

3. QP Nov 18

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 is as below :

Liabilities	₹	**Assets**	₹
Trade Payables	22,500	Land & Building	37,000
Outstanding Liabilities	2200	Furniture & Fixtures	7200
General Reserve	7800	Closing Stock	12,600
Capital Accounts		Trade Receivables	10,700
Dinesh 15,000		Cash in hand	2800

Ramesh 15,000		Cash at bank	2200
Naresh 10,000	40,000		
	72,500		**72,500**

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following terms :

(i) Suresh shall bring ₹ 8,000 towards his capital.

(ii) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve for bad and doubtful debts should be provided at 5% ofthe Trade Receivables.

(iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners,

(iii) Balance Sheet of the firm after admission of Suresh.

Solution:

(a) Revaluation Account

2018			₹	2018		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs:					
	(Profit on revaluation					
	transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			

			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh	Ramesh	Naresh	Suresh	Particulars	Dinesh	Ramesh	Naresh	Suresh
	₹	₹	₹	₹		₹	₹	₹	₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	–
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.		1,500	
Suresh (6/24 of ₹18,000)	Dr.		4,500	
To Dinesh (6/24 od ₹18,000)				4,500
To Ramesh (2/24 of ₹18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities(2,200-700)		1,500	Furniture		6,480
Capital Accounts ofPartners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

4. RTP May19

The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹17,000, 2017 Profit ₹50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Solution:

Total Profit for 3 years = (₹ 17,000)+₹ 50,000+₹ 75,000= ₹ 1,08,000.

Average profits = (Total Profit/ No. of years) (₹1,08,000 / 3) = ₹36,000

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 =₹ 20,000

5. RTP May19

And B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount (₹)	Assets		Amount(₹)
Sundry Creditors	12,900	Building		26,000
Bill Payable	4,100	Furniture		5,800
Bank Overdraft	9,000	Stock-in-Trade		21,400
Capital Account:		Debtors	35,000	
A 44,000		Less: Provision	200	34,800
B 36,000	80,000	Investment		2,500
	-	Cash		15,500
	1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off. Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Solution:

(i) **Revaluation Account**

		₹			₹
To	Furniture	870	By	Building	3,200
To	Stock	1,070	By	Sundry creditors	1,400
To	Provision of doubtful debts(₹1,750 –₹ 200)	1,550	By	Investment	450
To	Outstanding wages	1,560			----
		5,050			5,050

Partners' Capital Accounts

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	Balance c/d	71,000	54,000	25,000	By	Balance b/d	44,000	36,000	–
					By	Cash A/c	–	–	25,000
		----	---	----	By	Goodwill A/c (Working Note)	27,000	18,000	
		71,000	54,000	25,000			71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm (after admission of C) as on 1.1.18

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 – 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 – 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 =

₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000).

RETIREMENT OF A PARTNER

6. (RTP May 2018)

Admission and Retirement of partner

On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		**80,000**

On 1st April, 2017, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2017.

Solution:

Revaluation Account

Date		Particulars	₹	Date		Particulars	₹
2017				2017			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(a) **Partners' Capital Accounts**

Dr.										Cr.
	Particulars	P	Q	R		Particulars	P	Q	R	
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)	
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000	
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000	
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-	
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000	
		26,000	36,000	38,000			26,000	36,000	38,000	

(b) **Cash and Bank Account**

Particulars	₹	Particulars	₹

To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(c) **Balance Sheet of M/s Q & R as on 01.04.2017**

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		Add: Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	Less: Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ x 4000 or ₹1,000

R will bear = ¾ x 4000 or ₹3,000

7. (RTP Nov 2018)

Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31 st March, 2018 is as under:

Liabilities	₹	₹	Assets	₹
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		**6,64,000**

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

  i. The surplus funds, if any, will be used for repaying bank overdraft.

  ii. The amount due to retiring partner shall be transferred to his loan account.

Required: Prepare

a) Revaluation account;

b) Partners' capital accounts;

c) Bank account; and

d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Solution:

Revaluation Account

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co. as at

Liabilities	₹	Assets	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000
R 40,000	2,00,000	Furniture	43,000

Long Term Debts	3,00,000	Inventories	1,30,000
Trade payables	1,70,000	Trade receivables 1,39,000	
Q's Loan Account	22,760	Less: Provision for Doubtful Debts (27,800)	1,11,200
		Balance at Bank	1,04,560
	6,92,760		6,92,760

8. QP May 18

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office Equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			**23,50,000**

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Solution:

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for	
To Partners' capital A/cs:		doubtful debts	15,000
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		-------
	5,62,000		5,62,000

Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To B's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation reserve	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000

Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**

= (90,000+1,40,000+1,20,000+1,30,000)/4

= ₹ 1,20,000

2. **Goodwill at three years' purchase**

₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

9. **Mock test I**

Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed ₹1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	**2014**	**2015**	**2016**	**2017**
	₹	₹	₹	₹
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co.
as at 31.3.2017

Liabilities	₹	Assets	₹
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		**5,90,000**

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin.

Solution:

Profit and Loss Adjustment Account

		Rs.			Rs.
To	Expenses not provided for (years 2014-2017)	1,10,000	By	Income not considered (for years 2014-2017)	66,000
			By	Partners' capital accounts (loss)	
				Laurel	22,000
				Hardy	22,000
		1,10,000			1,10,000

Partners' Capital Accounts

		Laurel Rs.	Hardy Rs.	Chaplin Rs.			Laurel Rs.	Hardy Rs.	Chaplin Rs.
To	P & L Adjustment A/c	22,000	22,000	-	By	Balance b/d	2,11,500	1,51,500	-
To	Hardy	60,000			By	Laurel	-	60,000	-
To	Balance				By	Cash	-	-	63,800

	c/d	1,29,500	1,89,500	63,800					
		2,11,500	2,11,500	63,800			2,11,500	2,11,500	63,800
					By	Balance b/d	1,29,500	1,89,500	63,800

Balance Sheet of LH & Co.

as on 1.4.2017

(After admission of Chaplin)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500

Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

10. Mock test 2

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2017 stood as follows:

Liabilities	Amount		Assets	Amount	
	₹	₹		₹	₹
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Advertisement suspense		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			**1,76,200**

Amrish died on 31 March, 2018, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings be appreciated by 50%.

(ii) Investment be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(iv) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	₹
2013	23,000
2014	28,000
2015	18,000

2016	16,000
2017	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of₹1,000 is payable every year on 1 st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

Solution:

Journal Entries

Particulars		Amount	Amount
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Amrish matured on his death)			
2. Life Policy A/c	Dr.	9,000	
To Amitabh's Capital A/c			3,000
To Abhishek's Capital A/c			3,000
To Amrish's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Amitabh's Capital A/c	Dr.	12,600	
Abhishek's Capital A/c	Dr.	12,600	
Amrish's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800
(Being Advertisement suspense standing in the books written off fully)			
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	

To Investment A/c			600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6. Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for Doubtful Debts A/c			2,400
(Being the fall in value of assets recorded)			
7. Amitabh's Capital A/c	Dr.	3,500	
Abhishek's Capital A/c	Dr.	3,500	
To Amrish's Capital A/c			7,000
(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8. Profit & Loss Suspense Account	Dr.	1,500	
To Amrish's Capital A/c			1,500
(Being Amrish's Share of profit to date of death credited to his account)			
9. Revaluation A/c	Dr.	33,400	
To Amitabh's Capital A/c			11,133
To Abhishek's Capital A/c			11,133
To Amrish's Capital A/c			11,134
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
To Amitabh's Capital A/c			3,267
To Abhishek's Capital A/c			3,267
To Amrish's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Amrish's Capital A/c	Dr.	53,300	
To Amrish's Executor's A/c			53,300
(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			
(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Working Notes:

(i) Calculation of Amrish's Share of Profit
Total profit for last three years Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000
Average profit 54,000/3 = Rs. 18,000
Profit for 3 months= 18,000 x 3/12 = Rs. 4,500
Amrish's share of Profit = 4,500 x 1/3 = Rs. 1,500

(ii) Calculation of Goodwill
Total profits for last five years Rs. 1,05,000
Average profit 1,05,000/5 = Rs. 21,000
Goodwill at one year's purchase Rs. 21,000 x 1 =Rs. 21,000

DEATH OF A PARTNER

11. QP May19

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally.

Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as

Liabilities	Amount	Assets	Amount
Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts:		Stock in trade	15,000
Monika	1,00,000	Trade receivables 35,000	
Yedhant	75,000	Less: Provision for doubtful debt (2,000)	33,000
Zoya	75,000	Cash in hand	7,000
		Cash at bank	12,000
	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at ₹ 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at ₹ 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2018.

Solution:

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's	-	-	98,125	By General reserve	4,000	4,000	4,000
Executor				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500

31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

12. Mock test 2

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2017 stood as follows:

Liabilities	Amount		Assets	Amount	
Particulars	₹	₹	Particulars	₹	₹
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Advertisement suspense		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			**1,76,200**

Amrish died on 31 March, 2018, due to this reason the following adjustments were agreed upon:

(vii) Land and Buildings be appreciated by 50%.

(viii) Investment be valued at 6% less than the cost.

(ix) All debtors (except 20% which are considered as doubtful) were good.

(x) Stock to be reduced to 94%.

(xi) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(xii) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	₹
2013	23,000
2014	28,000
2015	18,000
2016	16,000
2017	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of₹1,000 is payable every year on 1 st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

Solution:

Journal Entries

Particulars		Amount	Amount
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Amrish matured on his death)			
2. Life Policy A/c	Dr.	9,000	
To Amitabh's Capital A/c			3,000
To Abhishek's Capital A/c			3,000
To Amrish's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Amitabh's Capital A/c	Dr.	12,600	
Abhishek's Capital A/c	Dr.	12,600	
Amrish's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800

(Being Advertisement suspense standing in the books written off fully)			
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6. Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for Doubtful Debts A/c			2,400
(Being the fall in value of assets recorded)			
7. Amitabh's Capital A/c	Dr.	3,500	
Abhishek's Capital A/c	Dr.	3,500	
To Amrish's Capital A/c			7,000
(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8. Profit & Loss Suspense Account	Dr.	1,500	
To Amrish's Capital A/c			1,500
(Being Amrish's Share of profit to date of death credited to his account)			
9. Revaluation A/c	Dr.	33,400	
To Amitabh's Capital A/c			11,133
To Abhishek's Capital A/c			11,133
To Amrish's Capital A/c			11,134
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
To Amitabh's Capital A/c			3,267
To Abhishek's Capital A/c			3,267
To Amrish's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Amrish's Capital A/c	Dr.	53,300	

To Amrish's Executor's A/c			53,300
(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			
(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Working Notes:

(i) Calculation of Amrish's Share of Profit
Total profit for last three years Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000
Average profit 54,000/3 = Rs. 18,000
Profit for 3 months= 18,000 x 3/12 = Rs. 4,500
Amrish's share of Profit = 4,500 x 1/3 = Rs. 1,500

(ii) Calculation of Goodwill
Total profits for last five years Rs. 1,05,000
Average profit 1,05,000/5 = Rs. 21,000
Goodwill at one year's purchase Rs. 21,000 x 1 =Rs. 21,000

13. RTP Nov19

The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	**Assets**	₹	₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	600	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

Solution:

Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. ₹	Cr. ₹
Jan 3	L's Capital A/c	Dr.	1,000	
2018	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs	300		
(L - ₹ 100, M - ₹ 100, N - ₹ 100)			
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors	–	–	10,100	By Revaluation A/c	100	100	100

A/c				(Profit)			
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

14. RTP MAY 20

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing stock	12,600
Capital Accounts:		Trade Receivables	10,700
Dinesh 15,000		Cash in hand	2,800
Ramesh 15,000		Cash at Bank	2,200
Naresh 10,000	40,000		
	72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

i. Suresh shall bring ₹ 8,000 towards his capital.

ii. The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

iii. Provision for bad and doubtful debts should be provided at 5% of the trade receivables.

iii. The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.

iv. The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Financial statements of Not for Profit Organizations

Solution:

Revaluation Account

2018	Particulars		₹	2018	Particulars	₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs:					
	(Profit on Revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh	Ramesh	Naresh	Suresh	Particulars	Dinesh	Ramesh	Naresh	Suresh
	₹	₹	₹	₹		₹	₹	₹	₹
To Dinesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
& Ramesh									
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstandin	700	–	–	

					9 Liabilities (Ram)				
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.5 0	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.	1,500	
Suresh (6/24 of ₹18,000)	Dr.	4,500	
To Dinesh (6/24 od ₹18,000)			4,500
To Ramesh (2/24 of ₹18,000)			1,500

Balance Sheet of Dinesh, Ramesh, Naresh and Suresh as on 1 -4-2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners:			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50	62,245	Cash in hand		2,800
Mr. Suresh	3,500.00		Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

15. QP JAN 21

The partnership deed of a firm consisting of 3 partners- P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

i. The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.
ii. That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December Preceding the death of a partner
iii. That an insurance policy of 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum Assured
iv. Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated up to 31st December following his death.
v. That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
vi. That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and that an unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Profit ₹ 8,320
2020	Profit ₹ 13,470

You are required to prepare an account showing amount due to Ps legal heir as on 31st December,2020.

Note: Impact for unrecorded liability not to be given in earlier years.

Solution:

P's Capital Account

2020		₹	2020		₹
Sep. 30	To Current A/c (30,000 -	25,000	Jan. 1	By Balance b/d	30,000

	5000)		Dec.31	By Profit and Loss A/c :	
Dec.31	To Profit and Loss Adjt.	3,000		Interest on Capital	2,400
	(Unrecorded Liability)		Dec.31	Share of Profit	4,735
Dec.31	To Balance	38,465		Q&R (Goodwill)	11,830
	Transferred to P's Executor's A/c		Dec.31	Insurance Policies A/c	17,500
		66,465			66,465

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

	₹
Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

(ii) Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	10,000
	35,000
Share of P (1/2)	17,500

(iii) Share in profit for 2020:

Profit for the year	13,470
Less : Interest on capitals	(4,000)
	9,470
P's share in profit (1/2)	4,735

16. QP Dec 21

A, B and C are partners in a firm. On 1st April, 2019, their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively

As per the provisions of partnership deed:

(1) C was entitled for a salary of ₹ 5,000 p.a.

(2) All the partner were entitled to interest on capital at 5% p.a.

(3) Profits and losses were 'to be shared in the ratio of Capitals of the partners

Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March, 2021 of ₹ 45,000,

was divided equally without providing for the Above adjustments.
You are required to pass an adjustment Journal entry to rectify the above errors.

Solution:

Particulars	A	B	C	Total Profit of firm
I. Amount already credited: Share of profit (in the ratio of1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:C's Salary (2019-20,2020-21) Interest on Capital (2019-20,2020-21) Share of Profit	 5,000 29,000	 2,500 14,500	10,000 2,500 14,500	 58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
B's Current A/c	9,000	
To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

17. RTP MAY 21

The profits and losses for the previous years are: 2017 Profit ₹ 5,000, 2018 Loss ₹ 8,500, 2019 Profit ₹ 25,000, 2020 Profit ₹ 37,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Solution:

Total Profit for 4 years = ₹ 5000+ ₹ (8,500) +₹ 25,000+₹ 37,500= ₹ 59,000.

Average profits = Total Profit / No of Years = ₹ 59,000 / 4 = ₹14,750

Average Profits for Goodwill = ₹ 14,750 – Proprietor Remuneration

= ₹ 14,750 – ₹ 3,000 = ₹ 11,750

Normal Profit = Interest on Capital employed

= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100) = ₹ 10,000

Super Profit = Average Profit-Normal Profit = ₹ 11,750 – ₹ 10,000 = ₹ 1,750

Goodwill = Super Profit x No of years purchases = ₹ 1,750 x 3 =₹ 5,250

18. RTP NOV 21

Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		13,10,000

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹ 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Solution:

	Valuation of Goodwill:	₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
(2)	Super Profit :	12,00,000
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on ₹ 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	
	3 Years' Purchase of Super profit (₹ 40,000 × 3) = ₹ 1,20,000	

19. RTP MAY 21

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.

3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.

4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000

5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.

6. Furniture to be reduced to ₹40,000.

7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Solution:

In the books of Ramu, Mamu and Damu

Revaluation A/c

Particulars	₹	Particulars	₹
To machinery	36,000	By Building	75,000
To Bad debts	2,800		
To Reserve for Bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit on revaluation			
Ramu 15,000			
Mamu 10,000	25,000		
	75,000		75,000

Partner's Capital A/cs

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
				By Balance b/d	2,10,000	1,90,000	
To Ramu, Mamu			50,000	By bank			1,50,000
				By Damu	25,000	25,000	
To Bank (b/f)	36,000	99,000		By General reserve	36,000	24,000	
To balance c/d (working note)	2,50,000	1,50,000	1,00,000	By revaluation	15,000	10,000	
	2,86,000	2,49,000	80,000		2,86,000	2,49,000	1,50,000

Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	2,25,000
Ramu	2,50,000	Machinery	1,44,000
Mamu	1,50,000	Furniture	40,000
Damu	1,00,000	Trade Receivables 40000	
Loan from HDFC bank	25,000	Reserve for Bad debts 2,000	38,000
Trade Payables	21,000	Inventory	60,000
		Bank	39,000
	5,46,000		5,46,000

Working Note:

Partner	Old Share	Sacrificed Share	New Share
Ramu	3/5	– 1/10 =	5/10
Mamu	2/5	– 1/10 =	3/10
Damu		– 2/10 (gain) =	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share-

The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu – ₹ 1,50,000

His share of goodwill- 2,50,000 x 1/5 ₹ (50,000)

Amount brought in as capital ₹1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = ₹ 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio

Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000

Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

20.QP Dec 21

A and B are partners sharing profits and losses in the proportion of 3/4th and 1/4th. As at 31st March, 2021, Following is the Balance sheet Of A and B:

Balance Sheet As at 31st March, 2021

Liabilities		₹	Assets	₹
Capitals accounts:			Cash In hand	1,15,000
A	2,85,000		Cash at Bank	1,10,000
B	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General Reserve		60,000	Bills receivable	30,000
			Land and Building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill So it Was Decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture be reduced by 10%

(iv) A provision @ 5% for doubtful debts be created on debtors

(v) Land and building be appreciated by 20%

(vi) Capital Account of the partners be readjusted on the basis of their profit -sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts

Prepare Revaluation Account and Partners Capital Account.

Solution:

Revaluation Account

Particulars		Amount ₹	Particulars		Amount ₹
To	Furniture	1,000	By	Land and Building	50,000
To	Stock	20,000			
To	Provision for doubtful debts	8,000			
To	Revaluation Profit A (21,000 x ¾) 15,750 B (21,000 x ¼) 5,250	21,000			
		50,000			50,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To 'B's Current A/c(bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	-
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By C's Current A/c (Goodwill)	30,000	10,000	-
				By As Current A/c (bal fig)	44,250	-	-
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. Calculation of total Capital

   C's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.

   Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

   Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1

   i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

   A = ¾ x 4/5 = 12/20 = 3/5

   B = 1 /4 X 4/ 5 = 4/20 = 1/5

   C = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{5}$	$\frac{3}{4}$	$\frac{-3}{20}$	-
B	$\frac{1}{5}$	$\frac{1}{4}$	$\frac{-1}{20}$	-
C	$\frac{1}{5}$	-	-	$\frac{1}{5}$

3. Goodwill

C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current Account because capitals of old partners are also adjusted on the basis of C's Capital.

Therefore, Journal entry for goodwill will be

C's Current A/c Dr.	40,000	
To A's Capital A/c		30,000
To B's Capital A/c		10,000

21. Mock Test Nov 21

Moscow and Danial are partners of the firm MD & Co., from 1.4.2017. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2021 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2017.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2018	2019	2020	2021
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	70,000	1,30,000	1,60,000	1,80,000
Expenses not provided for (as at 31st March)	15,000	10,000	18,000	12,000
Incomes not taken into account (as at 31st March)	9,000	7,500	6,000	10,500

The partners decided to admit Spinny as a partner with effect from 1.4.2021. It was decided that Spinny would be allotted 20% share in the firm and he must bring 20% of the combined capital of Moscow and Danial.

Following is the Balance sheet of the firm as on 31.3.2021 before admission of Spinny and before adjustment of revised profits between Moscow and Danial.

Balance Sheet of MD & Co. as at 31.3.2021

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	30,000
Moscow	1,05,750	Cash on hand	5,000
Danial	75,750	Cash at bank	2,500
Trade Payables	1,13,500	Stock in trade	1,55,000
		Trade Receivables	1,02,500
	2,95,000		2,95,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Spinny.

Solution:

(i) **Profit and Loss Adjustment Account***

		₹			₹
To	Expenses not provided for (years 2018-2021)	55,000	By	Income not considered (for years 2018-2021)	33,000
			By	Partners' capital accounts (loss)	
				Moscow	11,000
				Danial	11,000
		55,000			55,000

(ii) **Partners' Capital Accounts**

		Moscow ₹.	Danial ₹.	Spinny ₹.			Moscow ₹.	Danial ₹	Spinny ₹.
To	P & L Adjustment A/c	11,000	11,000	-	By	Balance b/d	1,05,750	75,750	-
To	Danial	30,000			By	Moscow	-	30,000	-
To	Balance c/d	64,750	94,750	31,900	By	Cash	-	-	31,900
		1,05,750	1,05,750	31,900			1,05,750	1,05,750	31,900

				By	Balance b/d	64,750		94,750	31,900

(iii) **Balance Sheet of MD & Co. as on 1.4.2021**
(After admission of Spinny)

Liabilities	₹	Assets	₹
Capital accounts:		Plant and machinery	30,000
Moscow	64,750	Trade receivables	1,02,500
Danial	94,750	Stock in trade	1,55,000
Spinny	31,900	Accrued income	33,000
Trade payables	1,13,500	Cash on hand (5,000 + 31,900)	36,900
Outstanding expenses	55,000	Cash at bank	2,500
	3,59,900		3,59,900

Working Notes:

1. **Computation of Profit and Loss distributed among partners**

		₹
Profit for the year ended	31.3.2018	70,000
	31.3.2019	1,30,000
	31.3.2020	1,60,000
	31.3.2021	1,80,000
Total Profit		5,40,000

	Moscow	Danial	Total
	₹	₹	₹
Profit shared in old ratio i.e 5:4	3,00,000	2,40,000	5,40,000
Profit to be shared as per new ratio i.e. 1:1	2,70,000	2,70,000	5,40,000
Excess share	30,000		
Deficit share		(30,000)	

Moscow to be debited by Rs. 30,000 and Danial to be credited by ₹.30,000.

2. **Capital brought in by Spinny**

	₹
Capital to be brought in by Spinny must be equal to 20% of thecombined capital of Moscow and Danial	
Capital of Moscow (1,05,750 – 11,000 – 30,000)	64,750
Capital of Danial (75,750 – 11,000 + 30,000)	94,750
Combined Capital	1,59,500
20% of the combined capital brought in by Spinny(20% of Rs. 1,59,500)	31,900

22. QP July 21

Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017	Nil
2018	₹ 900
2019	₹ 2,000
2020	₹ 3,600

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

Solution:

Joint Life Policy Account

		₹			₹
10th June, 2017	To Bank Account	3,000	31st Dec., 2017	By Profit and Loss A/c	3,000
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st January, 2019	To Balance b/d	900	31st Dec., 2019	By Profit and Loss A/c	1,900
10th June, 2019	To Bank Account	3,000		By Balance c/d	2,000
		3,900			3,900
1st January, 2020	To Balance b/d	2,000	31st Dec., 2020	By Profit and Loss A/c	1,400
10th June, 2020	To Bank Account	3,000		By Balance c/d	3,600
		5,000			5,000
1st January,	To Balance b/d	3,600	15th April, 2021	By Bank	3,600

2021					
		3,600			3,600

23.RTP NOV 21

The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		**₹**	**Assets**		**₹**
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision forDoubtful debts	1800	25,200
		99,300			99,300

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.

b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

c) ₹ 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment.

Solution:

(i) Journal Entry in the books of the M/s TMR

Date	**Particulars**		**Dr.** ₹	**Cr.** ₹

April,5	Tina's Capital A/c	Dr.	3,000	
2021	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) **Revaluation Account**

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 16,800-13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100
To Inventory A/c (₹ 5,700 – 4,500)	1,200		
To Partners' Capital A/cs	900		
(Tina - ₹ 300, Meena - ₹ 300, Rita - ₹ 300)			
	5,100		5,100

Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	–	By Tina (Goodwill)	–	–	3,000
				By Meena (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Tina	Meena	RIta
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

24. QP July 21

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

i. Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

ii. Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160- 31st March, 2020. ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

Solution:

Ram's Capital Account

Date	Particulars	₹	Date	Particulars	₹
2020			**2020**		
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/cand Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

Ram's executor Account

Date	Particulars	₹	Date	Particulars	₹
2020			**2020**		
31.3.2021	To Bank A/c	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
	(25,200.50+2,520)		31.3.2021	By Interest	2,520.00

	To Balance c/d	75,601.50		(1,00,802 x 2.5%)	
		1,03,322.00			1,03,322
30.9.2021	To bank A/c	27,090.50	1.4.2021	By Balance b/d	75,601.50
	(25,200.50+1,890)		30.9.2021	By Interest	1,890.00
31.3.2022	To bank A/c	26,460.50		(75,601.50 x 2.5%)	
	(25,200.50+1,260)		30.3.2022	By Interest	1,260.00
31.3.2022	To balance c/d	25,200.50		(25,200.50 x 2) x 2.5%	
		78,751.50			78,751.50
30.9.2022	To bank A/c	25,830.50	1.4.2022	By balance b/d	25,200.50
	(25,200.50+630)		30.9.22	By Interest	630.00
				(25,200.50 x 2.5%)	
		25,830.50			25,830.50

Working notes

1.	**Ascertainment of Value of Goodwill**	
	2017	70,400
	2018	56,320
	2019	48,160
	2020	17,408
	Total Profit for 4 years	1,92,288
	Average Profit	48,072
	Goodwill - 3 years	
	Purchase of Average Profit	1,44,216
	Ram's Share of goodwill	
	(9/16 of ₹1,44,216)	81,122

* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = ₹1,00,802 / 4 = 25,200.50

25. RTP May 22

A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020 the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year.

26.RTP May 22

Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit.

27.RTP May 22

Acme & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31 st March, 2021 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	30,000
Mr. A	2,40,000		Buildings	6,00,000
Mr. B	60,000		Plant and machinery	3,90,000
Mr. C	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. F will be admitted as a partner with effect from 1st April, 2021. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2021.

28. RTP Nov 22

A, B and C entered into partnership on 1.1.2021 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 90,000 in any year. Capitals of A, B and C were ₹ 9,60,000, ₹ 6,00,000 and ₹ 4,80,000 respectively.

Profits for the year ending 31.12.2021 before providing for interest on partners capital was ₹ 4,77,000.

You are required to prepare the Profit and Loss Appropriation Account.

29.RTP Nov 22

Ashu and Suhan are partners in a firm. Their capital are Ashu ₹ 15,00,000 and Suhan ₹ 10,00,000. During the year ended 31st March,2022 the firm earned a profit of ₹ 7,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

a.By Capitalization Method; and

b.By Super Profit Method if the goodwill is valued at 5 years' purchase of Super Profit.

30. RTP Nov 22

On 31st March,2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	1,20,000
Mr. Aadi	80,000	Plant and Machinery	80,000
Mr. Arnav	1,20,000	Stock of goods	48,000
Mr. Aarush	80,000	Sundry debtors	44,000
Sundry Creditors	40,000	Cash and Bank Balances	28,000
	3,20,000		3,20,000

On 1st April, 2022, Aadi desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%. Plant and Machinery be depreciated by 30%.

(ii) Stock of goods to be valued at ₹40,000. Old credit balances of Sundry creditors, ₹8,000 to be written back.

(iii) Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained ₹ 30,200.

(iv) Goodwill of the entire firm is valued at ₹56,000 and Aadi's share of the goodwill is adjusted in the A/cs of Arnav and Aarush, who would share the future profits equally. No goodwill account being raised.

(v) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(vi) Amount due to Mr. Aadi is to be settled on the following basis: @ 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) Capital Accounts of the partners, (c) Cash and Bank Account and (d) Balance Sheet of the new firm M/s Arnav & Aarush as on 1.04.2022.

31. ICAI Exam May 22

Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years

32.ICAI Exam May 22

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March,2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April,2021 on the following terms:

(i) Building to be appreciated by 25%.

(ii) X and Y to bring in additional capital of ₹ 5,00,000 each.

(iii) Machinery to be depreciated by 10%.

(iv) Stock is revalued at ₹ 3,72,250.

(v) Provision for Doubtful Debts to be created at 4%.

(vi) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.

(vii) Goodwill was not to be raised in the Books of Accounts.

(viii) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

33. MTP Nov 22 Series 1

The Balance Sheet of Sam, Saif and Sameer as at 31.12.2021 stood as follows:

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital:			Land & Buildings		74,000
Sam	60,000		Investments		10,000
Saif	40,000		Advertisement suspense		37,800
Sameer	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Sam		2,500
General Reserve		8,000	Saif		2,500
Investment Fluctuation Reserve		2,400	SameerStock		1,000 20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Sameer died on 31st March, 2022, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings to be appreciated by 50%.

(ii) Investment to be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(iv) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Sameer's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	₹
2017	23,000
2018	28,000
2019	18,000
2020	16,000
2021	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstitutedfirm.

Solution

Journal Entries

Particulars		Amount	Amount
1.Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Sameer matured on his death)			
2.Life Policy A/c	Dr.	9,000	
To Sam's Capital A/c			3,000
To Saif's Capital A/c			3,000
To Sameer's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			

3.Sam's Capital A/c	Dr.	12,600	
Saif's Capital A/c	Dr.	12,600	
Sameer's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800
(Being Advertisement suspense standing in the books written offfully)			
4.Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5.Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for Doubtful Debts A/c			2,400
(Being the fall in value of assets recorded)			
7.Sam's Capital A/c	Dr.	3,500	
Saif's Capital A/c	Dr.	3,500	
To Sameer's Capital A/c			7,000
(Being the share of Sameer's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.Profit & Loss Suspense A/c	Dr.	1,500	
To Sameer's Capital A/c			1,500
(Being Sameer's Share of profit to date of death credited to his account)			
9.Revaluation A/c	Dr.	33,400	
To Sam's Capital A/c			11,133
To Saif's Capital A/c			11,133
To Sameer's Capital A/c			11,134
(Being the transfer of profit on revaluation)			
10. General Reserve A/c	Dr.	8,000	
Investment Fluctuation Reserve A/c (₹ 2,400 - ₹ 600)	Dr.	1,800	
To Sam's Capital A/c			3,267
To Saif's Capital A/c			3,267
To Sameer's Capital A/c			3,266
(Being the transfer of accumulated profits to capital accounts)			
11. Sameer's Capital A/c	Dr.	53,300	
To Sameer's Executor's A/c			53,300
(Being the transfer of Sameer's Capital A/c to his Executor's A/c)			

Working Notes:

Calculation of Sameer's Share of Profits

Total profit for last three years	₹ 18,000 + ₹ 16,000 + ₹ 20,000 = ₹ 54,000
Average profit 54,000/3	= ₹ 18,000
Profit for 3 months = 18,000 x 3/12	= ₹ 4,500
Sameer's share of Profit = 4,500 x 1/3	= ₹ 1,500
Calculation of Goodwill	
Total profits for last five years	₹ 1,05,000
Average profit 1,05,000/5	= ₹ 21,000
Goodwill at one year's purchase	₹ 21,000 x 1 =₹ 21,000

34.MTP Nov 22 Series 2

The Balance Sheet of a Partnership Firm M/s Pradeep & Associates consisted of two partners Anil and Bharat who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2022 was as follows:

Liabilities	₹	Assets	₹
Anil's Capital	8,20,000	Land & Building	7,60,000
Bharat's Capital	6,60,000	Plant & Machinery	3,40,000
Profit & Loss A/c	2,24,000	Furniture	2,18,960
Trade Creditors	1,09,600	Stock	2,90,520
		Sundry debtors	1,20,000
		Cash at Bank	84,120
	18,13,600		18,13,600

On the above date, Dev was admitted as a partner on the following terms:

(a) Dev should get 1/5th of share of profits.

(b) Dev brought ₹ 4,80,000 as his capital and ₹ 64,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

(d) A provision for doubtful debts to be created at 5% on sundry debtors.

(e) An unrecorded liability of ₹ 12,000 for repairs to Buildings would be recorded in the books of accounts.

(f) Immediately after Dev's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the Firm after the admission of Dev.

Solution

Revaluation Account

	₹		₹
To Plant & Machinery (3,40,000 x15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,200,000 x 5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Anil's Capital A/c (5/8)	1,46,875		
To Bharat's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Anil	Bharat	Dev		Anil	Bharat	Dev
To Anil's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Bharat's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Bharat's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By Dev's Capital A/c	40,000	24,000	
				By Anil's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Dev's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

Anil's Share = 5/8 x 4/5 = 20/40 = 5/10

Bharat's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Pradeep & Associates as on 31.3.2022

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		10,64,000
Anil	12,00,000		Plant & Machinery	3,40,000	
Bharat	7,20,000		Less: Depreciation	51,000	2,89,000
Dev	4,80,000	24,00,000	Furniture		2,18,960

Bharat's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding Repairs to Building		12,000	Less: Provision	6,000	1,14,000
			Cash at Bank		6,28,120
			Anil's current A/c		53,125
		26,57,725			26,57,725

Working Note:

Required Balance of Capital Accounts

Dev's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

Dev's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Anil's Capital = 24,00,000 x 5/10 = 12,00,000 and

Bharat's Capital = 24,00,000 x 3/10 = 7,20,000

35.ICAI Exam Nov 22

X and Y are in partnership business sharing profits and losses in the ratio of 2:3 Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivables	12,500
Bill payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1, 00,000 as his share of capital. Goodwill was valued at ₹ 1, 20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

i. Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bill Receivable ₹ 12,000.

ii. Out of total Debtors, ₹ 2400 is bad and 5% provision is to be provided for bad and doubtful debts.

iii. Building is to be appreciated by 75%.

iv. Actual liability towards salary payable is ₹ 1200 only.

You are required to show the following account in the book of the firm:

1. Revaluations Account.
2. Partner's Capital Account
3. Balance sheet of the Firm after Admission of Z.

Solution

In the books of X, Y and Z

Revaluation Account

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	45,000
To Bad Debts	2,400	By Salary Payable	800
To Provision for Doubtful Debts	1,800		
To Stock	600		
To Furniture	3,500		
To Bills receivable	500		
To Profit on revaluation			
X	12,800		
Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	X	Y	Z	Particulars	X	Y	Z
To X and Y (Goodwill adjustment)	-	-	24,000	By Balance b/d	60,000	1,40,000	-
To Balance c/d	98,400	1,97,600	76,000	By Bank	-	-	1,00,000
				By Z	9,600	14,400	-
				By General Reserve	16,000	24,000	-
				By Revaluation	12,800	19,200	-
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,05,000
X	98,400	Plant	40,000
Y	1,97,600	Furniture	20,000
Z	76,000	Debtors*	34,200
Creditors	42,600	Bills Receivable	12,000
Bills Payable	15,400	Stock	42,000
Salary Payable	1,200	Bank	1,78,000
	4,31,200		4,31,200

* Debtors: (38,400 – 2,400 – 1,800) = ₹ 34,200

36.ICAI Exam Nov 22

R and S are partners in a firm with a capital of 14, 00,000 and 12, 00,000 respectively. During the year ended on 31st March. 2022 firm earned a profit of 6, 50,000. Assuming that the normal rate of return is 20%. Calculate the amount of good will of the firm of using.

i. Capitalizations method
ii. Super profit method, if the good will is valued at 6 years purchase of super profit.

Solution

(i) Capitalization Method:

Total Capitalised Value of the firm

= Average Profit X 100/Normal Rate of Return = ₹ 6,50,000 X 100/20 = ₹ 32,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 32,50,000 - ₹ 26,00,000 [i.e., ₹ 14,00,000 (R) + ₹ 12,00,000 (S)]

Goodwill = ₹ 6,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x Normal rate of return i.e. ₹ 26,00,000 x 20/100

= ₹ 5,20,000

Average Profit = ₹ 6,50,000

Super Profit = Average profit – Normal Profit

= ₹ 6,50,000 – ₹ 5,20,000 = ₹ 1,30,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,30,000 x 6 = ₹ 7,80,000

37.RTP May 23

P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of theyear was Rs. 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.

You are required to pass the necessary adjustment entity for providing interest on capital.

Solution

Calculation of Capital as on 01.04.2021

Particulars	P (₹)	Q (₹)	R (₹)	Total
Closing Capital	1,50,000	1,80,000	2,10,000	5,40,000
Add: Drawings	20,000	20,000	20,000	60,000
Less: Share of Profit	12,000	24,000	24,000	60,000
Capitals as on 01.04.2021	1,58,000	1,76,000	2,06,000	5,40,000

Particulars	P (₹)	Q (₹)	R (₹)	Total
Share of profit already credited (A)	12,000	24,000	24,000	60,000
II. Amount which should have been credited:				
Interest on Capital @ 10%	15,800	17,600	20,600	54,000
Share of Profit (out of the balance amount) (60,000 – 54,000)	1,200	2,400	2,400	6,000
(B)	17,000	20,000	23,000	60,000
III. Difference [(A)-(B)]	-5000	4,000	1,000	-

Journal entry

Particulars		L.F.	Dr. (₹)	Cr. (₹)
Q's Capital A/c	Dr.		4,000	
R's Capital A/c	Dr.		1,000	
To P's Capital A/c				5,000
(Being the omission of interest on capital rectified)				

38.RTP May 23

The profits and losses for the previous years are: 2019 Profit ₹ 15,000, 2020 Loss ₹ 25,500, 2021 Profit ₹ 75,000, 2022 Profit ₹ 1,12,500. The average Capital employed in the business is ₹ 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Solution

Total Profit for 4 years = ₹ 15,000+ ₹ (25,500) +₹ 75,000+₹ 1,12,500= ₹ 1,77,000.

Average profits = Total Profit / No. of years = ₹ 1,77,000 / 4 = ₹ 44,250

Average Profits for Goodwill = ₹ 44,250 – Proprietor Remuneration

= ₹ 44,250 - ₹ 9000 = ₹ 32,250

Normal Profit = Interest on Capital employed

= ₹ 30,000 (i.e. ₹ 3,00,000 x10/100) = ₹ 30,000

Super Profit = Average Profit-Normal Profit = ₹ 35,250 – ₹ 30,000 = ₹ 5,250Goodwill = Super Profit x No of years purchases = ₹ 5,250 x 3 =₹ 15,750

39.RTP May 23

Shyam, Sunder and Girdhar are partners in a firm sharing profits and losses in the ratioof 3:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	56,250	Land & Buildings	92,500
Outstanding Liabilities	5,500	Furniture & Fixtures	18,000
General Reserve	19,500	Closing stock	31,500
Capital Accounts:		Trade Receivables	26,750
Dinesh 37,500		Cash in hand	7,000
Ramesh 37,500		Cash at Bank	5,500
Naresh 25,000	1,00,000		
	1,81,250		1,81,250

The partners have agreed to take Hari as a partner with effect from 1st April, 2022 on thefollowing items:

(i) Hari shall bring ₹ 20,000 towards his capital.

(ii) The value of stock to be increased to ₹ 35,000 and Furniture & Fixtures to bedepreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 2% of the tradereceivables.

(iv) The value of Land & Buildings to be increased by ₹ 14,000 and the value of thegoodwill be fixed at ₹ 45,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 1,750 due to Aman which has been paid by Shyam.Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Hari.

Solution

Revaluation Account

2022			₹	2022		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	3,500
	To Furniture and fittings		1,800		By Land and Building	14,000
	To Capital A/cs:					
	(Profit on revaluation)					
	Shyam	7582.5				
	Sundar	5055.00				
	Girdhar	2527.5	15,165			
			17,500			17,500

Partners' Capital Accounts

Particulars	Shyam	Sundar	Girdhar	Hari	Particulars	Shyam	Sundar	Girdhar	Hari
	₹	₹	₹	₹		₹	₹	₹	₹
To Shyam & Sundar			3,750	11,250	By Balance b/d	37,500	37,500	25,000	–
					By General Reserve	9,750	6,500	3,250	
To Balance c/d	67,832.5	52,805	27027.5	8,750	By Cash	–	–	–	20,000
					By Girdhar & Hari	11,250	3,750	–	–
					By Outstanding Liabilities (Aman)	1750	–	–	
					By Revaluation A/c	7,582.5	5055	2527.5	-
	67,832.5	52,805	30,775.5	20,000		67,832.5	52,805	30,775.5	20,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain

Shyam	¼	3/6	6/24	
Sundar	¼	2/6	2/24	
Girdhar	¼	1/6		2/24
Hari	¼			6/24

Entry for goodwill adjustment

Shyam (2/24 of ₹45,000)	Dr.	3,750	
Sundar (6/24 of ₹45,000)	Dr.	11,250	
To Girdhar (6/24 od ₹45,000)			11,250
To Hari (2/24 of ₹45,000)			3,750

Balance Sheet of Shyam, Sundar, Girdhar and Hari as on 1st April,2022

Liabilities	₹	₹	Assets	₹	₹
Trade payables		56,250	Land and Buildings		1,06,500
Outstanding Liabilities (5,500-1,750)		3,750	Furniture		16,200
Capital Accounts of Partners:			Inventory of goods		35,000
Mr. Shyam	67,832.50		Trade receivables	26,750	
Mr. Sundar	52,805.00		Less: Provisions	(535)	26,215
Mr. Girdhar	27,027.50		Cash in hand		7,000
Mr. Hari	8,750.00	1,56,415	Cash at Bank (5,500+20,000)		25,500
		2,16,415			2,16,415

40. QP June 23

X and Y were partners in a firm, sharing profit and losses in the ratio of 3:2. They admit Z for 1/6th share in profit and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2022 were 1,80,00,000.

Calculate share of profit for each partner when:

(i) Guarantee is given by firm

(ii) Guarantee is given by A and B equally..

Solution

(i) **If Guarantee is given by firm**

Profit and Loss Appropriation Account for the year endingon 31st March, 2022

Particulars	`	Particulars	`
To X's Capital A/c (3/5 of ` 1,30,00,000) To Y's Capital A/c	78,00,000 52,00,000	By Profit and Loss, A/c	1,80,00,000

(2/5 of ` 1,30,00,000)			
To Z's Capital A/c (1/6 of ` 1,80,00,000 or ` 50,000,000 whichever is more	50,00,000		
	1,80,00,000		1,80,00,000

(ii) If Guarantee is given by X and Y equally

Profit and Loss Appropriation Account for the year ending on 31st March, 2022

Particulars		`	Particulars	`
To X's Capital A/c (3/6 of ` 1,80,00,000)	90,00,000		By Profit and Loss, A/c (net profits)	1,80,00,000
Less: Deficiency				
borne	(10,00,000)	80,00,000		
for Z (1/2 of 20,00,000)				
To Y's Capital A/c (2/6 of 1,80,00,000) Less: Deficiency borne for Z (1/2 of 20,00,000)	60,00,000			
To Z's Capital A/c (1/6 of 1,80,00,000)	(10,00,000)	50,00,000		
Add: Deficiency	30,00,000			
Recovery from X Add: Deficiency Recovery from Y	10,00,000 10,00,000	50,00,000		
		1,80,00,000		1,80,00,000

41. QP June 23

A,B and C were treading in partnering profit and losses in the proportions of 4:3:3. The balance in the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Account		
A		2,25,000
B		1,12,500
C		1,35,000

Current Account		
A	36,000	
B	54,000	
C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	
Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000
Creditors		67,500
Total	7,74,000	7,74,000

Regarding Goodwill may be made separately, instead of through Revaluation Account C died on 30th June, 2022. The Partnership deed provided that:

(a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.

(b) On the death of partner

(i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10% p.a. and a fair remuneration for each of the partners.

(ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and

(c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:

(i) Profit for three years, before charging partner's interest were :

2019	2,52,000
2020	2,83,500
2021	2,70,000

(ii) The independent valuation on the date of death revealed:

Land and Building	₹ 2,25,000
Furniture and fixtures	₹22,500

(iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56.250 per annum and that the capital employed in the business to be taken as 75,85,000 throughout.

It was agreed between the partners that:

(1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts

(2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% pa.

(3) A and B would share profit equally form the date of death of C.

(4) Depreciations on revised value of assets would be ignored.

You are required to prepare:

(A) Partner's Capital Account and Current Account; and

(B) Balance Sheet of the firm as on 31st December, 2022. Working should be done correct to the nearest rupee.

Solution

Partner's Capital Accounts

Particular	A	B	C	Particular	A	B	C
To C's capital A/c (goodwill) (W.N. 1)	11,475	22,950		By balance b/d	2,25,000	1,12,500	1,35,000
To C's current A/c			9,180	By A & B Capital A/c (goodwill) (W.N. 1)			34,425
To C's executor A/c			1,60,245				
To balance c/d	2,13,525	89,550					
	2,25,000	1,12,500	1,69,425		2,25,000	1,12,500	1,69,425

Partner's Current Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	36,000	54,000	54,000	By Interest on capital	27,000	13,500	8,100
To balance c/d	83,528	39,787		By Profit & Loss A/c (W.N. 3)	79,028	70,162	26,595
				By Revaluation Profit (W.N. 4)	13,500	10,125	10,125
				By C's Capital			9,180
	1,19,528	93,787	54,000		1,19,528	93,787	54,000

Balance sheet as on 31st December,2022

Liabilities	`	Assets		`
Capital A/c A	2,13,525	Land & building	1,80,000	
B	89,550	Add : revaluation	45,000	2,25,000
Current A/c A	83,528	Fixture & furniture	33,750	
B	39,787	Less: revaluation	11,250	22,500
C's executor A/c	1,60,245	Stock		2,81,250
C's interest on executors Amount	9,615	Debtors		45,000
Creditors	67,500	Bank		90,000
	6,63,750			6,63,750

Working Notes:

1. **Calculation of goodwill**

Average profit of last 3 years up to 30.6.2022

2019 (6 months)	1,26,000
2020	2,83,500
2021	2,70,000
2022 (6 months)	1,17,000
	7,96,500
Years	3

Average profit	2,65,500
Less: 10% of capital employed	(58,500)
Less: remuneration of partners (56,250 x 3)	(1,68,750)
Average adjusted profit	38,250
Goodwill for 3 years	1,14,750
C's Share of Goodwill (3/10x 1,14,750)	34,425

2. **Calculation of gaining ratio**

Name of Partner	New ratio		Old ratio	Gaining Ratio
A	1/2	-	4/10	1/10
B	1/2	-	3/10	2/10

A's capital A/c	Dr.	11,475	
B's capital A/c	Dr	22,950	
To C's capital A/c			34,425

Profit & Loss Appropriation Account

Particulars		1.4.22 to 30.6.22	1.7.22 to 31.12.22	Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22
To interest on capital(6 months):				By Net profit	1,17,000	1,17,000
A	2,25,000 x 6%	13,500	13,500			
B	1,12,500 x 6%	6,750	6,750			
C	1,35,000 x 6%	8,100	-			
To Interest on executoramount						
	(1,60,245 x 6%)	-	9,615			

To partners current A/c:						
A		35,460	43,568			
B		26,595	43,567			
C		26,595	-			
		1,17,000	1,17,000		1,17,000	1,17,000

3. **Calculation of Revaluation Profit**

Revaluation Account

Particulars	Amount	Particulars	Amount
To Furniture and Fixtures	11,250	By Land & building	45,000
To Profit A (4/10) = 13,500	33,750		
B (3/10) = 10,125			
C (3/10) = 10,125			
	45,000		45,000

42. RTP Dec 23

CALCULATION OF GOODWILL

Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3.The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 in 2022 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Solution

Valuation of Goodwill:		₹
(i)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2022	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000

	Less: 1/2 of the profit earned in 2022	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Ved, Jain & Agrawal	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

43.RTP Dec 23

RETIREMENT OF PARTNER

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2023 stood as:

Liabilities		₹	Assets		₹
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for		
			Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2023 subject to the following conditions:

(i) Office Equipment's revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000.

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2019	90,000
2020	1,40,000
2021	1,20,000
2022	1,30,000

(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheetimmediately after B's retirement.

Solution

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy*	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		-------
	5,62,000		5,62,000

*Alternatively JLP A/c of Rs. 10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2023 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision fordoubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000

		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit

   = (90,000+1,40,000+1,20,000+1,30,000)/4

   = ₹ 1,20,000

2. Goodwill at three years' purchase

   ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

DISSOLUTION OF A FIRM

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI PQ 1				
11	ICAI PQ 2				
12	ICAI PQ 3				

Let's Get Started... With Class Work

1. ICAI Illustration 1

X, Y and Z are Partners of the Firm XYZ and Co, sharing Profits and Losses in the ratio of 4:3:2. Following is the Balance Sheet of Firm as at 31st March,2022:

Balance sheet As on 31st March,20X1

Liabilities	Amount	Assets	Amount
Partner's Capitals:		Fixed Assets	5,00,000
- X	4,00,000	Stock-in-Trade	3,00,000
- Y	3,00,000	Sundry Debtors.	5,00,000
- Z	2,00,000	Cash in Hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
Total	13,10,000	Total	13,10, 000

Partners of the firm decided to dissolve the firm on the above said date.

Fixed Assets realized Rs 5,20,000 and Book Debts Rs 4,40,000.

Stock were valued at Rs 2,50,000 and it was taken over by Partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs 6,000.

Prepare

i. Realization Account

ii. Partners Capital Account and

iii. Cash Account.

Solution:

Realization Account

	Particulars	₹		Particulars	₹
To	Fixed assets	5,00,000	By	Creditors	3,20,000
To	Stock in trade	3,00,000	By	Cash (5,20,000+4,40,000)	9,60,000
To	Debtors	5,00,000	By	Y (Stock taken over)	2,50,000
To	Cash – Expenses	6,000	By	Loss transferred to partners' capital accounts	
To	Cash -Creditors			X	35,555

	(3,20,000 x 95%)	3,04,000		Y	26,667
				Z	17,778
		16,10,000			16,10,000

Partners' Capital Accounts

Particulars		X	Y	Z	Particulars		X	Y	Z
		₹	₹	₹			₹	₹	₹
To	Realization Account	35,555	26,667	17,778	By	Balance b/d	4,00,000	3,00,000	2,00,000
To	Realization Account	-	2,50,000	-	By	General reserve	40,000	30,000	20,000
To	Cash	4,04,445	53,333	2,02,222					
		4,40,000	3,30,000	2,20,000			4,40,000	3,30,000	2,20,000

Cash Account

Particulars		₹	Particulars		₹
To	Balance b/d	10,000	By	Realization A/c (Expenses)	6,000
To	Realization A/c	9,60,000	By	Realization A/c (Creditors)	3,04,000
	(Fixed assets and				
	book debts realized)		By	X	4,04,445
			By	Y	53,333
			By	Z	2,02,222
		9,70,000			9,70,000

2. ICAI illustration 2

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		₹	Assets		₹
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		40,000
Q	20,000		Freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts:			Motor Vehicle		700
P	500		Current Assets		
Q	9,000	9,500	Stock		3,900
Loan from P		8,000	Trade Debtors	2,000	
Trade Creditors		12,400	Less: Provision	(100)	1,900
			Cash at Bank		200
			Miscellaneous losses		

			R's Current Account		400
			Profit and Loss Account		12,000
		79,900			79,900

On Ist July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

You are required to show:

a) Cash and Bank Account,

b) Realization Account, and

c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Solution:

Cash / Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	200	By Realization A/c-Creditors	11,700
To Realization A/c-		By Realization A/c-Expenses	1,500
Freehold property	7,000	By P's Loan A/c	8,000
Plant and Equipment	5,000	By P's Capital A/c	14,200
Stock	3,000	By Q's Capital A/c	24,200
Trade Debtors	1,600		
To Capital Accounts:			

P	25,500			
Q	17,000			
R	300	42,800		
		59,600		59,600

Realization Account

Particulars	₹	Particulars		₹
To Trademark	40,000	By Trade Creditors		12,400
To Freehold Property	8,000	By Provision for Bad Debts		100
To Plant and Equipment	12,800	By Bank:		
To Motor Vehicle	700	Freehold Property	7,000	
To Stock	3,900	Plant and Equip.	5,000	
To Sundry Debtors	2,000	Stock	3,000	
To Bank (Creditors)	11,700	Debtors	1,600	16,600
To Bank (Expenses)	1,500	By Q (Car)		500
		By Capital Accounts: (Loss)		
		P	25,500	
		Q	17,000	
		R	8,500	51,000
	80,600			80,600

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Current A/c (Transfer) (WN)	5,500	—	2,400	By Balance b/d	20,000	20,000	10,000
To Realization A/c (Loss)	25,500	17,000	8,500	By Current A/c (Transfer) (WN)	—	5,000	—
To Realization A/c (Car)	—	500	—	By Bank	—	—	300
				By Bank	25,500	17,000	—
To R's Capital A/c (Deficiency)	300	300	—	(realization loss)			
To Bank	14,200	24,200	—	By P & Q (Deficiency)	—	—	600
	45,500	42,000	10,900		45,500	42,000	10,900

Working Note

Particulars	P	Q	R

Current Account Balance	500 (Cr)	9000 (Cr)	400 (Dr)
Less: share of Profit & Loss A/c (debit balance)	6000 (Dr)	4000 (Dr)	2000 (Dr)
Adjusted Current Account Balance	5500 (Dr)	5000 (Cr)	2400 (Dr)

Note:

1. P, Q, and R will bring cash to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.
2. On following Garner Vs. Murray rule, solvent partners P and Q have to bear the loss due to insolvency of a partner R in their fixed capital ratio.

3. ICAI Illustration 3

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2022 when the firm was dissolved:

Particulars	₹	Particulars	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realised as under:

Particulars	₹
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realization amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

Solution:

In the books of M/s Amal and Bimal

Realization Account

Particulars	₹	Particulars		₹
To Sundry Assets:		By Cash A/c:		
Plant & Machinery	2,500	Plant & Machinery	1,250	
Furniture	500	Furniture	150	
Debtors	1,000	Debtors	400	
Stock	800	Stock	500	2,300
Cash A/c-expenses	175	By Partners' Capital A/c		
		Loss on realization (Bal. fig.)		
		Amal	1,337	
		Bimal	1,338	2,675
	4,975			4,975

Cash Account

Particulars	₹	Particulars	₹
March 31, 2022		March 31, 2022	
To Balance b/d	200	By Realization A/c- expenses	175
To Realization A/c		By Sundry Creditors A/c (Bal. fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		2,700

Sundry Creditors Account

Particulars	₹	Particulars	₹
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c- transfer (bal. fig.)	2,275		
	4,800		4,800

Partners' Capital Accounts

Particulars	Amal	Bimal	Particulars	Amal	Bimal
	₹	₹		₹	₹
To Balance b/f	—	550	By Balance b/f	750	—
To Realization A/c			By Cash A/c	—	200
- loss	1,337	1,338	By Deficiency		
			A/c- transfer (bal. fig.)	587	1,688
	1,337	1,888		1,337	1,888

Deficiency Account

Particulars	₹	Particulars	₹
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
Amal	587		
Bimal	1,688		
	2,275		2,275

4. ICAI Illustration 4

A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 20X1 when their balance sheet was as under:

Liabilities		₹	Assets	₹
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts :-			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		82,000

Following information is given to you :-

1. One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.
2. There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.
3. The remaining assets were realised at the following values:- Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realisation amounted ₹ 1,500

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firms claim against his estate. Prepare necessary ledger accounts.

Solution:

Realization Account

Particulars		₹	Particulars		₹
To Sundry Assets: -			By Creditors		15,700
Debtors	15,850		By Employee's Provident Fund		6,300
Stock	25,200				
Prepaid Expenses	800		By Bank A/c:		
Plant & Machinery	20,000		Joint Life Policy	4,500	
Patents	8,000	69,850	Debtors	10,800	
To Bank-Creditors: (₹ 15,700 –₹ 3,200 - ₹ 400)		12,100	Stock	15,600	
To Bank A/c Employee's (P.F)		6,300	Plant and Machinery	12,000	
To Bank A/c (expenses)		1,500	Patents 60% of		
			(₹ 8,000 – ₹ 5,000)	1,800	44,700
			By Loss transferred to:		
			A's Capital A/c	9,220	
			B's Capital A/c	6,915	
			C's Capital A/c	4,610	
			D's Capital A/c	2,305	23,050
		89,750			89,750

5. ICAI Illustration No 5

M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2022:

Liabilities	₹	₹	Assets	₹	₹
Capital: X	29,200		Fixed Assets		40,000
Y	10,800		Stock		25,000
Z	10,000	50,000	Book Debts	25,000	
Z's Loan		5,000	Less: Provision	(5,000)	20,000
Loan from Mrs. X		10,000	Cash		1,000
Sundry Trade Creditors		25,000	Advance to Y		4,000
		90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realised ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

Solution:

Realization Account

Particulars	₹	Particulars		₹
To Sundry		By Provision for Doubtful Debts		5,000
Fixed Assets (transfer)	40,000	By Cash (20,000+21,000+20,500)		61,500
Stock	25,000	By Sundry Trade Creditors		
Book Debts	25,000	(Discount)		29,000
To Cash—Expenses	1,080	By Loss: X (2/5)	9,600	
- Creditors	28,420	Y (2/5)	9,600	
		Z (1/5)	4,800	24,000
	1,19,500			1,19,500

Sundry Trade Creditors

Particulars	₹	Particulars	₹
To Realization A/c	29,000	By Balance b/d	25,000
		By Partners Capital Accounts	
		(Purchase omitted)	4,000
	29,000		29,000

Z's Loan Account

Particulars	₹	Particulars	₹
To Cash Account	5,000	By Balance b/d	5,000

Mrs. X's Loan Account

Particulars	₹	Particulars	₹
To X's Capital A/c – transfer	10,000	By Balance b/d	10,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Sundry Trade Creditors (after deducting disscountof 2%)	28,420
To Realization A/c-		By Realization A/c – expenses	1,080
assets realized	61,500	By Z's Loan	5,000
To X's Capital A/c*	9,600	By X's Capital A/c	34,300
To Z's Capital A/c*	4,800	By Z's Capital A/c	8,100
	76,900		76,900

X and Z bring these amounts to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Sundry Trade				By Balance b/d	29,200	10,800	10,000
Creditors- omission	1,600	1,600	800				
To Balance c/d	27,600	9,200	9,200				
	29,200	10,800	10,000		29,200	10,800	10,000
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200
To Realization A/c- loss	9,600	9,600	4,800	By Mrs. X's Loan	10,000	-	-
To Y's Capital A/c	3,300	-	1,100	By Cash (Realization loss)	9,600	-	4,800
				By X's Capital A/c		3,300	
To Cash	34,300	-	8,100	By Z's Capital A/c	-	1,100	-
	47,200	13,600	14,000		47,200	13,600	14,000

Note: Y's deficiency comes to ₹ 4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600: 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2022.

6. ICAI Illustration 6

A, B and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs. 9,600, Rs. 6,000 and Rs. 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	Rs.	Assets	Rs.
Liability for interest on loans from		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Solution:

	Realization	Interest on loans from partners' spouses	Interest on loans from partners	Partners' Capitals A	B	C	Total
	₹	₹	₹	₹	₹	₹	₹
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of investments	1,000	(1,000)	-				
		1,000	1,000				
Sale of furniture	2,000	(1,000)	(1,000)				
(iii) Sale of machinery	1,200						
Maximum possible loss₹ 22,800 (total of capitals ₹ 24,000 less ash available ₹ 1,200) allocated to partners in the profit sharing							
ratio i.e. 5: 3: 2				(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off							
against C				1,800	840	(2,640)	-
Amount paid (2)				-	-	1,200	1,200

Balances in capital accounts (1 – 2) = (3)	9,600	6,000	7,200	22,800
(iv) Sale of stock 4,000				
Maximum possible loss 18,800				
(₹ 22,800 – ₹ 4,000) Allocated				
to partners in the ratio 5:3: 2	(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit and cash paid (4) (4,000)	200	360	3,440	4,000
Balances in capital accounts left unpaid—Loss (3 – 4) = (5)	9,400	5,640	3,760	18,800

7. ICAI Illustration 7

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities		Assets	
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realised the following sums in instalments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	20,100 [includes saving in expenses I.e. ₹ 100 (₹ 500 - ₹400)]
	34,000

The expenses of realisation were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

Solution:

First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

statement showing Realization and Distribution of Cash Payments

Particulars	Realization ₹	Creditors ₹	Partners' Loan ₹	Partners' Capitals ₹
1. After taking into account	1,000	1,000	-	-
cash balance and amount				
set aside for expenses				
2.	3,000	1,000	2,000	-
3.	3,900	-	3,000	900
4.	6,000	-	-	6,000
Including saving in expenses	20,100	-	-	20,100
	34,000	2,000	5,000	27,000

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

1. Calculation to determine the mode of distribution of ₹ 900

Particulars	Total	A	B	C
	₹	₹	₹	₹
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining				
assets prove to be worthless (intheir profit-sharing ratio)	(41,100)	(16,440)	(16,440)	(8,220)
Deficiency of A's capital written off	+ 900	– 1,440	+ 1,560	+ 780
against those of B and C in the ratio of				
their capital, 18,000:9,000 (Garner vs. Murray)			(960)	(480)

Manner in which the first ₹ 900				
should be distributed			+ 600	+ 300

(2) Distribution of ₹ 6,000

Balance after making payment of				
amount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining				
asset to be valueless (in their profit sharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	6,000	960	3,360	1,680

(3) Distribution of ₹ 20,100

Balance after making payment of				
amount shown in step (2)	35,100	14,040	14,040	7,020
Less: Possible loss, assuming remaining				
assets to be valueless (in their profitsharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of ₹ 20,100	20,100	8,040	8,040	4,020
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	15,000	6,000	6,000	3,000

8. ICAI Illustration 8

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Equity & Liabilities	₹	₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Solution

Statement showing distribution of cash amongst the partners

	Creditors	B's Loan	A	B	C
2020	₹	₹	₹	₹	₹
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for					
expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realization A/c	1,000				
	Nil				
August 30					
2nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised ₹ 80,000					
Add: Balance out					
of the Provision for					
Expenses A/c ₹ 1,400					
₹ 81,400			32,560	32,560	16,280
Amount unpaid being loss on Realization in the ratio of 2:2:1			10,800	10,800	5,400

Working Notes:

1. **Highest relative capital basis**

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is theleast, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking Ccapital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. **Distribution of Second instalment**

	Creditors	A	B	C
First ₹ 8,400	8,400	-	-	-
Next ₹ 4,000 (2 : 0 : 0)		4,000	-	-
Next ₹ 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance ₹ 11,600 (2 : 2 : 1)		4,640	4,640	2,320
60,000	8,400	32,640	4,640	14,320

9. ICAI Illustration 9

P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	Assets	₹
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000

Bank overdraft	5,000		
	2,00,000		2,00,000

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Solution:

Books of P & Q Co. Realization Account

	Particulars		₹		Particulars		₹
To	Debtors	25,000		By	Creditors		20,000
To	Stock	35,000		By	Bank overdraft		5,000
To	Furniture	40,000		By	Bank:		
To	Machinery	60,000	1,60,000		Investment	25,000	
To	Bank:				Furniture	30,000	
	Creditors	20,000			Machinery	50,000	
	Bank overdraft	5,000			Debtors (90%)	22,500	
	Outstanding bill	2,000	27,000		Stock	20,125	
To	Profit transferred to:				Bad debts Recovered	1,245	1,48,870
	P's capital	1,310		By	P's capital		15,750
	Q's capital	1,310	2,620		(stock takenover)		
			1,89,620				1,89,620

Partners' Capital Accounts

		P	Q			P	Q
To	P's current Account	16,940		By	Balance b/d	1,00,000	50,000
To	Bank	83,060	68,810	By	Q's current Account		18,810

		1,00,000	68,810			1,00,000	68,810

Bank Account

		₹			₹
To	Balance b/d	30,000	By	Realization	27,000
To	Realization	1,48,870	By	P's capital	83,060
			By	Q's capital	68,810
		1,78,870			1,78,870

Working Note:

Partners' Current Accounts

		P	Q			P	Q
To	Balance b/d	10,000		By	Balance b/d		10,000
To	Realization	15,750		By	Reserves	7,500	7,500
To	Q's capital		18,810	By	Realization (profit)	1,310	1,310
				By	P's Capital	16,940	
		25,750	18,810			25,750	18,810

10. ICAI PQ 1

P, Q and Rare partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Particulars	Amount
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded assets of Rs.6,000 which was taken over by Q at Rs.4,800. An amount of Rs.4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

a) Realization account.

b) Partners capital account.

c) Cash account

Solution:

Realization Account

Particulars	₹	Particulars	₹
To Debtors	48,000	By Creditors	48,000
To Stock	60,000	By Cash A/c (Assets realized):	
To Fixtures	24,000	Plant and Machinery 1,02,000	
To Plant and machinery	1,08,000	Fixtures 18,000	
To Cash A/c (Creditors)	45,600	Stock 84,000	
To Cash A/c (GST)	4,200	Sundry Debtors 44,400	2,48,400
To Cash A/c (Realization expenses)	1,500	By Q (Unrecorded asset)*	4,800
To Profit on Realization			
P 3,960			
Q 3,960			
R 1,980	9,900		
	3,01,200		3,01,200

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000
				By Realization A/c (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600

To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

*An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

11. ICAI PQ 2

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.
On 30th September 2022 their Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Premises	50000
Thin 80000		Fixtures	125000
Short 50000		Plant	32500
Fat 20000	150000	Stock	43200
Current Accounts		Debtors	54780
Thin 29700			
Short 11300			
Fat (Dr.) (14500)	26500		
Sundry Creditors	84650		
Bank Overdraft	44330		
	305480		305480

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 20X1. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for Rs. 60,000 and the plant for Rs. 1,07,500. The fixtures realise Rs. 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise Rs. 45,900. Realisation expenses amount to Rs. 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realisation Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Solution:

Realization Account

Particulars	₹	Particulars		₹
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant	1,07,500	
To Debtors	54,780	Fixtures	20,000	
To Bank (Creditors)	84,650	Stock	41,040	
To Bank (Expenses)	4,500	Debtors	45,900	2,74,440
		By Loss on Realization		
		transferred to		
		Partners' Current A/cs		
		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			3,94,630

Partners' Current Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	14,500	By Balance b/d	29,700	11,300	–
To Realization	14,216	14,216	7,108	By Capital A/c			
To Capital A/c				Transfer	–	2,916	21,608
transfer	15,484	–	–				
	29,700	14,216	21,608		29,700	14,216	21,608

Partners' Capital Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat

	₹	₹	₹		₹	₹	₹
To Current A/c	–	2,916	21,608	By Balance b/d	80,000	50,000	20,000
To Fat's Capital A/c Deficiency in the ratio of 8:5	990	618	–	By Current A/c (transfer)	15,484	–	–
				By Bank (Realization loss)	14,216	14,216	
To Bank	1,08,710	60,682	–				
				By Thin & Short Capital A/cs			1,608
	1,09,700	64,216	21,608		1,09,700	64,216	21,608

Working Notes:

(i) **Bank Account**

Particulars	**₹**	**Particulars**	**₹**
To Realization A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realization A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realization A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		3,02,872

(ii) Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in Garner vs. Murray.

12. ICAI PQ 3

Amit, Sumit and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 20X1 when their Balance Sheet was as under:

Liabilities	**Amount**	**Assets**	**Amount**
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500
General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts 60,000	
Loan from D	1,20,000	Less: Prov. for bad debts (6,000)	54,000
Trade Creditors	30,000	Stock	36,000
Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital Withdrawn:	
	---- -	Kumar	32,400
Total	3,56,400	Total	3,56,400

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	-	Remaining taken over by Kumar at 90% of book value
Stock	-	Realized 120% of book value
Book Debts	-	₹ 12,000 of debts proved bad, remaining were fully realized
Land & Building	-	Realized ₹ 1,65,000
Investments	-	Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 20X1, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Solution:

Realization Account

Particulars		₹	Particulars			₹
To	Land and Building	1,35,000	By	Provision for bad debts		6,000
To	Plant and Machinery	45,000	By	Loan from D		1,20,000
To	Furniture	25,500	By	Trade creditors		30,000
To	Investments	15,000	By	Bills payable		12,000
To	Book debts	60,000	By	Outstanding salary		7,500
To	Stock	36,000	By	Kumar - Furniture taken over (13,500 x .9)		12,150
To	Bank (Realization expenses)	15,000	By	Bank A/c -		
				Stock Realized	43,200	
To	Amit- Realization			Land & Building	1,65,000	

	expenses	3,000				
To	Bank A/c -			Debtors	48,000	2,56,200
	Bill payable	11,940	By	Amit (Investment taken over)		12,750
	D's Loan	7,500				
	D's Loan	54,000				
	Creditors	18,000				
	Salary	7,500				
To	Profit trs/f to partners' capital Accounts					
	Amit 9,264					
	Sumit 9,264					
	Kumar 4,632	23,160				
		4,56,600				4,56,600

Bank Account

	Particulars	₹		Particulars	₹
To	Balance b/d	13,500	By	Realization A/c (paymentof liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To	Realization A/c (assets realized)	2,56,200	By	Amit	79,314
To	Kumar	12,618	By	Sumit	89,064
		2,82,318			2,82,318

Partners' Capital Accounts

	Particulars	Amit	Sumit	Kumar		Particulars	Amit	Sumit	Kumar
		₹	₹	₹			₹	₹	₹
To	Balance b/d			32,400	By	Balance b/d	55,200	55,200	
					By	Kumar's Loan			15,000
To	Realization A/c (Investment taken over)	12,750			By	General Reserve	24,600	24,600	12,300
To	Realization A/c (Furniture taken over)			12,150	By	Realization A/c (expense)	3,000		

To	Bank A/c	79,314	89,064		By	Realization A/c (profit)	9,264	9,264	4,632
					By	Bank A/c			12,618
		92,064	89,064	44,550			92,064	89,064	44,550

Working Notes:

1. **Payment for Bills Payable**

Particulars	Amount (₹)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. **Payment to D's Loan**

Particulars	Amount (₹)
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (₹ 45,000) and ₹ 7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. ₹ 60,000 – ₹ 6,000 = ₹ 54,000.	54,000

3. **Payment to Trade Creditors**

Particulars	Amount (₹)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value ₹ 12,000 accepted at value ₹ 10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. **Furniture taken over by Kumar**

Particulars	Amount
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value ₹12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

True & False

1. Books of accounts are closed in dissolution of partnership.

Ans: False. Books of accounts are not closed in dissolution of partnership but are closed in case of dissolution of partnership firm.

2. On the dissolution of a partnership, firstly, the assets of the firm are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders.
Ans:- True. On the dissolution of a partnership, firstly, the assets of the firm, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid.

3. In event of the dissolution of the firm, the business ceases to end. In event of dissolution of the partnership, the partnership is reconstituted and the business discontinues.
Ans:- True. In event of the dissolution of the firm, the business ceases to end. However, in event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.

4. Expenses of dissolution on realization of assets are credited to the Realization Account.
Ans:- False. Expenses of dissolution on realization of assets are debited to the Realization Account.

5. Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.
Ans:- True. Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

Multiple choice Question

1. Partnership could be dissolved because of

   (a) Death of a partner.

   (b) Insolvency of a partner.

   (c) Either (a) or (b).

   Ans:- c

2. On the dissolution of partnership, profit or loss on realization of assets and liabilities should be divided among partners

   (a) In the ratio of their capitals.

(b) In the same ratio in which they share profits.

(c) Equally.

Ans:- b

3. An unrecorded asset realized at the time of dissolution is credited to

(a) Realization account.

(b) Revaluation account.

(c) Capital accounts.

Ans:- a

4. A liability taken over by a partner at the time of dissolution is credited to

(a) Profit and loss account.

(b) Partners' capital accounts.

(c) Realization account.

Ans:- b

5. Realization account is a

(a) Nominal account.

(b) Real account.

(c) Personal account.

Ans:- a

6. Which of the following method/methods is adopted to ensure that distribution of cash among partners is in proportion to their interest in partnership?

(a) Maximum loss method.

(b) Highest relative capital method.

(c) Either (a) or (b).

Ans:- a

THEROTICAL QUESTIONS

1. State the circumstances when Garner V/S Murray rule not applicable.

Solution:- Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.

Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency incapital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

2. W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that they will not be dissolved before the expiry of five years. The firm is dissolved after three years. W claims refund of premium.

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

Solution:- If the firm is dissolved before the term expires, as is the case, W being a partner whohas paid a premium on admission will have to be repaid/refunded

The criteria for calculation of refund amount are:

(v) Terms upon which admission was made,

(vi) The time period for which it was agreed that the firm will not be dissolved,

(vii) The time period for which the firm has already been in existence.No claim for refund will arise if:

(i) The firm is dissolved due to the death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such an agreement does not have a stipulation for a refund of premium.

Company Accounts

Q. No.		R1	R2	R3	Special Point
	CLASS WORK				
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI Illustration 12				
13	ICAI Illustration 13				
14	ICAI Illustration 14				
15	ICAI Illustration 15				
16	ICAI Illustration 16				
17	ICAI Illustration 17				
18	ICAI practical Question 1				
19	ICAI practical Question 2				
20	ICAI practical Question 3				
21	RTP May 18				
22	RTP Nov 18/ MTP Oct 21 S 1				
23	RTP May 18				
24	RTP Nov 18				
25	QP May 18				
26	QP Nov 18				
27	Mock Test 1				
28	Mock Test 2				
29	RTP May 20 (Issue of Shares)				

30	RTP May 20 (Forfeiture of Shares)				
31	RTP Nov 20 (Issue of Shares)				
32	QP Jan 20 (Issue of Shares)				
33	QP Nov 20 (Issue of Shares)				
	ISSUE OF DEBENTURE				
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI Illustration 11				
12	ICAI Illustration 12				
13	ICAI Illustration 13				
14	ICAI practical Question 1				
15	ICAI practical Question 2				
16	ICAI practical Question 3				
17	ICAI practical Question 4				
18	RTP May 18				
19	RTP Nov 18				
20	QP Nov 18				
21	Mock Test 1				
22	Mock Test 2				
23	RTP May 20 (Issue of Debenture)				
24	RTP Nov 20 (Issue of Debenture)				
25	QP Nov 20 (Issue of Debenture)				
	Additional Questions				
	ISSUES AND FORFEITURE OF SHARE				

1	RTP May 21				
2	RTP May 21				
3	RTP Nov 21				
4	RTP Nov 21				
5	QP July 21				
6	QP Dec 21				
7	Mock Test Oct 21 (series 1)				
8	Mock Test Nov 21				
ISSUE OF DEBENTURE					
9	RTP May 21				
10	RTP Nov 21				
11	Mock Test Oct 21 (series 1)				
12	Mock Test Nov 21				
13	RTP May 22				
14	RTP May 22				
15	RTP May 22				
16	RTP Nov 22				
17	RTP Nov 22				
18	ICAI Exam May 22				
19	MTP Nov 22 Series 1				
20	MTP Nov 22 Series 1				
21	MTP Nov 22 Series 2				
22	MTP Nov 22 Series 2				
23	ICAI Exam Nov 22				
24	RTP May 23				
25	RTP May 23				
26	RTP May 23				
27	QP June 23				
28	RTP Dec 23				
TEST IN TIME PASS IN TIME					
1	RTP Dec 23 Issue & Forfeiture of Shares				
2	RTP Dec 23 Issues Of Debenture				

Let's Get Started... With Class Work

1. ICAI Illustration 1

A company had an authorised capital of ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3-2022, it has demanded or called ₹9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹7 per share. Prepare a balance sheet assuming there are no other details.

Solution:

Balance Sheet as at 31st March, 2022

Particulars		Notes No.	₹
EQUITY AND LIABILITIES Shareholders' funds Share capital		1	5,30,000
	Total		5,30,000
ASSETS Current assets Cash and cash equivalents		2	5,30,000
	Total		5,30,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital Authorised share capital		
	1,00,000 Equity shares of ₹10 each	10,00,000	
	Issued share capital		
	60,000 Equity shares of ₹ 10 each Subscribed share capital	6,00,000	
	60,000 Equity shares of ₹ 10 each Called up and Paid up share capital	6,00,000	
	60,000 Equity shares of ₹10 each ₹9 called up Less: Calls unpaid	5,40,000	

2.	on 5,000 shares @ ₹ 2 per share **Cash and cash equivalents** Balances with banks	(10,000)	5,30,000 5,30,000

It is clear from above, that details of authorised, issued and subscribed capital are given in the Notes to Accounts but are not counted. It is only the paid-up capital i.e., the portion of the issued capital subscribed by shareholders which is taken into account while totalling the liabilities side of the balance sheet.

2. ICAI Illustration 2

A company invited applications for 10,000 equity shares of ₹ 50 each payable on application ₹15, on Allotment ₹ 20, on first and final call ₹15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and installment money was duly received by the company. Show Journal entries in the books of the company.

Solution:

Journal entries in the books of a company

For application money received: Amount received along with application is accounted as follows:

Bank A/c Dr. (Application money on allotted share i.e.,10,000 × ₹15 = ₹1,50,000)

To Equity Share Application A/c

At the time of allotment: Application money received from successful applicants become part of share capital and is transferred to share capital as under:

Equity Share Application A/c Dr. (Application money on allotted share i.e.,10,000 × ₹ 15 =₹ 1,50,000)

To Equity Share Capital A/c

To record amount due on allotment: When the decision is taken to allot shares, allotment money on allotted shares falls due and is recorded as follows:

Equity Share Allotment A/c Dr. (Allotment money due at the allotted share i.e.,10,000 ×₹ 20 = ₹ 2,00,000)

To Equity Share Capital A/c

For allotment money received: Allotment money received from shareholders is recorded as follows:

Bank A/c Dr. (Allotment money received from shareholders i.e.10,000 × ₹ 20 =₹ 2,00,000)

To Equity Share Allotment A/c

When decision to demand first call is made: After allotment of share, when the Board of Directors decide to demand the next instalment from shareholders, first call money falls due and is accounted for, as under:

Equity Share First Call A/c Dr. (No. of shares × first call money per share i.e.,10,000 × ₹ 15= ₹ 1,50,000)

To Equity Share Capital A/c

On receiving first and final call money: The journal entry passed to record the money received on account of first call is as under:

Bank A/c Dr. (Amount actually received on account of first call i.e., ₹ 10,000 × ₹ 15 = ₹ 1,50,000)

To Equity First Call A/c

3. ICAI Illustration 3

On 1st April, 2021, A Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 30 on allotment;

₹ 25 on 1st October, 2021; and

₹ 25 on 1st February, 2022.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2022.

Solution:

A Ltd.

Journal

2021		₹	₹
May 20	Bank Account Dr.	8,00,000	
	To Share Application A/c		8,00,000
	(Application money on 40,000 shares at ₹20 per share received.)		
June 1	Share Application A/c Dr.	8,00,000	
	To Share Capital A/c		8,00,000
	(The amount transferred to Capital Account on 40,000 shares at - ₹20		

	on application. Directors' resolution no...... dated............)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at ₹30 per share. Directors' resolution no...... dated....)			
July 15	Bank Account	Dr.	12,00,000	
	To Share Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000shares at ₹25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2022				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at ₹ 25 per share on second andfinal call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at ₹ 25 per share.)			

4. ICAI Illustration 4

Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

Solution:

Pant Ltd. Journal

		₹	₹
Bank A/c To Equity Share Application A/c (Being the application money received for 60,000 shares at ₹20 per share)	Dr.	12,00,000	12,00,000
Equity Share Application A/c To Equity Share Capital A/cTo Bank A/c (Being share allotment made for 50,000 shares and excess refunded.)	Dr.	12,00,000	10,00,000 2,00,000
Equity Share Allotment A/c To Equity Share Capital A/c (Being allotment amount due on 50,000 equity shares at ₹10 per share as per Directors' resolution no... dated...)	Dr.	5,00,000	5,00,000
Bank A/c Calls in Arrears A/c To Equity Share Allotment A/c (Being allotment money received for 45,000 shares at ₹10 per share.)	Dr. Dr.	4,50,000 50,000	5,00,000

5. ICAI Illustration 5

The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each.

The Share Capital was to be collected as under:

	Equity Shares	Preference Shares
	₹	₹
On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

Solution:

Delhi Artware Ltd.
Cash Book

Dr. Cr.

	₹		₹
To Equity Shares Applications Account	12,50,000	By Balance c/d	14,440,000
(applicationmoney on 50,000 shares at ₹25)			
To Preference Share Application A/c			
(application money on 1,00,000 shares at ₹ 20)	20,00,000		
To Equity Share Allotment A/c			
(allotment money on 50,000 shares at ₹20)	10,00,000		
To Preference Share Allotment A/c			
(allotment oneyon 1,00,000 shares at ₹30)	30,00,000		
To Equity Shares First Call A/c			
(₹30 on 50,000 shares)	15,00,000		
To Preference Share First Call A/c			
(₹20 on 1,00,000shares)	20,00,000		
To Equity Shares Final Call A/c			
(₹25 on 42,000 shares)	10,50,000		
To Preference Share Final A/c			
(₹30 on 88,000 shares)	26,40,000		
	14,440,000		14,440,000
To Balance b/d	14,440,000		

Journal

		₹	₹
Equity Share Application A/c	Dr.	12,50,000	
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c [The Credit to share capital on allotment of 50,000 equity shares at ₹45 per share (₹ 25 on application and ₹ 20 on allotment) allotted as per Directors resolution no.... dated]			22,50,000

Preference Share Application A/c	Dr.	20,00,000	
Preference Share Allotment A/c	Dr.	30,00,000	
To Preference Share Capital A/c			50,00,000
[The credit to Preference Share Capital on allotment of 1,00,000 preference shares at ₹ 50 per share (₹ 20 on application and ₹30 on allotment), allotted as per Directors' resolution no... dated...]			
Equity Share First Call A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Amount due on 50,000 equity shares at ₹ 30 per share as per Directors' resolution no... dated...)			
Preference Share First Call A/c	Dr.	20,00,000	
To Preference Share Capital A/c			20,00,000
(Amount due on 1,00,000 preference shares at ₹20 per share, as per Directors' resolution no...dated...)			
Equity Share Final Call A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Amount due on final call on 50,000 equity shares at₹ 25 per share, as per Directors' resolution no... dated...)			
Preference Share Final Call A/c	Dr.	30,00,000	
To Preference Share Capital A/c			30,00,000
(Amount due on final call on 1,00,000 preference shares at ₹ 30 per share, as per Directors' resolution no... dated...)			

Note: Students may note that cash transactions have not been journalised as these have been entered in the Cash Book.

6. ICAI Illustration 6

On 1st October, 2022 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of ₹ 100 each to be issued at a premium of 25 per cent payable as :

On Application	₹ 25
On Allotment	₹75 (including premium)
Balance Amount on Shares	As and when required

The shares were allotted by the Company on October 20, 2022 and the allotment money was duly received on October 31, 2022.

Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

Solution:

Pioneer Equipment Limited Journal

Date 2022	Particulars		L.F.	Debit Amount (₹000)	Credit Amount (₹000)
Oct. 1	Bank A/c	Dr.		6,250	
	To Equity Share Application A/c				6,250
	(Money received on applications for 2,50,000 shares @ ₹25 per share)				
Oct. 20	Equity Share Application A/c	Dr.		6,250	
	To Equity Share Capital A/c				6,250
	(Transfer of application money on allotment to sharecapital)				
Oct. 20	Equity Share Allotment A/c	Dr.		18,750	
	To Equity Share Capital A/c				12,500
	To Securities Premium A/c				6,250
	(Amount due on allotment of 2,50,000 shares @ ₹75 pershare including premium)				
Oct. 31	Bank A/c	Dr.		18,750	
	To Equity Share Allotment A/c				18,750
	(Money received including premium consequent upon allotment)				

Note: Bifurcation of Allotment amount

Security premium per share = 25% x ₹100

= ₹25

Money received on allotment per share = ₹75

	Premium	Capital
Per Share	₹25	₹50
No. of Shares (in '000)	250	250

Total Amount (In '000)	₹6,250	₹12,500

7. ICAI Illustration 7

JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2021. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

(a) ₹ 2 per share payable on application, to be received by 1st July, 2021;

(b) Allotment to be made on 10th July, 2021 and a further ₹ 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2022.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(iv) the money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

Solution:

Journal of JHP Limited

Date 21	Particulars		₹	₹
	Bank A/c (Note 1 – Column 3)	Dr.	7,10,000	
July 1	To Equity Share Application A/c			7,10,000
	(Being application money received on 3,55,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	7,10,000	
	To Equity Share Capital A/c			2,00,000

	To Equity Share Allotment A/c (Note I Column 5) To Bank A/c (Note I – Column 6) (Being application money on 1,00,000 shares transferred to Equity Share Capital Account; on 2,15,000 shares adjusted with allotment and on 40,000 shares refunded as per Board's Resolution No.....dated...)		4,30,000 80,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,00,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No.... dated....)	5,00,000	 1,00,000 4,00,000
	Bank A/c (Note I – Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received)	70,000	 70,000
2021	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ ₹7 per shareas per Board's Resolution No.....dated....)	7,00,000	 7,00,000
April 30	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money on 1,00,000 shares @ ₹7 each received)	7,00,000	 7,00,000

Working Notes:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for (1)	No. of Shares Allotted (2)	Amount Received on Application (3)	Amount Required on Application (4)	Amount adjusted on Allotment (5)	Refund [3 - 4 + 5] (6)	Amount due on Allotment (7)	Amount received on Allotment (8)
(i)	5,000	5,000	10,000	10,000	Nil	Nil	25,000	25,000
(ii)	30,000	15,000	60,000	30,000	30,000	Nil	75,000	45,000
(iii)	3,20,000	80,000	6,40,000	1,60,000	4,00,000	80,000	4,00,000	Nil
TOTAL	**3,55,000**	**1,00,000**	**7,10,000**	**2,00,000**	**4,30,000**	**80,000**	**5,00,000**	**70,000**

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹2

8. ICAI Illustration 8

Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ₹ 3 per share which was due on 1.7.2021. This amount was received on 1.4.2022.

Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2021 and 1.4.2022.

Solution:

Shreyas Ltd Journal

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
1.7.2021	Calls in Arrears A/c	Dr.		30,000	
	To Equity Share First Call A/c				30,000
	(Being amount due on first call on 10,000 shares at ₹3 per share transferred to calls in arrears account)				
1.4.2022	Bank A/c	Dr.		30,000	
	To Calls in Arrears A/c (Being calls in arrears received)				30,000

9. ICAI Illustration 9

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

Solution:

Date	Particulars	L.F.	Debit Amount(₹)	Credit Amount(₹)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Application A/c (Money received on applications for 1,00,000 shares @ ₹2.50 per share)			2,50,000
	Equity Share Application A/c	Dr.	2,50,000	
	To Equity Share Capital A/c (Transfer of application money on 1,00,000 shares to share capital)			2,50,000
	Equity Share Allotment A/c	Dr.	3,00,000	
	To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ ₹ 3 per share)			3,00,000
	Bank A/c	Dr.	3,00,000	
	To Equity Share Allotment A/c (Allotment money received)			3,00,000
	Equity Share First Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c (Being first call made due on 1,00,000 shares at ₹ 2 per share)			2,00,000
	Bank A/c	Dr.	2,25,000	
	To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 10,000 shares at ₹2.50 per share)			2,00,000 25,000
	Equity Share Final Call A/c	Dr.	2,50,000	
	To Equity Share Capital A/c (Being final call made due on 1,00,000 shares at Rs.2.50 each)			2,50,000
	Bank A/c	Dr.	2,22,500	
	Calls in Advance A/c	Dr.	25,000	
	Calls in Arrears A/c	Dr.	2,500	
	To Equity Share Final Call A/c			2,50,000

	(Being final call received for 89,000 shares and calls in advance for 10,000 shares adjusted)			
	Interest on Calls in Advance A/c	Dr	750	
	To Shareholders A/c (Being interest made due on calls in advance of ₹25,000 at the rate of 12% p.a.)			750
	Shareholders A/c	Dr	750	
	To Bank A/c (Being payment of interest made to shareholder)			750
	Shareholders A/c	Dr	41.67	
	To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)			41.67
	Bank A/c	Dr	2,541.67	
	To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)			2,500 41.67

10.ICAI Illustration 10

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

Solution:

In the books of A Ltd.

Date	Journal Particulars	₹	₹
	Equity Share Capital A/c (30,000 x ₹10) Dr. To Equity Share Final Call A/c (30,000 x ₹4) To Forfeited Shares A/c (30,000 x ₹6) (Being the forfeiture of 30,000 equity shares of ₹10 each fully called-up for	3,00,000	 1,20,000 1,80,000

	non-payment of final call money @ ₹4 each as per Board's Resolution No.... dated....)		

11. ICAI Illustration 11

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

Solution:

In the books of X Ltd

Date	Journal Particulars	₹	₹
	Equity Share Capital A/c (20,000 x ₹8) Dr.	1,60,000	
	To Calls-in-Arrears A/c (20,000 x ₹2)		40,000
	To Forfeited Shares A/c (20,000 x ₹6)		1,20,000
	(Being the forfeiture of 20,000 equity shares of ₹10each, ₹8 called-up for non-payment of first call money @ ₹2 each as per Board's ResolutionNo......dated.....)		

12. ICAI Illustration 12

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

Solution:

In the books of X Ltd.

Date	Journal Particulars		₹	₹
	Equity Share Capital A/c (5,000 x ₹100)	Dr.	5,00,000	
	Securities Premium A/c (See Note)	Dr.	1,00,000	
	To Equity Share Allotment A/c (5,000 x ₹ 50)			2,50,000
	To Equity Share First and Final Call A/c (5000 x ₹ 50)			2,50,000
	To Forfeited Shares A/c (5000 x ₹ 20)			1,00,000
	(Being the forfeiture of 5,000 equity shares of ₹ 100 eachfully called-up, issued at a premium of 20%, for non-payment of allotment and call money as per Board's Resolution No.....dated....)			

13. ICAI Illustration 13

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ₹ 2 per share but has been allotted only 600 shares. The shares have a face value of ₹10 and a premium of ₹ 2 per share, which are payable as: on Allotment- ₹ 5 (including premium) and on final call ₹ 5. Now in case Mr. Shami doesn't pay allotment money and final call and his shares are forfeited, then following entry will be passed on forfeiture:

Solution:

Share Capital A/c (600 x ₹10)	Dr.	6,000	
Securities Premium A/c (600 x ₹ 2)	Dr.	1,200	
To Share Forfeiture A/c			2,000
To Share Allotment A/c			2,200
To Share Final Call A/c (600 x 5)			3,000

(Being 600 shares forfeited due to non-payment of allotment money and call money as per Board Resolution no..... dated)

Note:

Total Amount Received on application (1,000 x 2)	2,000
Less: Amount used for application money (600 x 2)	(1,200)

Excess money received on application	800
Amount due on Allotment (600 x 5)	3,000
For premium (600 x 2)	1,200
For Capital A/c (600 x 3)	1,800
Thus amount not received on allotment (3,000 - 800)	2,200

For Premium A/c — ₹ 1,200 For Capital A/c — ₹ 1,000

14. ICAI Illustration 14

Mr. Long who was the holder of 2,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹ 75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

Solution:

	Journal		₹	₹
	Preference Share Capital A/c (2,000 x ₹75)	Dr.	1,50,000	
	To Preference Share Allotment A/c			50,000
	To Preference Share First Call A/c			50,000
	To Forfeited Share A/c			50,000
	(Being the forfeiture of 2,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
	Bank A/c (1,500 x ₹65)	Dr.	97,500	
	Forfeited Shares A/c (1,500 x ₹10)	Dr.	15,000	
	To Preference Share Capital A/c			1,12,500
	(Being re-issue of 1500 shares at ₹65 per share paid-up as ₹75 as per Board's Resolution No.....dated....)			
	Forfeited Shares A/c	Dr.	22,500	
	To Capital Reserve A/c (Note 1)			22,500

	(Being profit on re-issue transferred to Capital/Reserve)		

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 50,000/2000	=	₹ 25
Loss on re-issue = ₹ 75 – ₹ 65	=	₹ 10
Surplus per share re-issued		₹ 15
Transferred to capital Reserve ₹ 15 x 1500	=	₹ 22,500

15. ICAI Illustration 15

Beautiful Co. Ltd issued 30,000 equity shares of ₹10 each payable as ₹ 3 per share on Application, ₹5 per share (including ₹2 as premium) on Allotment and ₹4 per share on Call. All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹ 2 per share.

Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

Solution:

In the books of Beautiful Co. Ltd.

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (1,500 x ₹10)	Dr.	15,000	
	Securities Premium A/c (500 x ₹ 2)	Dr.	1,000	
	To Equity Share Allotment A/c (500 x ₹ 5)			2,500
	To Equity Share Call A/c (1,500 x ₹ 4)			6,000

	To Forfeited Shares A/c			7,500
	(Being forfeiture of 1,500 equity shares for non payment of allotment and call money on 500 shares and for non-payment of call money on 1,000 shares as per Board's Resolution No..... dated ....)			
	Bank A/c	Dr.	10,000	
	Forfeited Shares A/c	Dr.	2,500	
	To Equity Share Capital A/c			12,500
	(Being re-issue of 1250 shares @ ₹ 8 each as per Board'sResolution No.....dated....)			
	Forfeited Shares A/c	Dr.	3,500	
	To Capital Reserve A/c			3,500
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of Beautiful Limited as at......

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	2,99,000
Reserves and Surplus	2	62,500
Total		**3,61,500**
ASSETS		
Current assets		
Cash and cash equivalents (bank)		3,61,500
Total		**3,61,500**

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	30,000 Equity shares of ₹ 10 each	3,00,000	
	Subscribed, called up and paid up share capital		
	29,750 Equity shares of ₹ 10 each	2,97,500	
	Add: Forfeited shares	1,500	2,99,000
2.	**Reserves and Surplus**		

	Securities Premium	59,000	
	Capital Reserve	3,500	62,500

Working Note :

Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of Ram	₹3	Amount forfeited per share of Shyam	₹6
Less: Loss on re-issue per share	(₹2)	Less: Loss on re-issue per share	(₹2)
Surplus	₹1	Surplus	₹4
Transferred to Capital Reserve: Ram share (500 x ₹1)		₹500	
Shyam's Share (750 x ₹4)		₹3,000	
Total		**₹3,500**	

(2) Balance of Security Premium Total Premium amount receivable on allotment	=	60,000
Less: Amount reversed on forfeiture	=	(1,000)
Balance remaining	=	59,000

16. ICAI Illustration 16

A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹ 2 per share as application money and ₹ 3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹2 on application, ₹ 3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

Solution:

Journal

Date	Particulars		₹	₹
	Share Capital A/c (9,000 x ₹10)	Dr.	90,000	
	To Share Allotment A/c (2,000 x ₹3)			6,000
				18,000

	To Share First Call A/c (6,000 x ₹3)		18,000
	To Share Final Call A/c (9,000 x ₹2)		48,000
	To Forfeited Shares A/c		
	(Being forfeiture of 9,000 shares of ₹10 each for non-payment of allotment, first and final call money as per Board's Resolution No.....dated....)		
	Bank A/c (9,000 x ₹ 12) Dr.	1,08,000	
	To Share Capital A/c		90,000
	To Securities Premium A/c		18,000
	(Being the re-issue of 9,000 shares of ₹10 each @ ₹12 as per Board's Resolution No.....dated...)		
	Forfeited Shares A/c Dr.	48,000	
	To Capital Reserve A/c		48,000
	(Being profit on re-issue transferred to Capital Reserve).		

Working Note:

Shareholders	Money Received				Money Not Received On		
	Application	Allotment	First Call	Final Call	Allotment	First Call	Final Call
A	2,000	-	-	-	2,000	2,000	2,000
B	4,000	4,000	-	-	-	4,000	4,000
C	3,000	3,000	3,000	-	-	-	3,000
TOTAL	9,000	7,000	3,000	-	2,000	6,000	9,000
Money	₹ 2	₹ 3	₹ 3	₹ 2	₹ 3	₹ 3	₹ 2
Receivable	₹ 18,000	₹21,000	₹ 9,000	-	₹ 6,000	₹ 18,000	₹ 18,000

17.ICAI Illustration 17

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

Solution:

Journal

Date	Particulars		₹	₹
	Land and Buildings A/c	Dr.	4,00,000	
	To Y Co. Ltd A/c			4,00,000
	(Being the land and buildings purchased from Y Co. Ltd as per agreement dated...).			
	Y.Co. Ltd A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being 40,000 shares of Rs. 10 each issued to Y Co. Ltd. on purchaseof land and building)			
	Bank A/c	Dr.	5,00,000	
	To Equity Share Application and Allotment A/c			5,00,000
	(Being the issue of 50,000 shares of ₹10 each as per Board's Resolution No.....dated...)			
	Equity Share Application and Allotment A/cTo Equity Share	Dr	5,00,000	
	Capital A/c			5,00,000
	(Being shares allotted for application money received.)			

Balance Sheet of X Company Limited as at....

	Particulars		Notes No.	₹
	EQUITY AND LIABILITIES			
	Shareholders' funds			
		Share capital	1	9,00,000
	Total			9,00,000
	ASSETS			
1.	**Non-current assets**			
	a	Fixed assets		
		i Tangible assets	2	4,00,000
2.	**Current assets**			
	Cash and cash equivalents		3	5,00,000
	Total			9,00,000

Notes to accounts

		₹
1.	Share Capital	

	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	**Tangible Assets**	
	Land and Building	4,00,000
3.	**Cash and cash equivalents**	
	Balances with banks	5,00,000

18. ICAI Practical Question 1

X Ltd. invited applications for 10 lakhs shares of ₹ 100 each payable as follows :

On Application	20
On Allotment (on 1st May, 2022)	30
On First Call (on 1st Oct., 2022)	30
On Final Call (on 1st Feb., 2023)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2022.

Solution:

Journal of X Ltd.

2022			₹ in lakhs	₹ in lakhs
May 1	Bank A/c	Dr.	200	
	To Share Application A/c			200
	(Receipt of applications for 10 lakh shares along with application money of ₹ 20 per share.)			
May 1	Share Application A/c	Dr.	200	
	Share Allotment A/c	Dr.	300	
	To Share Capital A/c			500
	(The allotment of 10 lakh shares : payable on application ₹20 share and ₹30 on allotment as per Directors' resolution no... dated...)			
May 1	Bank A/c	Dr.	310	
	To Shares Allotment A/c			300
	To Calls in Advance A/c			10
	[Receipt of money due on allotment @ ₹30, also the two calls(₹ 30 and ₹20) on 20,000 shares.]			
Oct. 1	Share First Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on 10 lakh shares @ ₹30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share First Call A/c			300
	(Receipt of the first call on 9.80 lakh shares, the balance having been previously received and now debited to call in advance account.)			
2023 Feb. 1	Share Final Call A/c	Dr.	200	
	To Share Capital A/c			200
	(The amount due on Final Call on 10 lakh shares @ ₹ 20 pershare, as per Directors' resolution no... dated...)			

Feb. 1	Bank A/c	Dr.	196	
	Calls in Advance A/c	Dr.	4	
	To Share Final Call A/c			200
	(Receipt of the moneys due on final call on 9.80 lakhs shares, the balance having been previously received.)			
Feb. 1	Interest on calls in Advance A/c	Dr.	0.66	
	To Shareholder A/c			0.66
	(Being interest on call in advance made due)			
Feb 1	Shareholder A/c	Dr.	0.66	
	To Bank A/c			0.66
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on :	₹
₹ 6,00,000 (first call) from 1st May to 1st Oct., 2022–5 months	30,000
₹ 4,00,000 (final call) from 1st May to 1st Feb., 2023–9 months	36,000
Total Interest Amount Due	66,000

19. ICAI Practical Question 2

A limited Company, with an authorized capital of ₹ 20,00,000 divided into shares of ₹ 100 each, issued for subscription 10,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2022 when application money on 10,000 shares was duly received and allotment was made on March 1, 2022. All Amounts due were received within one month of the date they were called.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions.

Solution:

Journal Entries in the Books of the Company

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
Jan. 31	Bank A/c	Dr.		2,50,000	
	To Equity Share Application A/c				2,50,000
	(Money received on applications for 10,000 shares @ ₹ 25per share)				
March 1	Equity Share Application A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Transfer of application money on 10,000 shares to share capital)				
March 1	Equity Share Allotment A/c	Dr.		3,00,000	
	To Equity Share Capital A/c				3,00,000
	(Amount due on the allotment of 10,000 shares @ ₹ 30per share)				
April 1	Bank A/c	Dr.		3,00,000	
	To Equity Share Allotment A/c				3,00,000
	(Allotment money received)				
June 1	Equity Share First Call A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(First call money due on 10,000 shares @ ₹ 20 per share)				
July 1	Bank A/c	Dr.		1,92,500	
	Calls-in-Arrears A/c	Dr.		20,000	
	To Equity Share First Call A/c				2,00,000
	To Calls-in-Advance A/c				12,500
	(First call money received on 9000 shares and calls-in-advance on 500 shares @ ₹ 25 per share)				

20.ICAI Practical Question 3

B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹ 20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

Solution:

In the Books of B Ltd.

Cash Book (Bank column only)

Date	Particulars	₹	Date	Particulars	₹
	To Equity Share			By Equity Share	
	Application A/c	12,00,000		Application A/c	2,00,000
	(Being application money received on 24,000 shares @ ₹ 50 each)			(Being excess money refunded on 4,000 shares @ ₹ 50 each as per Board's Resolution No...dated....)	
	To Equity Share Allotment A/c	9,92,500		By Balance c/d	23,89,500
	(Being allotment money received on 19,850 shares @ ₹ 50 each)				
	To Equity Share Final Call A/c	3,97,000			
	(Being final call money received on 19,850 shares @ ₹ 20 each)				
		25,89,500			25,89,500

Date	Particulars		₹	₹
	Equity Share Application A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being application money on 20,000 shares @₹ 50 each transferred to Equity Share Capital Account as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			4,00,000
	(Being allotment money @ ₹ 50 per share including premium of			

	₹ 20 per share being made due as per Board's Resolution No......dated....)			
	Equity Share Capital A/c (150 x ₹100)	Dr.	15,000	
	Securities Premium A/c (150 x ₹ 20)	Dr.	3,000	
	To Equity Share Allotment A/c			7,500
	To Equity Share Final Call A/c			3,000
	To Forfeited Shares A/c			7,500
	(Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No....dated...)			

Note: Here, securities premium on forfeited shares has not been realised, so Securities Premium Account will be debited at the time of forfeiture of these shares.

Also, alternatively Calls in arrears A/c could have been used in which case following entries would have been passed in place of the entry (given above) for forfeiture:

On non- receipt of allotment money:			
Calls in Arrears A/c	Dr.	7,500	
To Equity Share Allotment A/c			7,500
(Being allotment money on 150 shares @ ₹ 50 not received transferred to calls in arrears.)			
On non - receipt of Call money:			
Calls in Arrears A/c	Dr.	3,000	
To Equity Share Final Call A/c			3,000
(Being final call on 150 shares @ ₹20 not received transferred to calls in arrears)			
On Forfeiture:			
Share Capital A/c (150 x ₹100)		15,000	
Securities Premium A/c (150 x ₹20)		3,000	
To Calls in Arrears A/c			10,500
To Share Forfeiture A/c			7,500
(Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No....dated...)			

21. RTP May 2018

Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Solution:

In the books of Company

Journal

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to			
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

22. RTP Nov 2018 / Mock Test Oct 21 (series I)

Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.

You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

Solution:

Journal entries

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ₹ 20)			50,000
To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to			
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 75,000/2500 = ₹ 30

Loss on re-issue =₹ 70 – ₹ 60 = ₹10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 2000 = ₹ 40,000.

23. RTP May 2018

Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal. You are required to prepare journal entries to record these transactions.

Solution:

Book of Pihu Limited

Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for				
	2,00,000 shares @₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	

	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				
	shares at ₹.2 per share))				
	Bank A/c	Dr.		4,50,000	
	To Equity Share First Call A/c To Calls in Advance A/c				4,00,000 50,000
	(Being first call money received along with calls in advance on 20,000 shares at ₹2.50 per share)				
	Equity Share Final Call A/c	Dr.		5,00,000	
	To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹2.50 each)				5,00,000
	Bank A/c Calls in Advance A/C Calls in Arrears A/c (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.		4,45,000 50,000 5,000	 5,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)	Dr.		1,500	 1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,500	 1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due	Dr.		83.34	 83.34

	at the rate of 10%)				
	Bank A/c	Dr.		5,083.34	
	To Calls in Arrears A/c				5,000
	To Shareholders A/c				83.34
	(Being money received from shareholder for calls in arrears and interest thereupon)				

24. RTP Nov 2018

On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15 th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Solution:

Pehal Ltd.
Journal

2017			Dr. ₹	Cr. ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	18,00,000	

	To Share Capital A/c (Being share allotment made due at ₹ 30 per share. Directors' resolution no.....dated)			18,00,000
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call- on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

25. QP May 18

a) Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2017;

(ii) Allotment to be made on 10th July, 2017 and a further ₹ 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2018.

Applications were received for 4,20,000 shares and were dealt with as follows:

(1) Applicants for 20,000 shares received allotment in full;

(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

Solution:

Journal of Piyush Limited

Date	Particulars		Dr.	Cr.
2017			₹	₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c			
	(Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with			
	allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000

	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

26. QP Nov 18

Give necessary journal entries for the forfeiture and re-issue of shares :

(i) X Ltd. forfeited 300 shares of % 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ¥ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 per share.

Solution:

(i) **Journal Entries in the books of X Ltd.**

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c(300 x ₹ 3)			900
	To Equity Share Final Call A/c (300 x ₹ 4)			1,200
	To Forfeited Shares A/c (300 x ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…………….dated)			
(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @₹ 8 each as fully paid up to Suresh as per			
	Board's resolution No……….dated)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000

	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No.......... dated)			
(b)	Bank Account	Dr.	900	
	Forfeited Shares Account	Dr.	600	
	To Equity Share Capital Account			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No................ dated)			
(c)	Forfeited Shares Account	Dr.	150	
	To Capital Reserve Account			150
	(Being the profit on re-issue, transferred tocapital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5) ₹750

Less: Forfeiture of 150 shares (₹600)

Profit on re-issue of shares ₹150

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	
	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No.............dated.......)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1) Forfeited Shares A/c (80 x ₹ 1) To Equity Share Capital Account (80 x ₹ 8)	Dr. Dr.	80 80	640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No.........dated...)			
(c)	Forfeited Shares Account		80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2)	₹ 200.00
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	(₹ 80.00)
Profit on re-issue of shares	₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

27. Mock test I

On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 20 on allotment;

First call of Rs. 30 on 1st Dec, 2017; and

Second and final call of Rs. 30 on 1st March, 2018.

By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2018.

Solution:

Suraj Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares atRs. 20 per share received.)			
Aug 1	Share Application A/c	Dr.	16,00,000	

	To Share Capital A/c			16,00,000
	(The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	16,00,000	
	To Share Capital A/c (Being share allotment made due at Rs. 20 per share. Directors' resolution no...... dated.....)			16,00,000
Sept15	Bank Account	Dr.	16,00,000	
	To Share Allotment A/c			16,00,000
	(The sums due on allotment received.)			
Dec. 1	Share First Call Account	Dr.	24,00,000	
	To Share Capital Account			24,00,000
	(Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)			
Dec. 20	Bank Account	Dr.	24,00,000	
	To Share First Call Account			24,00,000
	(Receipt of the amounts due on first call.)			
2018				
March 1	Share Second and Final Call A/c	Dr.	24,00,000	
	To Share Capital A/c			24,00,000
	(Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	24,00,000	
	To Share Second & Final Call A/c			24,00,000
	(Amount received against the final call on 80,000 shares at Rs. 30 per share.)			

28. Mock test 2

On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on Ist October, 2017; and

Rs. 25 on Ist February, 2018.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on Ist June. All sums due on allotment were received on 15th July; those on Ist call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2018.

Solution:

A Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on40,000 shares Rs. 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no dated)			12,00,000
July 15	Bank Account	Dr.	12,00,000	
	To Share Application and Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of firstcall-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000

	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as perDirectors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at Rs.25 per share.)			

29. RTP MAY 20 (Issue of Shares)

Piyush Ltd. is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

i. ₹ 2 per share payable on application, to be received by 1st July, 2018;

ii. Allotment to be made on 10th July, 2018 and a further ₹ 5 per share (including the premium) to be payable;

iii. The final call for the balance to be made, and the money received by 30th April, 2019.

Applications were received for 4,20,000 shares and were dealt with as follows:

1) Applicants for 20,000 shares received allotment in full;

2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

Solution:

Journal of Piyush Limited

Date 2017	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c			
	(Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with			
	allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares			

	@ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (Ix ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

30.RTP MAY 20 (Forfeiture of Shares)

Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each. The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid -up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

Solution:

In the books of Bhagwati Ltd.
Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	

To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3) To Share allotment A/c			6,00,000 3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6)	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	

To Equity Share Capital A/c (2,500 x ₹ 10) (Being re-issue of 2,500 shares @ ₹ 6)			25,000
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			₹
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	₹ 4 x 2,500	= ₹ 10,000	

31. RTP NOV 20 (Issue of Shares)

Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Solution:

Particulars		LF	Dr.	Cr.
Bank A/c	Dr.		25,000	
To Equity Share Application A/c				25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)				
Equity Share Application A/c	Dr.		25,000	
To Equity Share Capital A/c				25,000

(Transfer of application money on 1,000 shares to share capital)				
Equity Share Allotment A/c	Dr.		30,000	
To Equity Share Capital A/c				30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)				
Bank A/c	Dr.		30,000	
To Equity Share Allotment A/c				30,000
(Allotment money received)				
Equity Share First Call A/c	Dr.		20,000	
To Equity Share Capital A/c				20,000
(First call money due on 1,000 shares @ ₹ 20 per share)				
Bank A/c	Dr.		19,250	
Calls-in-Arrears A/c	Dr.		2,000	
To Equity Share First Call A/c				20,000
To Calls-in-Advance A/c				1,250
(First call money received on 900 shares and calls-in- advance on 50 shares @ ₹ 25 per share)				

32. QP JAN 21 (Issue of shares)

A Limited is a company with an authorized share capital. of ₹ 1,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March,2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

i. ₹ 2 per share payable on application, to be received by 31st May, 2020;

ii. Allotment to be made on 10th June, 2020 and further ₹ 5 per share (including the premium to be payable);

iii. The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 share and dealt with as follows:

1. Applicants for 10,000 shares received allotment in full;
2. Applicant for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
3. Applicant for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
4. The money due on final call was received on the due date.

You are required to record these transaction (including bank transaction) in the journal Book of A Limited.

Solution:

Journal of A Limited

Date 2020	Particulars		Dr. ₹	Cr. ₹
May 31	Bank A/c (Note 1 – Column 3)	Dr.	11,20,000	
	To Equity Share Application A/c			11,20,000
	(Being application money received on 5,60,000 shares @ ₹ 2 per share)			
June 10	Equity Share Application A/c	Dr.	11,20,000	
	To Equity Share Capital A/c			2,70,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			5,50,000
	To Bank A/c (Note 1–Column 6)			3,00,000
	(Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,75,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium a/c			5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	1,25,000	
	To Equity Share Allotment A/c			1,25,000
	(Being balance allotment money received)			

Dec. 31	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution No.....dated....)	Dr.	9,45,000	9,45,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received)	Dr.	9,45,000	9,45,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

33.QP NOV 20 (Issue of Shares)

ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

- ₹ 2 per share on application
- ₹ 3 per share allotment
- ₹ 4 per share on first call
- ₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All those 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Solution:

1. Bank A/c	Dr.	40,000	
To Equity Share Application A/c			40,000
(Being the application money received for 20,000 shares at ₹ 2 per share)			
2. Equity Share Application A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(Being share allotment made for 20,000 shares at ₹ 2 per share)			
3. Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)			
4. Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Being allotment money received for 20,000 equity shares at ₹ 3 per share)			
5. Equity Share First Call Account	Dr.	80,000	
To Equity Share Capital A/c (Being first call money due on 20,000 equity shares @ Rs. 4 per share)			80,000
6. Bank Account To Equity Share First Call Account (Being full amount of first call money received except on 300 shares) OR Bank Account Calls in Arrear A/c To Equity Share First Call Account (Being full amount of first call money received except on 300 shares)	Dr. Dr. Dr.	78,800 78,800 1,200	 78,800 80,000
7 Equity Share Final Call Account	Dr.	20,000	

To Equity Share Capital A/c			20,000
(Being first call and final call money due)			
8. Bank Account	Dr.	19,700	
To Equity Share Final Call Account			19,700
(Being full amount of final call money received except on 300 shares) OR Bank Account Calls in Arrear A/c To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr. Dr.	19,700 300	20,000
9. Equity Share Capital A/c (300 x ₹ 10)	Dr.	3,000	
To Equity Share First Call Account			1,200
To Equity Share Final Call Account			300
To Forfeited Shares A/c			1,500
Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No.....dated....) OR Equity Share Capital A/c	Dr.	3,000	
To Forfeited Shares A/c To Calls in Arrears (Being 300 shares forfeited on which first call and final call money was unpaid.)			1,500 1,500
10. Bank A/c (300 x ₹ 8)	Dr.	2,400	
Forfeited Shares A/c	Dr.	600	
To Equity Share Capital A/c			3,000
Being re-issue of 300 shares @ ₹8 each as per Board's Resolution No.....dated....)			
11. Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr	900	900

Issue of Debentures

1. ICAI Illustration 1

Amol Ltd. issued 40,00,000, 9% debentures of ₹50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

Solution:

Books of Amol Ltd.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Debenture Application A/c (Debenture application money received)		20,00,00,000	20,00,00,000
	Debenture Application A/c Dr. To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)		20,00,00,000	20,00,00,000

2. ICAI Illustration 2

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:

₹ 30 on application

₹ 60 on allotment

Record necessary journal entries regarding issue of debenture.

Solution:

Books of Atul Ltd.

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c	Dr.	30,00,00,000	
	To Debenture Application A/c (Debenture application money received)			30,00,00,000
	Debenture Application A/c	Dr.	30,00,00,000	
	To 8% Debentures A/c (Application money transferred to 8% debentures account consequent upon allotment)			30,00,00,000
	Debenture allotment A/c	Dr.	60,00,00,000	
	Discount on issue of debentures A/c	Dr.	10,00,00,000	
	To 8% Debentures A/c (Amount due on allotment)			70,00,00,000
	Bank A/c	Dr.	60,00,00,000	
	To Debenture Allotment A/c (Money received consequent upon allotment)			60,00,00,000

3. ICAI Illustration 3

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money

Solution:

Books of Koinal Chemicals Ltd.

Journal

When premium money is received alongwith application money :

Date	Particulars	L.F.	Debit	Credit

			Amount (₹)	Amount (₹)
	Bank A/c	Dr.	3,00,00,000	
	To Debenture Application A/c (Debenture application money received)			3,00,00,000
	Debentures Application A/c	Dr.	3,00,00,000	
	To 10% Debentures A/c			2,25,00,000
	To Securities Premium A/c			75,00,000
	(Application money transferred to 10% debentures account and securities premium account consequent upon allotment)			
	Debenture Allotment A/c	Dr.	5,25,00,000	
	To 10% Debentures A/c			5,25,00,000
	(Call made consequent upon allotment)			
	Bank A/c	Dr.	5,25,00,000	
	To Debenture Allotment A/c			5,25,00,000
	(Call made consequent upon allotment money received)			

4. ICAI Illustration 4

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows:

On application ₹ 30

On allotment ₹ 70

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

Solution:

Books of Modern Equipments Ltd.

Journal

Date	Particulars		Debit Amount (₹' Lakhs)	Credit Amount (₹' Lakhs)
	Bank A/c	Dr.	120	

	To 12% Debentures application A/c(Debenture application money received)			120
	12% Debentures Application A/c	Dr.	120	
	To 12% Debentures A/c			120
	(Application money transferred to 12% debentures accountconsequent to allotment)			
	12% Debentures Allotment A/c	Dr	280	
	Loss on issue of Debentures A/c	Dr.	40	
	To 12% Debentures A/c			280
	To Debenture redemption premium A/c			40
	(Call made on allotment of debentures at par and entry fordebentures redeemable at premium)			
	Bank A/c	Dr	280	
	To 12% Debentures allotment A/c			280
	(Call made consequent upon allotment money received)			

5. ICAI Illustration 5

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

Solution:

Books of Agrotech Ltd.

Journal

Date	Particulars	L.F.	Debit Amount (₹' Lakhs)	Credit Amount (₹' Lakhs)
	Bank A/c	Dr.	7,500	
	To Debenture Application A/c			7,500

	(Debentures application money received)			
	Debenture Application A/c Dr. To 9% Debentures A/c (Application money transferred to 9% debenturesaccount)		7,500	7,500
	Debenture Allotment A/c Dr. Loss on issue of debenture A/c Dr. To 9% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debenturesissued at discount and redeemable at premium)		6,600 1,650	7,500 7,50
	Bank A/c Dr. To Debenture Allotment A/c (Allotment amount received)		6,600	6,600

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹100 + 5% of ₹100) x 150 lakh

= (₹ 6 + ₹ 5) x 150 lakh

= ₹ 1,650 lakh

6. ICAI Illustration 6

Simmons Ltd. issued 1,00,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

Solution:

In the books of Simmons Limited

Date	Particulars		₹000	₹000
April 1	Bank A/c	Dr.	11,000	
	To 12% Debentures Application A/c			11,000
	(Being money received on 1,10,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	10,000	
	To 12% Debentures A/c			10,000
	(Being the allotment of 1,00,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

7. ICAI Illustration 7

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2022. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2022. Excess monies were refunded on the same date. Pass necessary Journal Entries. Also show necessary ledger accounts.

Solution:

In the books of X Limited Journal Entries

Date 2022	Particulars		₹'000	₹'000
May 31	Bank A/c	Dr.	10,800	
	To 12% Debentures Application A/c			10,800
	(Being money received for 1,20,000 debentures @ ₹ 90 each)			
June 9	12% Debentures Application A/c	Dr.	1,800	
	To Bank A/c			1,800
	(Being excess money on 20,000 debentures @ ₹ 90 refunded			

	asper Board's Resolution No....dated....)			
June 9	12% Debentures Application A/c	Dr.	9,000	
	Discount on Issue of Debentures A/c	Dr.	1,000	
	To 12% Debentures A/c			10,000
	(Being the allotment of 1,00,000 debentures of ₹ 100 each at a discount of ₹10 per debenture as per Board's Resolution No..... dated...)			

Bank Account

Date	Particulars	₹	Date	Particulars	₹
31.5.2022	To 12% Debentures Application A/c	10,800	9.6.2022	By 12% Debentures Application A/c	1,800
			9.6.2022	By Balance c/d	9,000
		10,800			10,800

12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
30.6.2022	To Balance c/d	10,000	9.6.2022	By 12% Debentures Application A/c	9,000
			9.6.2022	By Discount on Issue of Debentures A/c	1,000
		10,000			10,000

12% Debentures Application Account

Date	Particulars	₹	Date	Particulars	₹
9.6.2022	To Bank A/c	1,800	31.5.2022	By Bank A/c	10,800
9.6.2022	To 12% Debentures A/c	9,000			
		10,800			10,800

Discount on Issue of Debentures Account

Date	Particulars	₹	Date	Particulars	₹
9.6.2022	To12% Debentures A/c	1,000	30.6.2022	By Balance c/d	1,000
		1,000			1,000

8. ICAI Illustration 8

X Ltd. obtains a loan from IDBI of ₹1,00,00,000, giving as collateral security of ₹1,50,00,000 (of ₹ 10 each), 14%, First Mortgage Debentures.

Solution:

In the Notes to Accounts of Balance Sheet of X Ltd., it is shown as follows:

Notes to Accounts of X Limited as at...(includes)

Long Term Borrowings	₹
Secured Loan	
IDBI Loan	1,00,00,000

(Collaterally secured by issue of ₹ 1,50,00,000 14% First Mortgage Debentures)

9. ICAI Illustration 9

Taking the same information of the illustration 8, the entry on issue will be as follows :

Solution:

In the Books of X Ltd.

Journal

Date	Particulars	₹	₹
	Debentures Suspense A/c Dr. To 14% First Mortgage Debentures A/c (Being the issue of ₹15,00,000 debentures @ ₹10 collaterally as per Board's Resolution No...dated...)	1,50,00,000	1,50,00,000

Balance Sheet of X Limited as at....(Extracts)

	Particulars		Notes No.	₹	
	EQUITY AND LIABILITIES				
I.	Non-Current Liabilities				
	Long Term Borrowings		1	2,50,00,000	

		Total		2,50,00,000	
	ASSETS				
2.	Non-current Assets				
	Other non- current asset		2	1,50,00,000	
3.	Current Assets				
	Cash and cash equivalent			1,00,00,000	
		Total		2,50,00,000	
Notes to accounts					
				₹	₹
1.	**Long Term Borrowings**				
	Secured Loan				
	IDBI Loan			1,00,00,000	
	14% First Mortgage Debentures			1,50,00,000	2,50,00,000
2.	**Other non-current asset** Debenture Suspense Account (issue of ₹15,00,000 14% First Debentures as collateralsecurity as per contra)				1,50,00,000

10. ICAI Illustration 10

X Company Limited issued 10,000 14% Debentures of the nominal value of ₹50,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ₹25,00,000.

(b) To a vendor for purchase of fixed assets worth ₹10,00,000 – ₹12,50,000 nominal value.

(c) To the banker as collateral security for a loan of ₹10,00,000 – ₹12,50,000 nominal value.

Pass necessary Journal Entries.

Solution:

In the books of X Company Ltd.

Journal Entries

Date	Particulars		₹	₹
(a)	Bank A/c	Dr.	22,50,000	

	To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 450 each)		22,50,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr.	22,50,000 2,50,000	
	To 14% Debentures A/c (Being the issue of 5,000 14% Debentures @ 90% as per Board's Resolution No....dated....)		25,00,000
(b)	Fixed Assets A/c To Vendor A/c Dr.	10,00,000	
	(Being the purchase of fixed assets from vendor)		10,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr.	10,00,000 2,50,000	
	To 14% Debentures A/c (Being the issue of debentures of ₹ 12,50,000 to vendor to satisfy his claim)		12,50,000
(c)	Bank A/c Dr.	10,00,000	
	To Bank Loan A/c (See Note) (Being a loan of ₹10,00,000 taken from bank by issuing debentures of ₹12,50,000 as collateral security)		10,00,000

Note : No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

II. ICAI Illustration II

HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on Ist January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

Solution:

Total amount of discount comes to ₹ 6,00,000 (₹6 X 1,00,000). The amount of discount to be written-off in each year is calculated as under :

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
2nd	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
3rd	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
4th	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
5th	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000

12. ICAI Illustration 12

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

Solution:

Calculation of amount of discount to be written-off

At the Year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
2022	₹ 20,00,000	5	5/15th of ₹ 1,20,000 = ₹ 40,000
2023	₹ 16,00,000	4	4/15th of ₹ 1,20,000 = ₹ 32,000
2024	₹ 12,00,000	3	3/15th of ₹ 1,20,000 = ₹ 24,000
2025	₹ 8,00,000	2	2/15th of ₹ 1,20,000 = ₹ 16,000
2026	₹ 4,00,000	1	1/15th of ₹ 1,20,000 = ₹ 8,000
	TOTAL	15	₹ 1,20,000

13. ICAI Illustration 13

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2019. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2022.

Solution:

Journal Entries

			(₹)	(₹)
1-1-2022	Bank A/c	Dr.	9,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.To	1,50,000	
	12% Debentures A/c	Dr.		10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c(For interest payable)			6,000
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/cTo Bank A/c	Dr.	6,000	
	(For payment of interest and TDS)			60,000
31-12-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			
	To Tax Deducted at Source A/c(For interest payable)			54,000
				6,000
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/cTo Bank A/c	Dr.	6,000	
	(For payment of interest and tax)			60,000
	Profit and Loss A/c	Dr.	1,20,000	
	To Debenture Interest A/c			1,20,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	

	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 1,50,000 x 1/5)			

14. ICAI Practical Question 1

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10 Pass necessary journal entries at the time of issue.

Solution:

Journal Entries in the Books of Country Crafts Ltd.

Date	Particulars		L.F.	Debit Amount	Credit Amount
				(₹'000)	(₹'000)
(a)	Bank A/c	Dr.		10,500	
	To Debenture Application A/c				10,500
	(Debenture application money received)				
(b)	Debenture Application A/c	Dr.		10,500	
	Loss on Issue of Debenture A/c	Dr.		1,000	
	To Securities Premium A/c				500
	To 8% Debentures A/c				10,000
	To Premium on Redemption A/c				1,000
	(Debenture application money transferred to debenture account)				

15. ICAI Practical Question 2

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹ 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

Solution:

Journal Entries in the Books of Koinal Chemicals Ltd.

Particulars		Debit Amount (₹ lakhs)	Credit Amount (₹ lakhs)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	400	400
Debentures Application A/c To 10% Debentures A/c	Dr.	400	400
(Debenture application money transferred to 10% debenture account consequent upon allotment)			
Debenture allotment A/c	Dr.	700	
To 10% Debentures A/c			600
To Securities Premium A/c			100
(Call made on allotment of debenture including premium)			
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	700	700

16. ICAI Practical Question 3

Kapil Ltd. issued 50,000, 12% Debentures of ₹100 each at a premium of 10% payable in full on application by 1st March, 2022. The issue was fully subscribed and debentures were allotted on 9th March, 2022. Pass necessary Journal Entries (including cash transactions).

Solution:

Journal Entries in the books of Kapil Limited

Date	Particulars		₹	₹
2022				
March 1	Bank A/c	Dr	55,00,000	
	To 12% Debentures Application A/c			55,00,000
	(Being the money received on 50,000 debentures @ ₹ 110 each including premium of ₹ 10 each)			
March 9	12% Debentures Application A/c	Dr.	55,00,000	
	To 12% Debentures A/c			50,00,000
	To Securities Premium A/c			5,00,000
	(Being the allotment of 50,000 debentures of ₹ 100 each, premium @₹ 10 each transferred to Securities Premium Account as per Board's Resolution No....dated....)			

17. ICAI Practical Question 4

On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of ₹100 each at a discount of 5%, redeemable on 31 March 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

I. Journal Entries at the time of issue of debentures.
II. Discount on issue of Debenture Account
III. Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

Solution:

(i) Journal in the Books of Sheru Ltd.

Date	Particulars	LF	(₹00)	(₹00)
2022				
Apr 1	Bank A/c		1,14,000	
	To Debenture Application A/c			1,14,000
	(Being debenture application money received for 1,20,000 debentures)			

	Debenture Application A/c Dr		1,14,000	
	Discount on Issue of Debenture A/c DrTo		5,000	
	12% Debenture A/c			1,00,000
	To Bank A/c			19,000
	(Being application money transferred to debenture account and excess refunded)			

(ii)

Discount on Issue of Debenture A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
1.4.21	To 12% Debentures A/c	5,000	31.3.22	By Profit & Loss A/c	1,000
		5,000	31.3.22	By Balance c/d	4,000
1.4.22	To Balance b/d	4,000			5,000
		4,000		By Profit & Loss A/c	1,000
1.4.23	To Balance b/d	3,000		By Balance c/d	3,000
		3,000			4,000
1.4.24	To Balance b/d	2,000		By Profit & Loss A/c	1,000
		2,000		By Balance c/d	2,000
1.4.25	To Balance b/d	1,000			3,000
		1,000		By Profit & Loss A/c	1,000
				By Balance c/d	1,000
					2,000
				By Profit & Loss A/c	1,000
					1,000

Interest A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
31.3.22	To Debentureholder A/c	12,000	31.3.22	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.23	To Debentureholder A/c	12,000	31.3.23	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.24	To Debentureholder A/c	12,000	31.3.24	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.25	To Debentureholder A/c	12,000	31.3.25	By Profit & Loss A/c	12,000
		12,000			12,000
31.3.26	To Debentureholder A/c	12,000	31.3.26	By Profit & Loss A/c	12,000
		12,000			12,000

Debentureholder A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
31.3.22	To Bank A/c	10,800	31.3.22	By Interest A/c	12,000
31.3.23	To TDS A/c	1,200			
		12,000			12,000
31.3.23	To Bank A/c	10,800	31.3.23	By Interest A/c	12,000
31.3.23	To TDS A/c	1,200			
		12,000			12,000
31.3.24	To Bank A/c	10,800	31.3.24	By Interest A/c	12,000
31.3.24	To TDS A/c	1,200			
		12,000			12,000
31.3.25	To Bank A/c	10,800	31.3.25	By Interest A/c	12,000
31.3.25	To TDS A/c	1,200			
		12,000			12,000
31.3.26	To Bank A/c	10,800	31.3.26	By Interest A/c	12,000
31.3.26	To TDS A/c	1,200			
		12,000			12,000

18. RTP May 2018

Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

a) To sundry per sons for cash at 90% of nominal value of ₹ 50,00,000.

b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

Solution:

In the books of Riya Company Ltd. Journal Entries

Date	Particulars		Dr.	Cr.
			₹	₹

(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

19. RTP Nov 2018

A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Solution:

In the books of A Limited

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

20. QP Nov 18

Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on Ist January, 2018. Under the terms of issue, the Debentures are redeemable at the end of years from the date of issue.

Calculate the amount of discount to be written-off in each of the years.

Solution:

Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding		Ratio in which discount to be written-off	Amount of discount to be written-off		
Ist	₹	10, 00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
2nd	₹	10, 00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
3rd	₹	10, 00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
4th	₹	10, 00,000	1/5	1/5th of ₹ 60,000 = ₹		12,000
5th	₹	10, 00,000	1/5	1/5th of ₹ 60,000 = ₹		12,000

21. Mock Test I

Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

Rs. 40 on application

Rs. 50 on allotment

Record necessary journal entries regarding issue of debentures.

Solution:

22. Mock test 2

Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

Solution:

23.RTP MAY 20 (Issue of Debentures)

Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years.

Solution:

Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be	Amount of discount to be written-off		
1st	₹ 10,00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
2nd	₹ 10,00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
3rd	₹ 10,00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
4th	₹ 10,00,000	1/5	1/5th of ₹	60,000 = ₹	12,000
5th	₹ 10,00,000	1/5	1/5th of ₹	60,000 = ₹	12,000

24. RTP NOV 20 (Issue of Debentures)

A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Solution:

In the books of A Limited

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

25. QP NOV 20 (Issue of debentures)

Y company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

i. To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.

ii. Top sundry persons for each at 90% of nominal value of ₹ 30,00,000.

iii. To the banker as collateral security for a loan of ₹ 14,00,000- ₹ 15,00,000 nominal value.

You are required to pass necessary Journal Entries.

Solution:

In the books of Y Company Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(i)	Fixed Assets A/c	Dr.	13,00,000	
	To Vendor A/c			13,00,000
	(Being the purchase of fixed assets fromvendor)			
	Vendor A/c	Dr.	13,00,000	
	Discount on Issue of Debentures A/c	Dr.	2,00,000	
	To 12% Debentures A/c			15,00,000

	(Being the issue of debentures of ₹15,00,000 to vendor to satisfy his claim)			
(ii)	Bank A/c	Dr.	27,00,000	
	To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹540 each)			27,00,000
	Debentures Application A/c	Dr.	27,00,000	
	Discount on issue of Debentures A/c	Dr.	3,00,000	
	To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No....dated....)			30,00,000
(iii)	Bank A/c	Dr.	14,00,000	
	To Bank Loan A/c (See Note)			14,00,000
	(Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)			

Additional Question
(Exam, RTP, Mock Test Question of June 2021 and December 2021)

Issue And Forfeiture of share

1. RTP MAY 21

Alankit Limited issued at par 2,00,000 Equity shares of ₹ 100 each payable ₹ 25 on application; ₹ 30 on allotment; ₹ 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.

You are required to prepare journal entries to record these transactions.

Solution:

Book of Alankit Limited
Journal

Date	Particulars		L.F.	Debit Amount(₹)	Credit Amount(₹)
	Bank A/c	Dr.		50,00,000	
	To Equity Share Application A/c				50,00,000
	(Money received on applications for				
	2,00,000 shares @₹ 25 per share)				
	Equity Share Application A/c	Dr.		50,00,000	
	To Equity Share Capital A/c				50,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		60,00,000	
	To Equity Share Capital A/c				60,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)				
	Bank A/c	Dr.		60,00,000	
	To Equity Share Allotment A/c				60,00,000

	(Allotment money received)				
	Equity Share First Call A/c	Dr.		40,00,000	
	To Equity Share Capital A/c				40,00,000
	(Being first call made due on 2,00,000shares at ₹ 20 per share)				
	Bank A/c	Dr.		50,00,000	
	To Equity Share First Call A/c To Calls in Advance A/c				40,00,000 10,00,000
	(Being first call money received alongwith calls in advance on 2,00,000 shares at ₹25 per share)				
	Equity Share Final Call A/c	Dr.		50,00,000	
	To Equity Share capital A/c (Being final call made due on 2,00,000shares at ₹25 each)				50,00,000
	Bank A/c Calls in Advance A /C Calls in Arrears A/c (Being final call received for 1,56,000 shares and calls in advance for 40,000shares adjusted)	Dr. Dr. Dr.		39,00,000 10,00,000 1,00,000	50,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹10,000,00 at the rate of12% p.a.)	Dr.		30,000	30,000
	shareholders A/c To bank A/c (Being payment of Interest made to shareholders	Dr.		30,000	30,000
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears madedue at the rate of 10%)	Dr.		1,667	1,667
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received fromshareholder for calls in arrears and interest thereupon)	Dr.		1,01,667	1,00,000 1,667

2. RTP MAY 21

Samuel who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at

₹ 25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Solution:

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (12,000 x ₹75)	Dr.	9,00,000	
To Preference Share Allotment A/c			3,00,000
To Preference Share First Call A/c			3,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 12,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated ..)			
Bank A/c (10,000 x ₹65)	Dr.	6,50,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			7,50,000
(Being re-issue of 10,000 shares at ₹ 65 per sharepaid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,50,000	
To Capital Reserve A/c (Working Note)			1,50,000
(Being profit on re-issue transferred to			
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,00,000/12,000 = ₹ 25

Loss on re-issue = ₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 10,000 = ₹ 1,50,000.

3. RTP NOV 21

On Ist April, 2020, States Ltd. issued 1,80,000 shares of ₹ 10 each payable as follows:

₹ 2 on application, ₹ 3 on allotment, ₹ 2 on First call Ist October, 2020; and ₹ 3 on Final call Ist February, 2021.

By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on Ist June. All sums due on allotment were received on 15 th July; those on Ist call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31 st March, 2021.

Solution:

States Ltd.

Journal

2020			Dr. ₹	Cr. ₹
May 20	Bank Account	Dr.	3,00,000	
	To Share Application A/c			3,00,000
	(Application money on 1,50,000 shares at ₹ 2per share received.)			
June 1	Share Application A/c	Dr.	3,00,000	
	To Share Capital A/c			3,00,000
	(The amount transferred to Capital Account on 1,50,000 shares ₹ 2 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000

	(Being share allotment made due at ₹ 3 per share. Directors' resolution no.. dated ....)			
July 15	Bank Account	Dr.	4,50,000	
	To Share Allotment A/c			4,50,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	3,00,000	
	To Share Capital Account			3,00,000
	(Amount due from members in respect of first call-on 1,50,000 shares at ₹ 2 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	3,00,000	
	To Share First Call Account			3,00,000
	(Receipt of the amounts due on first call.)			
2021				
Feb. 1	Share Second and Final Call A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000
	(Amount due on 1,50,000 share at ₹ 3 per share on second and final call, as perDirectors resolution no... dated...)			
March 31	Bank Account	Dr.	4,50,000	
	To Share Second & Final Call A/c			4,50,000
	(Amount received against the final call on1,50,000 shares at ₹3 per share.)			

4. RTP NOV 21

Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Solution:

In the books of Company

Journal

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (12,000 x ₹60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares ₹ 60each being called up for non-payment of allotment			
and first call money as per Board's Resolution No.... dated ..)			
Bank A/c (10,000 x ₹50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to			
Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 2,40,000/1,20,000 = ₹ 20

Loss on re-issue =₹ 60 – ₹ 50 = ₹ 10

Surplus per share re-issued ₹ 10

Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

5. QP July 21

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

Solution:

			Dr. ₹	Cr. ₹
1	Bank Account	Dr.	27,00,000	
	To Share Application & Allotment A/c			27,00,000
	(Being Application money on 3,00,000 shares at ₹ 9 per share received.)			
2	Share Application & Allotment A/c	Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)			3,00,000
	To Securities premium A/c (75,000 x ₹ 5)			3,75,000
	To Bank A/c (2,00,000 x ₹ 9)			18,00,000
	To Share First & Final Call A/c			2,25,000
	(Being application money transferred)			
3	Share First & Final Call A/c (75,000 x6)	Dr.	4,50,000	
	To Share Capital Account			4,50,000
	(Amount First & Final Call A/c due from membersas per Directors, resolution no...... dated ....)			
4	Bank Account A/c	Dr.	2,21,625	

	Calls in arrear A/c	Dr.	3,375	
	To Share First & Final Call Account			2,25,000
	(Being Receipt of the amounts due on first call.)			
5	Equity share capital A/c	Dr.	11,250	
	To Share forfeiture A/c			7,875
	To Calls in arrear A/c			3,375
	(Being 1,125 shares forfeited for non payment offinal call.)			
6	Bank Account A/c (1,125 x ₹ 6)	Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4)		4,500	
	To Share Capital Account (1,125 x ₹ 10)			11,250
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		3,375	
	To Capital reserve A/c			3,375
	(Being share forfeiture transferred to capitalreserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000 1,00,000	- 75,000	18,00,000 9,00,000	- 3,00,000	- 3,75,000	- 2,25,000	- 4,50,000	- 4,25,000	18,00,000 -
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

*** ₹ 4,50,000 less ₹ 3,375.**

2. Number of shares allotted to Mr. Raj = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. **Calculation of calls in arrear**

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375

Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

6. QP Dec 21

Fashion Garments ltd invited applications for using 10,000 Equity Shares of ₹ 10 Each. The Amount was payable as follows:

(i)	On Application	Rs. 1 per share
(ii)	On Allotment	Rs. 2 per share
(iii)	On first Call	Rs. 3 per share
(iv)	On Second and Final Call	Rs. 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. his shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay second and final call his shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid -up.

Pass necessary Journal entries in the books of fashion Garments Ltd.

Solution:

In the books of Fashion Garments Ltd.

Journal Entries

Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c	Dr.		10,000	
To Equity Share Application A/c				10,000
(Money received on applications for 10,000shares @ ₹1 per share)				
Equity Share Application A/c	Dr.		10,000	
To Equity Share Capital A/c				10,000
(Transfer of application money on 10,000shares to share				

capital)				
Equity Share Allotment A/c	Dr.		20,000	
To Equity Share Capital A/c				20,000
(Amount due on the allotment of 10,000shares @ ₹ 2 per share)				
Bank A/c	Dr.		19,800	
To Equity Share Allotment A/c				19,800
(Allotment money received on 9,900 shares)				
OR				
Bank A/c	Dr.		19,800	
Calls in arrears A/c	Dr.		200	
To Equity Share Allotment A/c				20,000
(AllotmentAmount received except 100shares)				
Equity Share Capital A/c	Dr.		300	
To Share Forfeiture A/c				100
To Equity Shares Allotment A/c(100 Shares of Ram forfeited)				200
OR				
Equity Share Capital A/c	Dr.		300	
To Shares Forfeiture A/cTo Calls in arrears A/c				100
(100 shares forfeited due to non-payment of allotment money)				200
Equity Share First Call A/c	Dr.		29,700	
To Equity Share Capital A/c				29,700
(First call made due on 9,900 shares at ₹ 3per share)				
Bank A/c	Dr.		29,250	
To Equity Share First Call A/c				29,250
(First call money received on 9,750 shares at ₹ 3 per share)				
OR				
Bank A/c	Dr.		29,250	
Calls in arrears A/c	Dr.		450	
To Equity Share First Call A/c				29,700
(First Call money received except 150 shares)				
Equity Share Capital A/c	Dr.		900	

To Share Forfeiture A/c To Equity Share First Call A/c(150 Shares of Shyam forfeited)				450 450
OR Equity Share Capital A/c To Share Forfeiture A/cTo Calls in arrears A/c (150 shares forfeited due to non - payment of First call money)	Dr.		900	450 450
Equity Share Second and Final Call A/c	Dr.		39,000	
To Equity Share Capital A/c				39,000
(Second and Final call made due on 9,750shares at ₹ 4 per share)				
Bank A/c	Dr.		38,800	
To Equity Share Second and Final Call A/c				38,800
(Second and Final call money received on9,700 shares at ₹ 4 per share) **OR** Bank A/c Calls in arrears A/c To Equity Shares Second and Final call A/c(Second and Final call money received except 50 shares)	Dr. Dr.		38,800 200	39,000
Equity Share Capital A/c	Dr.		500	
To Share Forfeiture A/c To Equity Share Second and Final Call A/c(50 Shares of Mohan forfeited) **OR** Equity Share Capital A/c To Shares Forfeiture A/cTo Calls in arrears A/c (50 shares forfeited due to non-payment ofSecond and final call money)	Dr.		500	300 200 300 200
Bank A/c	Dr.		2,700	
Share Forfeiture A/c To Equity Share Capital A/c	Dr.		300	3,000
(300 shares reissued at ₹ 9 per share)				

Share Forfeiture A/c To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)	Dr.		550	 550

Working Note-1: Calculation of amount to be transferred to Capital Reserve: Surplus out of 100 shares of Ram forfeited ₹ 100

Surplus out of 150 shares of Shyam forfeited	₹ 450
Surplus out of 50 shares of Mohan forfeited	₹ 300
	₹ 850
Less: Loss on re-issue of shares	₹ 300
Transferred to Capital Reserve	₹ 550

7. Mock Test Oct 21 (series 1)

Suresh Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Mahesh for ₹ 8 per share.

Solution:

Journal Entries in the books of Suresh Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x ₹ 3)			900
	To Equity Share Final Call A/c (300 x ₹ 4)			1,200
	To Forfeited Shares A/c (300 x ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No...............dated)			
(b)	Bank Account (300 x 8)	Dr.	2,400	

	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @₹ 8 each as fully paid up to Mahesh as per Board's resolution No..........dated)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

8. Mock Test Nov 21

Hament applies for 2,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. He was allotted 1,000 shares. After having paid Rs. 3 per share on application, he did not pay the allotment money of Rs. 4.50 per share (including premium) and on his subsequent failure to pay the first call of Rs. 2 per share, his share were forfeited. These share were reissued at Rs. 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

Solution:

Journal

		Dr.	Cr.
Share Capital A/c	Dr.	7,000	
Securities Premium Reserve A/c	Dr.	1,500	
To Forfeited Share A/c			5,000
To Share Allotment A/c			1,500
To Share First Call A/c			2,000
(Being 1000 shares forfeited for non-payment of allotment money and first call)			
Bank A/c	Dr.	8,000	
Forfeited Shares A/c	Dr.	2,000	
To Share Capital A/c			10,000

(Being 1000 forfeited shares reissued as fully paid up for Rs 8 per share)			
Forfeited Shares A/c	Dr.	3,000	
To Capital Reserve A/c			3,000
(Being the transfer of gain on reissue)			

Working Note:

Calculation of the amount due but not paid on allotment	₹
(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (₹ 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (₹ 4,500 - ₹ 3,000)	1,500
Out of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium Reserve. Out of excess application money of ₹ 3,000, ₹ 2000 are adjusted towards allotment as share capital and ₹ 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ₹ 1,500 (i.e. ₹ 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ₹ 1,500.	

Issue of Debentures

9. RTP MAY 21

Priya Ltd. issued 25,00,000, 12% debentures of ₹ 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 4 on application

₹ 5 on allotment

Record necessary journal entries regarding issue of debenture.

Solution:

Books of Priya Ltd.

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c	Dr.	1,00,00,000	
To Debenture Application A/c			1,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	1,00,00,000	
To 12% Debentures A/c			1,00,00,000
(Application money transferred to 12% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	1,25,00,000	
Discount on issue of debentures A/c	Dr.	25,00,000	
To 12% Debentures A/c			15,000,000
(Amount due on allotment)			
Bank A/c	Dr.	1,25,00,000	
To Debenture Allotment A/c			125,00,000
(Money received consequent upon allotment)			

10.RTP NOV 21

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 20 % discount; and (iii) Debentures are issued at 20% premium.

Solution:

Books of Avantika Ltd.

Journal

Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			

Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			
Case(iii) When debentures are issued at 20% premium:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			8,25,000
To Premium on Issue of Debentures A/c			1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)			

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100
Less: Discount 20%	20
Value at which issued	80
₹ 9,90,000/80 = 12,375 Debentures	

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120
₹9,90,000/ 120	= 8,250 Debentures

11. Mock Test Oct 21 (series 1)

On 1st April, 2020, Sky ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Universe Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000,8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Sky ltd. for financial year 2020-21.

Solution:

Journal of Sky Ltd.

Date	Particulars		Dr.	Cr.
2020	Sundry Assets A/c	Dr.	4,50,000	
April,1	Goodwill A/c (Bal. fig)	Dr.	50,00	
	To Universe Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Asset and liabilities taken over for a net Consideration of ₹ 4,40,000)			
	Universe Ltd. A/c	Dr.	4,40,000	
	To Debentures A/c			4,00,000
	To Securities Premium Reserve A/c			40,000
	(Being 4000; 8% Debenture of ₹ 100 each Issued at a premium of 10%)			
	Bank A/c	Dr.	90,000	
	To Debenture Application A/c			90,000
	(Being the application money receive for 3000, 8% Debenture)			
	Debenture Application A/c	Dr.	90,000	
	To 8% Debenture A/c			90,000
	(Being 3000; 8% Debenture allotted)			
	Debentures allotment A/c	Dr.	1,80,000	
	Loss on issue of debenture A/c	Dr.	45,000	
	To 8% Debentures A/c			2,10,000
	To Premium on redemption of debentures A/c			15,000
	(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c	Dr.	1,80,000	
	To Debentures Allotment A/c			1,80,000
	(Being the allotment money received)			

2021 March,31	Securities Premium Reserve A/c	Dr.	40,000	
	Profit and Loss A/c	Dr.	5,000	
	To Loss on issue of Debenture A/c			45,000
	(Being the Loss on issue of debenture written off)			

12. Mock Test Nov 21

On 1st January, 2020 Simon Ltd. issued 10% debentures of the face value of Rs. 10,00,000 at 10% discount. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the year ending December,2020.

Solution:

Journal Entries

			Dr. (₹)	Cr. (₹)
1-1-2020	Bank A/c	Dr.	9,50,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 10% Debentures A/c			10,00,000
	To Premium on Redemption ofDebentures A/c			50,000
	(For issue of debentures at discountredeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	50,000	
	To Debenture holders A/c			45,000
	To Tax Deducted at Source A/c			5,000
	(For interest payable)			
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	50,000	

	To Debenture holders A/c			45,000
	To Tax Deducted at Source A/c			5,000
	(For interest payable)			
	Debenture holders A/c	Dr.	45,000	
	Tax Deducted at Source A/c	Dr.	5,000	
	To Bank A/c			50,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	1,00,000	
	To Debenture Interest A/c			1,00,000
	(For transfer of debenture interest to profit andloss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	
	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount andpremium on redemption written off, i.e., 50,000x 1/5)			

13. RTP May 22

On 1st June, 2020, Suraj Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 20 on allotment;

First call of ₹ 30 on 1st Dec, 2020; and

Second and final call of ₹ 30 on 1st March, 2021.

By 20th July, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2021.

Solutions

In the books of Suraj Ltd.

Journal Entries

2020			Dr.	Cr.
July 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at ₹ 20 per share received.)			
Aug 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares ₹ 20 on application. Directors' resolution no........ dated)			
	Share Allotment A/c	Dr.	8,00,000	
	To Share Capital A/c (Being share allotment made due at ₹ 20 per share. Directors' resolution no...... dated)			8,00,000
Sept 15	Bank Account	Dr.	8,00,000	
	To Share Allotment A/c			8,00,000
	(The sums due on allotment received.)			
Dec. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 80,000 shares at ₹ 30 as per Directors, resolution no...dated...)			
Dec. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2021				
March 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 40,000 share at ₹ 30 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 40,000 shares at ₹ 30 per share.)			

14. RTP May 22

Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non- payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares.

Solutions

In the Books of Delta Ltd.

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share capital A/c (600 × ₹ 10) Dr.		6,000	1,800
1.	Securities Premium A/c (600 × ₹ 1) Dr.		600	
	To Calls-in-arrears A/c (600 × ₹ 3)			
	To forfeited Shares A/c (600 × ₹ 8)			4,800
	(Being 600 shares forfeited for non-payment of call money)			
2.	Bank A/c (400 × ₹ 9) Dr.		3,600	
	Forfeited Shares A/c (400 × ₹ 1) Dr.		400	
	To Share Capital A/c (400 × ₹ 10)			4,000
	(Being 400 shares re-issued as fully paid-up for ₹ 9 per share)			
3.	Forfeited Shares A/c Dr.		2,800	
	To Capital Reserve A/c			2,800
	(Being the transfer of profit on re-issue of 400 shares to Z)			
4.	Bank A/c (100 × ₹ 11) Dr.		1,100	
	To Share Capital A/c (100 × ₹ 10)			1,000
	To Securities Premium A/c (100 × ₹ 1)			100
	(Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)			
5.	Forfeited Shares A/c (₹ 4,800 × 100/600) Dr.		800	
	To Capital Reserve A/c			800
	(Being the transfer of profit on re-issue of 100 shares to X)			

15. RTP May 22

On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date. XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

Solutions

Journal Entries

Date	Particular	L.F	Dr.	Cr.
2020	Sundry Assets A/c Dr.		4,50,000	
April	Goodwill A/c (Bal. fig) Dr.		50,000	
	To Himalayan Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Assets and liabilities taken over for anet consideration of ₹ 4,40,000)			
	Himalyan Ltd. A/c Dr.		4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Being 4000; 8% Debenture of ₹ 100 eachissued at a premium of 10%)			
	Bank A/c Dr.		90,000	
	To Debenture Application A/c			90,000
	(Being the application money received for3000, 8% Debenture)			
	Debenture Application A/c Dr.		90,000	
	To 8% Debenture A/c			90,000
	(Being 3000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		1,80,000	
	Loss on issue of debenture A/c Dr.		45,000	
	To 8% Debentures A/c			2,10,000

	To Premium on redemption of debentures A/c			15,000
	(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c Dr.		1,80,000	
	To Debentures Allotment A/c			1,80,000
	(Being the allotment money received)			
2021				
Mar,31	Profit and Loss A/c Dr.		45,000	
	To Loss on issue of Debenture A/c			45,000
	(Being the Loss on issue of debenture writtenoff)			

16. RTP Nov 22

Radha Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each. The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Radha Ltd.

Solutions

In the books of Radha Ltd.

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000

(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x ₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6)	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10) (Being re-issue of 2,500 shares @ 6)			25,000
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			₹
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 x 2,500		= ₹ 10,000

17.RTP Nov 22

Pure Ltd. issues 5,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January,2022. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written off in each of the 5 years.

Solution

Total amount of discount comes to ₹ 3,00,000 (₹ 0.6 X 5, 00,000). The amount ofdiscount to be written-off in each year is calculated as under:

Year end Outstanding	Debentures	Ratio in which discountto be written-off	Amount of discount to bewritten-off
1st	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
2nd	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
3rd	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
4th	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
5th	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000

18.ICAI Exam May 22

A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).

Solution

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per share)		40,000	 40,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)		40,000	 40,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)		80,000	 60,000 20,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		80,000	 80,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share)		40,000	 40,000
6	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)		46,000	 40,000 6,000
	Equity Share Final Call A/c Dr.		60,000	

7	To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each)		60,000
8	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)	53,100 6,000 900	 60,000
9	Interest on Calls in Advance A/c Dr. To Shareholders A/c (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)	240	 240
10	Shareholders A/c Dr. To Bank A/c (Being payment of interest made to shareholder)	240	 240
11	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	15	 15
12	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)	615	 600 15
13	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	10	 10
14	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 100 share for calls in arrears and interest thereupon)	310	 300 10

Calculation of Interest on Calls in Advance & Calls in Arrears: Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240 Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

19. MTP Nov 22 Series I

Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Azar Ltd. forfeited 600 shares of ₹ 10 each fully called up, held by Ali for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Kaif for ₹ 8 per share.

(ii) Mr. X, who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Y at ₹ 60 per share paid-up as ₹ 70 per share.

Solution

(i) Journal Entries in the books of Azar Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	6,000	
	To Equity Share Allotment money A/c (600 x ₹ 3)			1,800
	To Equity Share Final Call A/c (600 x ₹ 4)			2,400
	To Forfeited Shares A/c (600 x ₹ 3)			1,800
	(Being the forfeiture of 600 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ali as per Board's resolution No.............dated)			
(b)	Bank Account (600 x 8)	Dr.	4,800	
	Forfeited Shares Account (600x 2)	Dr.	1,200	
	To Equity Share Capital Account			6,000
	(Being the re-issue of 600 forfeited shares @ ₹ 8 each as fully paid up to Kaif as per Board's resolution No..........dated)			
(c)	Forfeited Shares Account	Dr.	600	

	To Capital Reserve Account		600
	(Being the profit on re-issue, transferred to capital reserve)		

(ii)

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ₹ 20)			50,000
To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Working Note)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 75,000/2,500	= ₹ 30
Loss on re-issue =₹ 70 – ₹ 60	= ₹ 10
Surplus per share re-issued	₹ 20
Transferred to capital Reserve ₹ 20 x 2000	= ₹ 40,000.

20.MTP Nov 22 Series I

Symphony Ltd. issued 300 lakh 8% debentures of ₹1000 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹ 500 on application and ₹ 440 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

Solution

Books of Symphony Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹' Lakhs)	Credit Amount (₹' Lakhs)
	Bank A/c Dr. To Debenture Application A/c (Being Debentures application money received)		1,50,000	 1,50,000
	Debenture Application A/c Dr. To 8% Debentures A/c (Being application money transferred to 8% debentures account)		1,50,000	 1,50,000
	Debenture Allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Debenture redemption premium A/c (Being call made consequent upon allotment of debentures issued at discount and redeemable at premium)		1,32,000 33,000	 1,50,000 15,000
	Bank A/c Dr. To Debenture Allotment A/c (Being allotment amount received)		1,32,000	 1,32,000

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹1000 + 5% of ₹1000) x 300 lakh

= (₹ 60+ ₹ 50) x 300 lakh

= ₹ 33,000 lakh

21. MTP Nov 22 Series 2

Hari Om Limited registered with an authorised equity capital of ₹ 4,00,000 divided into 4,000 shares of ₹ 100 each, issued for subscription of 2,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 2,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 200 shares held by him and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Solution

In the Books of Hari Om Ltd.

Bank A/c	Dr.	50,000	
To Equity Share Application A/c			50,000
(Money received on application for 2,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Transfer of application money on 2,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Amount due on the allotment of 2,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(First call money due on 2,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	38,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			40,000
To Calls-in-Advance A/c			2,500
(First call money received on 1,800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)			

22. MTP Nov 22 Series 2

On 1st January, 2021 Peanut Ltd. issued 12% debentures of the face value of ₹ 40,00,000 at 10% discount. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five years period at 5% premium.

Pass necessary journal entries for the year 2021.

Solution

In the Books of Peanut Ltd.
Journal Entries

			Dr. (₹)	Cr. (₹)
1-1-2021	Bank A/c	Dr.	36,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	6,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2021	Debenture Interest A/c	Dr.	2,40,000	
	To Debenture holders A/c			2,16,000
	To Tax Deducted at Source A/c			24,000
	(For interest payable)			
	Debenture holders A/c	Dr.	2,16,000	
	Tax Deducted at Source A/c	Dr.	24,000	
	To Bank A/c			2,40,000
	(For payment of interest and TDS)			
31-12-2021	Debenture Interest A/c	Dr.	2,40,000	
	To Debenture holders A/c			2,16,000
	To Tax Deducted at Source A/c			24,000
	(For interest payable)			
31-12-2021	Debenture holders A/c	Dr.	2,16,000	
	Tax Deducted at Source A/c	Dr.	24,000	
	To Bank A/c			2,40,000
	(For payment of interest and tax)			
31-12-2021	Profit and Loss A/c	Dr.	4,80,000	
	To Debenture Interest A/c			4,80,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
31-13-2021	Profit and Loss A/c	Dr.	1,20,000	
	To Discount/Loss on issue of debenture A/c			1,20,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 6,00,000 x 1/5)			

23. ICAI Exam Nov 22

PQR Limited issued 2, 00,000 equity shares of ₹ 10 each payable as ₹ 3 per share on applications, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed, money due on all share was full received except form Mr. J, holding 5,000 shares who failed to pay the allotment and call money and Mr. K holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares. 10,000 shares (including whole of Js shares) were subsequently re-issued to Mr.L as full paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the book of PQR Limited. Also prepare balance sheet and notes to account of the company.

Solution

In the books of PQR. Ltd.

Journal

Entry no.	Particulars		₹	₹
1	Bank A/c To Equity Share Application A/c (Being application money on 2,00,000 shares @₹ 3 per share received)	Dr	6,00,000	6,00,000
2	Equity Share Application A/c To Equity Share Capital A/c (Being transfer of application money to Equity Share Capital on 2,00,000 shares @ ₹ 3 per share as per Director's Resolution no... dated...)	Dr	6,00,000	6,00,000
3	Equity Share Allotment A/c To Equity Share Capital A/cTo Securities Premium A/c (Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no......dated......)	Dr	10,00,000	6,00,000 4,00,000

4	Bank A/c To Equity Share Allotment A/c (Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share)	Dr	9,75,000	9,75,000
	OR			
	Bank A/c Calls in Arrears A/c To Equity Share Allotment A/c (Being amount received against allotment on 2,00,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. J holding 5,000 shares failed to pay allotment money)	DrDr	9,75,000 25,000	10,00,000
5	Equity Share Call A/c To Equity Share Capital A/c (Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no......dated.......)	Dr	8,00,000	8,00,00
6	Bank A/c To Equity Share Call A/c (Being amount received against the call on1,85,000 shares @ ₹ 4 per share)	Dr	7,40,000	7,40,000
	OR			
	Bank A/c Calls in Arrears A/c To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share, J holding 5,000 shares and K holding 10,000 shares failed to pay call money)	DrDr	7,40,000 60,000	8,00,000
7	Equity Share Capital A/c (15,000 x ₹ 10) Securities Premium A/c (5000 x ₹ 2) To Equity Share Allotment A/c (5000 x ₹ 5) To Equity Share Call A/c (15,000 x ₹ 4) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No.....dated ....)	DrDr	1,50,000 10,000	25,000 60,000 75,000
	OR			
	Equity Share Capital A/c (15,000 x ₹ 10) Securities Premium A/c (5000 x ₹ 2) To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No......dated.......)	DrDr	1,50,000 10,000	85,000 75,000

8	Bank A/c	Dr	90,000	
	Forfeited Shares A/c		10,000	
	To Equity Share Capital A/c			1,00,000
	(Being re-issue of 10,000 shares @ ₹ 9 each as per Board's Resolution No......dated......)			
9	Forfeited Shares A/c	Dr	35,000	
	To Capital Reserve A/c			35,000
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of PQR as at......

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		24,05,000
ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		24,05,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each	20,00,000	
	Subscribed, called up and paid up share capital		
	1,95,000 Equity shares of ₹ 10 each	19,50,000	
	Add: Forfeited shares	30,000	19,80,000
2.	Reserves and Surplus		
	Securities Premium	3,90,000	
	Capital Reserve	35,000	4,25,000
3.	Cash and Cash Equivalents		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment	9,75,000	
	Amount Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

(1) **Calculation of Amount to be Transferred to Capital Reserve**

Amount forfeited per share of J	₹ 3	Amount forfeited pershare of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	Less: Loss on re-issueper share	(₹ 1)
Surplus		Surplus	

Transferred to Capital Reserve: J's share (5,000 x ₹ 2)	₹ 2	₹ 10,000	₹ 5
K's Share (5,000 x ₹ 5)		₹ 25,000	
Total		₹ 35,000	

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	4,00,000
Less: Amount reversed on forfeiture	=	(10,000)
Balance remaining	=	3,90,000

24. RTP May 23

Finopolis Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 3,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2022;

(ii) Allotment to be made on 10th July, 2022 and a further ₹ 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 31th March, 2023.

Applications were received for 8,40,000 shares and were dealt with as follows:

(1) Applicants for 40,000 shares received allotment in full;

(2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Finopolis limited.

Solution

Journal of Finopolis Limited

Date 2022	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	16,80,000	
	To Equity Share Application A/c			16,80,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	16,80,000	
	To Equity Share Capital A/c			5,20,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			8,00,000
	To Bank A/c (Note 1–Column 6)			3,60,000
	(Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			7,80,000
	To Securities Premium a/c			5,20,000
	(Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	5,00,000	
	To Equity Share Allotment A/c			5,00,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			13,00,000
	(Being final call money due on 2,60,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
March 31st	Bank A/c	Dr.	13,00,000	
	To Equity Share Final Call A/c			13,00,000

	(Being final call money on 2,60,000 shares @ ₹ 5 each received)		

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

25. RTP May 23

Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Avtar Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non- payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re- issued to Mahesh as fully paid up for ₹ 6 per share.

Solution

Journal Entries in the books of Avtar Ltd.

Date		Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c Dr.	9,000	
	To Equity Share Allotmentmoney A/c (900 x ₹ 3)		2,700
	To Equity Share Final Call A/c (900 x ₹ 4)		3,600

	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No................dated)			
(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No .... dated ....)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No......... dated).			
(b)	Bank A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paidup as per Board's resolution No..........dated ....)			
(c)	Forfeited Shares A/c	Dr.	150	
	To Capital Reserve A/c			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹750
Less: Forfeiture of 150 shares	(₹600)
Profit on re-issue of shares	₹150

26. RTP May 23

Somya Limited issued 30,000 12% Debentures of the nominal value of ₹15,00,00,00 as follows:

(a) To sundry persons for cash at 90% of nominal value of ₹ 75,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 30,00,000 – ₹ 37,50,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 30,00,000 – ₹ 37,50,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

Solution

In the books of Somya Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	67,50,000	
	To Debentures Application A/c			67,50,000
	(Being the application money received on 15,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	67,50,000	
	Discount on issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			75,00,000
	(Being the issue of 15,000 12% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	30,00,000	
	To Vendor A/c			30,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	30,00,000	
	Discount on Issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			37,50,000
	(Being the issue of debentures of ₹ 37,50,000 to vendor to satisfy his claim)			

(c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of ₹ 30,00,000 taken from bank by issuing debentures of ₹37,50,000 as collateral security)	30,00,000	30,00,000

Note: No entry is made in the books of account of the company at the time of makingissue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

27. QP June 23

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹2 per share payable as follows:

On Applicable	- ₹ 3 per Share
On Allotment	- ₹ 5 per Share (including premium)
On First and Final Call	- ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for ₹ 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of Shares Applied	No. of Shares Alloted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of BP Ltd. Open call in arrears account whenever required.

Solution

Journal of BP Limited

Particulars	Dr. ()	Cr. ()
Bank A/c (Note 1 – Column 3) Dr.	10,80,000	
To Equity Share Application A/c		2,040

(Being application money received on 3,60,000 shares @ ` 3 per share)		
Equity Share Application A/c Dr.	10,80,000	
To Equity Share Capital A/c		3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)		4,40,000
To Bank A/c (Note 1 – Column 6)		2,80,000
(Being application money on 2,80,000 shares transferred to Equity Share Capital Account; on 1,60,000 shares adjusted with allotment and on 80,000 shares refunded as per Board's Resolution No.....dated...)		
Equity Share Allotment A/c Dr.	6,00,000	
To Equity Share Capital A/c		3,60,000
To Securities Premium a/c		2,40,000
(Being allotment money due on 1,20,000 shares @ ` 5 each including premium at ` 4 each as per Board's Resolution No....dated....)		
Bank A/c (Note 1 – Column 8) Dr.	1,60,000	
To Equity Share Allotment A/c		1,60,000
(Being balance allotment money received)		
Equity Share First and Final Call A/c Dr.	4,80,000	
To Equity Share Capital A/c		4,80,000
(Being final call money due on 1,20,000 shares @ ` 4 per share as per Board's Resolution No.....dated....)		
Bank A/c Dr. Calls in Arrears A/c Dr.	4,78,640 1,360	
To Equity Share First and Final Call A/c		4,80,000
(Being final call money on 1,19,660 shares @ ` 4 each received)		
Equity Share Capital A/c Dr.	3,400	
To Calls in Arrears A/c		1,360
To Forfeited Shares A/c		2,040
Being forfeiture of 340 equity shares for non- payment of call money as per Board's Resolution No.....dated ....)		
Bank A/c Dr.	4,420	
To Equity Shares Capital A/c		3,400
To Securities Premium A/c		1,020
Being re-issue of 340 shares @ ` 13 each as per Board's Resolution No.....dated....)		

Forfeited Shares A/c Dr To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	2,040	 2,040

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x`3

(ii) Amount Required on Application (4) = No. of shares allotted (2) x`3

28.RTP Dec 23

ISSUE AND FORFEITURE OF SHARES

Laxman Prasad Limited registered with an authorised equity capital of ₹ 8,00,000 divided into 8,000 shares of ₹ 100 each, issued for subscription of 4,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 4,000 shares was duly receivedand allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 400 shares held by him and another shareholder with 200 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Solution

Journal Entries in the books of Laxman Prasad Ltd.

Particulars	LF	Debit (₹)	Credit (₹)
Bank A/c Dr.		1,00,000	

To Equity Share Application A/c (Money received on application for 4,000 shares @ ₹ 25per share)			1,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 4,000 shares to sharecapital)		1,00,000	1,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 4,000 shares @ ₹ 30per share)		1,20,000	1,20,000
Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		1,20,000	1,20,000
Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 4,000 shares @ ₹ 20 pershare)		80,000	80,000
Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 3,600 shares and calls-in-advance on 200 shares @ ₹ 25 per share)		72,000 8,000	 80,000 5,000

29. RTP Dec 23

ISSUE OF DEBENTURES

On 1st January 2022 Samar Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2022.

Solution

Books of Samar Ltd.

Journal

			Dr. (₹)	Cr. (₹)
1-1-2022	Bank A/c	Dr.	18,00,000	
	Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2022	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2022	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit andloss account at the end of the year)			
	Profit and Loss A/c	Dr.	60,000	
	To Loss on issue of debenture A/c			60,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)			

30.QP Dec 23

A Ltd issued 25000 equity shares of ₹ 100 each at a premium of ₹ 25 per share payable as below:

On application ₹ 50

On allotment ₹ 50 including premium, and

On final call ₹ 25

Applications were received for 29000 shares. Letter of regret were issued to applicants for 4000 shares and shares are allotted to all other applicants.

Mr. A the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the journal entries and cash book in the books of a limited.

BONUS SHARES

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI PQ 1				
7	ICAI PQ 2				
8	ICAI PQ 3				
9	ICAI PQ 4				
10	ICAI PQ 5				
11	ICAI PQ 6				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022 :

Particulars	Rs.
40,000 Equity shares of Rs. 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (Collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

Solution:

Journal Entries in the books of Bharat Ltd.

		Dr.	Cr.
		₹	₹
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated.......)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

Working Note-

Number of Bonus shares to be issued- (40,000 shares / 4) X 1 = 10,000 shares

Value of Bonus shares- 10,000 shares of ₹ 10 each = ₹ 1,00,000

2. ICAI Illustration 2

Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Solution

Journal Entries

			₹	₹
	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c			1,25,000
	(For making provision of bonus issue)			
	Share Final Call A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated….)			
	Bonus to shareholders A/c	Dr.	1,25,000	
	To Share Final Call A/c			1,25,000
	(For bonus money applied for call)			
	General Reserve A/c	Dr.	5,00,000	
	To Bonus to shareholders A/c			5,00,000
	(For making provision of bonus issue)			
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c			5,00,000
	(For issue of 50,000 bonus shares at ₹ 10)			

3. ICAI Illustration 3

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2022 :

Particulars	Rs.
Authorised Capital :	
10,000 12% Preference shares of Rs. 10 each	1,00,000
1,00,000 Equity shares of Rs. 10 each	10,00,000
	11,00,000
Issued and Subscribed capital :	
8,000 12% Preference shares of Rs. 10 each fully paid	80,000
90,000 Equity shares of Rs. 10 each, Rs. 8 paid up.	7,20,000
Reserves and Surplus :	
General Reserve	1,60,000
Revaluation reserve	35,000
Securities premium (Collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan :	
12% Debentures @ Rs. 100 each	5,00,000

On 1st April, 2015 the Company has made final call @ Rs. 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorized capital.

Solution:

Journal Entries in books of Solid Ltd.

			Dr.	Cr.
2022			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ₹ 2 per share on 90,000 equity shares due as per Board's Resolution dated)			
April 20	Bank A/c	Dr.	1,80,000	
	To Equity Share Final Call A/c			1,80,000
	(Final Call money on 90,000 equity shares received)			
	Securities Premium A/c	Dr.	20,000	
	General Reserve A/c	Dr.	1,60,000	
	Profit and Loss A/c (b.f.)	Dr.	45,000	
	To Bonus to Shareholders A/c			2,25,000
	(Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)			
April 20	Bonus to Shareholders A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			2,25,000
	(Capitalisation of profit)			

Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)

		Particulars	Notes	Amount (₹)
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,05,000
	b	Reserves and Surplus	2	1,95,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	5,00,000
		Total		19,00,000

Notes to Accounts	
1 **Share Capital**	
Equity share capital	
Authorised share capital	
1,12,500 Equity shares of ₹ 10 each	11,25,000

Issued, subscribed and fully paid share capital	
1,12,500 Equity shares of ₹ 10 each, fully paid (Out of above, 22,500 equity shares @ ₹ 10 each were issued by way of bonus) (A)	11,25,000
Preference share capital	
Authorised share capital	
10,000 12% Preference shares of ₹ 10 each	1,00,000
Issued, subscribed and fully paid share capital	
8,000 12% Preference shares of ₹ 10 each(B)	80,000
Total (A + B)	**12,05,000**

2 Reserves and Surplus		
Revaluation Reserve		35,000
Securities Premium	20,000	
Less: Utilised for bonus issue	(20,000)	Nil
General reserve	1,60,000	
Less: Utilised for bonus issue	(1,60,000)	Nil
Profit & Loss Account	2,05,000	
Less: Utilised for bonus issue	(45,000)	1,60,000
	Total	**1,95,000**
3 Long-term borrowings		
Secured		
12% Debentures @ ₹ 100 each		5,00,000

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

Working Note-

Number of Bonus shares to be issued (90,000 shares / 4) X 1 = 22,500 shares

4. ICAI ILLUSTRATION 4

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

Authorised capital:	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
Issued and Subscribed capital:	16,50,000
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000

1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Solution:

Journal Entries in the books of Preet Ltd.

			₹	₹
1-4-2022	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)			
20-4-2022	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Redemption Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			

	Bonus to shareholders A/c	Dr.	3,37,500	
	To Equity share capital A/c			3,37,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
Authorised Capital	
15,000 12% Preference shares of ₹10 each	1,50,000
1,68,750 Equity shares of ₹10 each (refer working note below)	16,87,500
Issued and subscribed capital	
12,000 12% Preference shares of ₹10 each, fully paid	1,20,000
1,68,750 Equity shares of ₹10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ ₹10 each were issued by	
way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

Working Notes:

1. Number of Bonus shares to be issued-	₹
(1,35,000 shares / 4) X 1 = 33,750 shares	
2. The authorised capital should be increased as per details given below:	
Existing issued Equity share capital	13,50,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	16,87,500

5. ICAI Illustration 5

A company offers new shares of Rs. 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is Rs. 150. Calculate the value of a right. What should be the ex-right market price of a share?

Solution:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (₹ 150 X 4 Shares + ₹ 125 X 1 Share) / (4 + 1) Shares

= ₹ 725 / 5 shares = ₹ 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 150 – ₹ 145 = ₹ 5 per share.

6. ICAI Practical Q.1

Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2022 :

Particulars	Amount
4,500 Equity Shares of Rs. 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account [Cr. Balance]	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

Solution:

Journal Entries in the books of Saral Ltd.

2022			Dr.	Cr.
	Capital Redemption Reserve A/c	Dr.	70,000	
	Securities Premium A/c	Dr.	40,000	
	General Reserve A/c (b.f.)	Dr.	40,000	
	To Bonus to Shareholders A/c			1,50,000
	(Bonus issue of one shares for every three shares held, by utilising various reserves as per Board's resolution dated.......)			
	Bonus to Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Capitalisation of profit)			

7. ICAI Practical Q.2

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2022:

Notes	Particulars	Rs. in Lakhs
1)	**Share Capital**	
	Authorised:	
	20 crore shares of Rs. 10 each	20,000
	Issued and Subscribed :	
	10 crore Equity Shares of Rs. 10 each	10,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
	Total	**12,000**
	Called and paid up:	
	10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called & paid	8,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each, fully called and paid up	2,000
	Total	**10,000**
2)	**Reserves and Surplus:**	
	Capital Redemption Reserve	1485
	Securities Premium (Collected in cash)	2,000
	General Reserve	1,040
	Surplus i.e. credit balance of Profit & Loss Account	273
	Total	**4,798**

On 2nd April 2022, the company made the final call on equity shares @ Rs. 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Solution:

Journal Entries in the books of Brite Ltd.

2022			Dr.	Cr.
			₹ in lakhs	₹ in lakhs
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of ₹ 2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	1,485	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c (b.f.)	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.......)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

			₹ in lakhs
1.	Share Capital		
	Authorised share capital:		
	20 crore shares of ₹ 10 each		20,000
	Issued, subscribed and fully paid up share capital:		
	14 crore Equity shares of ₹ 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up		2,000
			16,000
	Reserves and Surplus:		

2.			
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	(1,485)	-
	Securities Premium	2,000	
	Less: Utilised for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilised for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		798

8. ICAI Practical Q.3

Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 2022

Authorised capital:	Rs.
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus :	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Solution:

Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-2022	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-2022	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		₹
Authorised Capital		
30,000 12% Preference shares of ₹10 each		3,00,000
3,37,500 Equity shares of ₹10 each (refer W.N.)		33,75,000
Issued and subscribed capital		
24,000 12% Preference shares of ₹10 each, fully paid		2,40,000
3,37,500 Equity shares of ₹10 each, fully paid		33,75,000
(Out of the above, 67,500 equity shares @ ₹10 each were issued by way of bonus shares)		
Reserves and surplus	1,20,000	

Capital Redemption Reserve	(1,20,000)	
Less: Utilised for bonus issue Securities	75,000	NIL
premium	(75,000)	NIL
Less: Utilised for bonus issue	3,60,000	NIL
General Reserve	(3,60,000)	4,80,000
Less: Utilised for bonus issue	6,00,000	
Profit and Loss Account	(1,20,000)	
Less: Utilised for bonus issue		

Working Note:

1. Number of bonus shares to be issued- 2,70,000/4 X1= 67,500 shares
2. The authorised capital should be increased as per details given below:

	₹
Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	6,75,000
	33,75,000

9. ICAI Practical Q.4

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is Rs. 240 and the company is offering one share of Rs. 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Solution:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights Shares x Issue Price) / (Existing Number of shares + No. of right shares)

= (₹ 240 x 2 Shares + ₹ 120 x 1 Share) / (2 + 1) Shares

= ₹ 600 / 3 shares = ₹ 200 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 240 – ₹ 200 = ₹ 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 120 will have to pay ₹ 80 (2 shares x ₹ 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

10. ICAI Practical Question 5

A Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share folders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Answer

Journal Entry in the books of A Ltd.

	Particulars		₹	₹
	Bank A/c	Dr.	62,500	
	To Equity share capital A/c			62,500
	(For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated....)			

Working Note:

Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

11. ICAI Practical Question 6

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022

Particulars	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000
4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000

Profit and Loss Account	16,00,000

On Ist April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on Ist May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On Ist June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

Solution

Journal Entries in the books of Mars Ltd.

2022			Dr. ₹	Cr. ₹
April I	Equity Share Final Call A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Final call of ₹ 2 per share on 4,00,000 equity shares made due)			
April 25	Bank A/c	Dr.	8,00,000	
	To Equity Share Final Call A/c			8,00,000
	(Final call money on equity shares received)			
May I	Capital Redemption Reserve A/c	Dr.	2,40,000	
	Securities Premium A/c	Dr.	2,75,000	
	General Reserve A/c Profit and Loss A/c	Dr. Dr.	1,60,000 3,25,000	
	To Bonus to Shareholders A/c			10,00,000
	(Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.......)			
	Bonus to Shareholders A/c	Dr.	10,00,000	

	To Equity Share Capital A/c			10,00,000
	(Capitalisation of profit)			
June 20	Bank A/c To Securities Premium A/c To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated ....)	Dr.	24,00,000	4,00,000 20,00,000

TEST YOUR KNOWLEDGE

True and false

1. Earning per share gets increased after bonus issue.
   Ans:- False. Earnings per share gets decreased after bonus issue.
2. Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.
   Ans:- False. Issued share capital including issue of rights shares and bonus shares is always less than or equal to Authorised capital.

3. Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
   True. Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.

4. Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.
   Ans:- False. Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue.

Multiple Choice Questions

1. Which of the following cannot be used for issue of bonus shares as per the Companies Act?
   a) Securities premium account
   b) Revaluation reserve
   c) Capital redemption reserve
   Ans:- b

2. Which of the following statements is true with regard to declaring and issuing of Bonus Shares?
   a) Assets are transferred from the company to the shareholders.
   b) A Bonus issue results in decrease in reserves and surplus.
   c) A Bonus issue is same as declaration of dividends.
   Ans:-b

3. Which of the following statement is true in case of bonus issue?
   a) Convertible debenture holders will get bonus shares in same proportion as to the existing shareholders.
   b) Bonus shares may be issued to convertible debenture holders at the time of conversion of such debentures into shares.
   c) Both (a) and (b).
   Ans:- c

4. Bonus issue is also known as
   a) Scrip issue.
   b) Capitalisation issue.
   c) Both (a) and (b).

   Ans:-c

5. The bonus issue is not made unless
   a) Partly paid shares are made fully paid up.
   b) It is provided in its articles of association
   c) Both (a) and (b).

   Ans:- c

6. Bonus issue has the following effect
   a) Market price gets adjusted on issue of bonus shares.
   b) Effective Earnings per share, Book Value and other per share values stand increased.
   c) Markets generally take the action as an unfavourable act.

   Ans:- a

7. ABC Co. Ltd resolved to issue bonus shares. Which of the following is not a pre-requisite for issuance of bonus shares?
   a) Authorization in Articles of Association.
   b) Timely Payment of statutory dues of employees such as PF, Gratuity etc.
   c) Sufficient balance in bank account of company.

   Ans:- c

8. In case of further issue of shares, the right to renounce the shares in favour of a third party
   a) Must include a right exercisable by the person concerned to renounce the shares;
   b) Should include a right exercisable by the person concerned to renounce the shares;
   c) Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).

   Ans:- c

9. A company's share's face value is ₹ 10, book value is ₹ 20, Right issue price is ₹ 30 and Market price is ₹ 40, while recording the issue of right share, the securities premium will be credited with
   a) ₹ 10
   b) ₹ 20
   c) ₹ 30

   Ans:- b

10. A. Right shares enable existing shareholders to maintain their proportional holding in the company.

B. Right share issue does not cause dilution in the market value of the share.

Which of the option is correct?

a) A-Correct; B Correct

b) A – Incorrect; B Correct

c) A - Correct; B – Incorrect

Ans:- c

11. Ex-Rights price can be calculated by which of these formulas?

a) (Cum rights value of the existing shares + Rights share issue proceeds)/ (existing number of shares + No. of right shares).

b) (Cum rights value of the existing shares + Rights share issue proceeds) X (existing number of shares + No. of right shares).

c) (Cum rights value of the existing shares - Rights share issue proceeds)/ (existing number of shares – No. of right shares).

Ans:- a

Theoretical Questions

1. What is meant by Bonus issue? Explain its related provisions as per the Companies Act, 2013.

Ans: Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend pay-out. For details, refer para 4.1.1 & 4.1.2.

2. Explain the financial effects of a further issue of equity shares on the market value of the share.

Ans:- The financial position of a business is contained in the balance sheet. Further issue of shares increases the amount of share capital as well as the liquid resources (Bank). The amount of share capital issued is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium).

3. What are the advantages and disadvantages of a rights issue?

Ans:- Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. For advantages and disadvantages of right issue, refer para 4.2.3.

4. What is meant by renunciation of rights shares by existing shareholder?

Ans:-In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

REDEMPTION OF PREFERENCE SHARES

Q. No.		R1	R2	R3	Special Point
CLASS WORK					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI Illustration 5				
6	ICAI Illustration 6				
7	ICAI Illustration 7				
8	ICAI Illustration 8				
9	ICAI Illustration 9				
10	ICAI Illustration 10				
11	ICAI PQ 1				
12	QP Dec 23				

Let's Get Started... With Class Work

1. ICAI Illustration 1

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs. 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of Hinduja Company Ltd.
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the issue of 50,000 Equity Shares of ₹10 each at par for the purpose of redemption of preference shares, as per Board Resolution No. ....dated...)			
	8% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	To Preference Shareholders A/c			5,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the amount paid on redemption of preference shares)			

2. ICAI Illustration 2

C Ltd. had 10,000, 10% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of Rs. 10 each at a premium of Rs. 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of C Ltd.
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	12,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			2,00,000
	(Being the issue of 1,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share as per Board's Resolution No..... dated)			
	10% Redeemable Preference Share Capital A/c	Dr.	10,00,000	
	To Preference Shareholders A/c			10,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Being the amount paid on redemption of preference shares)			

Note: Amount required for redemption is ₹ 10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to ₹ 10,00,000. Premium received on new issue cannot be used to finance the redemption.

3. ICAI Illustration 3

G India Ltd. had 9,000 10% redeemable Preference Shares of Rs. 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of Rs. 9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of G India Limited Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	90,000	
	To Equity Share Capital A/c			90,000
	(Being the issue of 10,000 Equity Shares of ₹9 each at par, as per Board's Resolution No.......Dated.....)			
	10% Redeemable Preference Shares Capital A/c	Dr.	90,000	
	To Preference Shareholders A/c			90,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c	Dr.	90,000	
	To Bank A/c			90,000
	(Being the amount paid on redemption of preference shares)			

4. ICAI Illustration 4

The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only.

Solution:

Nominal value of preference shares ₹ 5,00,000

Maximum possible redemption out of profits ₹ 3,00,000

Minimum proceeds of fresh issue ₹ 5,00,000 – 3,00,000 = ₹ 2,00,000

Proceed of one share = ₹ 9

Minimum number of shares =(2,00,000/ 9) = 22,222.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

5. ICAI Illustration 5

The Balance Sheet of X Ltd. as on 31st March, 2023 is as follows:

	Particulars	**Rs.**
	EQUITY AND LIABILITIES	
1.	**Shareholders' funds**	
	a Share capital	2,90,000
	b Reserves and Surplus	48,000
2.	**Current liabilities**	
	Trade Payables	56,500
	Total	**3,94,500**
	ASSETS	
1.	**Fixed Assets**	
	Tangible asset	3,45,000
	Non-current investments	18,500
2.	**Current Assets**	
	Cash and cash equivalents (bank)	31,000
	Total	**3,94,500**

The share capital of the company consists of Rs. 50 each equity shares of Rs. 2,25,000 and Rs. 100 each Preference shares of Rs. 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only. In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

a) to sell all the investments for Rs. 15,000.
b) to finance part of redemption from company funds, subject to, leaving a bank balance of Rs. 12,000.
c) to issue minimum equity share of Rs. 50 each at a premium of Rs. 10 per share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions.

Solution:

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	37,500	
	To Share Application A/c			37,500
	(For application money received on 750 shares @ ₹ 50 per share)			
	Share Application A/c	Dr.	37,500	
	To Equity Share Capital A/c			37,500
	(For disposition of application money received)			
	Preference Share Capital A/c	Dr.	65,000	
	Premium on Redemption of			
	Preference Shares A/c	Dr.	6,500	
	To Preference Shareholders A/c			71,500
	(For amount payable on redemption of preference shares)			
	Bank A/c	Dr.	15,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.	3,500	
	To Investment A/c			18,500
	(For sale of investments at a loss of ₹ 3,500)			
	Profit and Loss A/c	Dr.	33,750	
	To Capital Redemption Reserve A/c			33,750

	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 65,000 - ₹ 31,250)			
	Preference Shareholders A/c	Dr.	71,500	
	To Bank A/c			71,500
	(For payment of preference shareholders)			
	Profit and Loss A/c	Dr.	6,500	
	To Premium on Redemption of Preference Shares A/c			6,500
	(For writing off premium on redemption out of profits)			

Balance Sheet (after redemption)

		Particulars	Notes No.	₹
	EQUITY AND LIABILITIES			
1.	**Shareholders' funds**			
	a)	Share capital	1	2,62,500
	b)	Reserves and Surplus	2	38,000
2.	**Current liabilities**			
		Trade Payables		56,500
		Total		3,57,000
	ASSETS			
1.	**Property, Plant and Equipment**			3,45,000
2.	**Current Assets**			
		Cash and cash equivalents (bank)	3	12,000
		Total		3,57,000

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital (2,25,000 + 37,500)		2,62,500
2.	**Reserves and Surplus**		
	Capital Redemption Reserve		33,750
	Profit and Loss Account (48,000 – 6,500 – 3,500 – 33,750)		4,250
			38,000
3.	**Cash and cash equivalents**		
	Balances with banks (31,000 + 37,500 +15,000 – 71,500)		12,000

Working Note: Calculation of Number of Shares:	₹
Amount payable on redemption	71,500
Less: Sale price of investment	(15,000)
	56,500
Less: Available bank balance (31,000 - 12,000)	(19,000)
Funds from fresh issue	37,500
No. of shares = 37,500/50=750 shares	

6. ICAI Illustration 6

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of Rs. 10 each fully paid – Rs. 4,00,000; 1,000 10% Redeemable preference shares of Rs. 100 each fully paid – Rs. 1,00,000.

Reserve & Surplus: Capital reserve – Rs. 50,000; Securities premium – Rs. 50,000; General reserve – Rs. 75,000; Profit and Loss Account – Rs. 35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of ABC Limited Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
20X2				
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000

	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

7. ICAI Illustration 7

C Limited had 3,000, 12% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

i. 25,000 Equity Shares of Rs. 10 each at par,

ii. 1,000 14% Debentures of Rs. 100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Solution:

In the books of C Limited Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of ₹ 10 each at par as per Board's resolution No......dated.....)			
	Bank A/c	Dr.	1,00,000	
	To 14% Debenture A/c			1,00,000

	(Being the issue of 1,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated......)			
	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	12% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	3,30,000	
	To Bank A/c			3,30,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	30,000	
	To Premium on Redemption of Preference Shares A/c			30,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	3,00,000
Less: Proceeds from new issue	(2,50,000)
Total Balance	50,000

8. ICAI Illustration 8

The capital structure of a company consists of 20,000 Equity Shares of Rs. 10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs. 100 each fully paid up (issued on 1.4.2021). Undistributed reserve and surplus stood as: General Reserve Rs. 80,000; Profit and Loss Account Rs. 20,000; Investment Allowance Reserve out of which Rs. 5,000, (not free for distribution as dividend) Rs. 10,000; Securities Premium Rs. 2,000, Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Solution:

In the books of ....

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of ₹10 each at a premium of Re. 1 per share as per Board's Resolution No.....dated.......)			
	General Reserve A/c Profit & Loss A/c Investment Allowance Reserve A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr. Dr.	60,000 10,000 5,000	75,000
	8% Redeemable Preference Share Capital A/c Premium	Dr.	1,00,000	
	on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)			1,10,000
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			

Balance Sheet as at ....[Extracts]

	Particulars		Notes No.	₹
		EQUITY AND LIABILITIES		
1.	Shareholders' funds			
	a	Share capital	1	2,25,000
	b	Reserves and Surplus	2	1,02,000
	ASSETS			
2.	Current Assets			
		Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000

Notes to Accounts

1.	Share Capital		
	22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up		2,25,000
2.	Reserves and Surplus		
	General Reserve		20,000
	Securities Premium		2,000
	Capital Redemption Reserve		75,000
	Investment Allowance Reserve		5,000
			1,02,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed ₹ 1,00,000

Less: Profit available for distribution as dividend:

General Reserve : ₹(80,000-20,000) ₹ 60,000

Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares) ₹10,000

Investment Allowance Reserve: (₹ 10,000-5,000) ₹ 5,000 (₹ 75,000)

₹ 25,000

Therefore, No. of shares to be issued = ₹ 25,000/₹10 = 2,500 shares.

9. ICAI Illustration 9

The balance sheet of XYZ Ltd. as at 31st December 2011 inter alia includes the following:

Particulars	Rs.
50000,8% Preference shares of Rs.100 each Rs.70 paid up	35,00,000
100000,Equity shares of Rs.100 each fully paid up	1,00,00,000

Securities premium	5,00,000
Capital redemption reserve	20,00,000
General reserve	50,00,000
Bank	15,00,000

Under the terms of their issue the preference shares are redeemable on March 31 2012 at a premium of 5%. In order to finance the redemption the company makes a right issue of 50000 equity shares of Rs.100 each at Rs. 110 each per share , ₹ 20 being payable on application Rs.35 (including premium) on allotment and the balance on Jan 1 2013.The issue was fully subscribed and allotment made on March 1 2012.The money due on allotment were received by March 31st 2012.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act 2013.

You are asked to pass the necessary journal entries and show the relevant extracts from the Balance Sheet as on March 31 2012 with the corresponding figures as on 31st December 2011.

Solution:

Journal Entries

		₹	₹
8% Preference Share Final Call A/c	Dr.	15,00,000	
To 8% Preference Share Capital A/c			15,00,000
(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
Bank A/c	Dr.	15,00,000	
To 8% Preference Share Final Call A/c			15,00,000
(For receipt of final call money on preference shares)			
Bank A/c	Dr.	10,00,000	
To Equity Share Application A/c			10,00,000
(For receipt of application money on 50,000 equity shares @ ₹ 20 per share)			
Equity Share Application A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(For capitalisation of application money received)			

Equity Share Allotment A/c	Dr.	17,50,000	
To Equity Share Capital A/c			12,50,000
To Securities Premium A/c			5,00,000
(For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	17,50,000	
To Equity Share Allotment A/c			17,50,000
(For receipt of allotment money on equity shares)			
General Reserve A/c	Dr.	27,50,000	
To Capital Redemption Reserve A/c			27,50,000
(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)			
8% Preference Share Capital A/c	Dr.	50,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	2,50,000	
To Preference Shareholders A/c			52,50,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	52,50,000	
To Bank A/c			52,50,000
(For amount paid to preference shareholders)			
General Reserve A/c	Dr.	2,50,000	
To Premium on Redemption A/c			2,50,000
(For writing off premium on redemption of preference shares)			

Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.20X2	As at 31.12.20X1
			₹	₹
	EQUITY AND LIABILITIES			
I.	**Shareholders' funds**			
	a) Share capital	1	1,22,50,000	1,35,00,000
	b) Reserves and Surplus	2	77,50,000	75,00,000
	ASSETS			
I.	**Current Assets**			
	a) Cash & Cash Equivalents	3	5,00,000	15,00,000

Notes to accounts

		As at 31.3.20X2	As at 31.12.20X1
1.	**Share Capital**		
	Issued, Subscribed and Paid up:		
	1,00,000 Equity shares of ₹100 each fully paid up	1,00,00,000	1,00,00,000
	50,000 Equity shares of ₹100 each ₹45 paid up	22,50,000	-
	50,000, 8% Preference shares of ₹100 each, ₹70 called up	-	35,00,000
		1,22,50,000	1,35,00,000
2.	**Reserves and Surplus**		
	Capital Redemption Reserve	47,50,000	20,00,000
	Securities Premium	10,00,000	5,00,000
	General Reserve	20,00,000	50,00,000
		77,50,000	75,00,000
3.	**Cash & Cash Equivalents**		
	Bank balance	5,00,000	15,00,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹ 22,50,000 (₹ 10,00,000 application money plus ₹ 12,50,000 received on allotment towards share capital) will be considered.

10.ICAI Illustration 10

With the help of the details in Illustration 14 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1 assuming that the shares in default are forfeited after giving proper notices.

Solution:

Journal Entries

			₹	₹
	8% Preference Share Final Call A/c	Dr.	15,00,000	
	To 8% Preference Share Capital A/c			15,00,000
	(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
	Bank A/c (48,000 x ₹30)	Dr.	14,40,000	
	Calls in arrears A/c (2,000x ₹30)		60,000	
	To 8% Preference Share Final Call A/c			15,00,000
	(For receipt of final call money on preference shares)			
	Preference Share Capital A/c(2000 X ₹100) To Calls in Arrears A/c (2000 X ₹30) To Shares Forefeited A/c (2000 X ₹70) (For Shares Forefeited after shareholders fail to pay the Final Call)	Dr.	2,00,000	 60,000 1,40,000
	Bank A/c	Dr.	10,00,000	
	To Equity Share Application A/c			10,00,000
	(For receipt of application money on 50,000 equity shares @ ₹ 20 per share)			
	Equity Share Application A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(For capitalisation of application money received)			
	Equity Share Allotment A/c	Dr.	17,50,000	
	To Equity Share Capital A/c			12,50,000
	To Securities Premium A/c			5,00,000
	(For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
	Bank A/c	Dr.	17,50,000	
	To Equity Share Allotment A/c			17,50,000
	(For receipt of allotment money on equity shares)			
	General Reserve A/c	Dr.	25,50,000	
	To Capital Redemption Reserve A/c			25,50,000

	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 48,00,000 – 10,00,000 – 12,50,000)			
	8% Preference Share Capital A/c	Dr.	48,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	2,40,000	
	To Preference Shareholders A/c			50,40,000
	(For amount payable to preference shareholders on redemption at 5% premium)			
	Preference Shareholders A/c	Dr.	50,40,000	
	To Bank A/c			50,40,000
	(For amount paid to preference shareholders)			
	General Reserve A/c	Dr.	2,40,000	
	To Premium on Redemption A/c			2,40,000
	(For writing off premium on redemption of preference shares)			

Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.20X2	As at 31.12.20X1
	EQUITY AND LIABILITIES		₹	₹
I.	**Shareholders' funds**			
	a) Share capital	1	1,23,90,000	1,35,00,000
	b) Reserves and Surplus	2	77,60,000	75,00,000
	ASSETS			
I.	**Current Assets**			
	a) Cash & Cash Equivalents	3	6,50,000	15,00,000

Notes to accounts

		As at 31.3.20X2	As at 31.12.20X1
I.	**Share Capital**		
	Issued, Subscribed and Paid up:		
	1,00,000 Equity shares of ₹100 each fully paid up	1,00,00,000	1,00,00,000
	50,000 Equity shares of ₹100 each ₹45 paid up	22,50,000	-
	50,000, 8% Preference shares of ₹ 100 each, ₹ 70 called up	-	35,00,000
	Shares Forfeited	1,40,000	-

		1,23,90,000	1,35,00,000
2.	**Reserves and Surplus**		
	Capital Redemption Reserve	45,50,000	20,00,000
	Securities Premium	10,00,000	5,00,000
	General Reserve	22,10,000	50,00,000
		77,60,000	75,00,000
3.	**Cash & Cash Equivalents** Bank	6,50,000	15,00,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹ 22,50,000 (₹10,00,000 application money plus ₹ 12,50,000 received on allotment towards share capital) will be considered.

II. ICAI Practical Question 1

The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of Rs. 10 each fully paid; 18,000 12% Redeemable Preference Shares of Rs. 10 each fully paid; 4,000 10% Redeemable Preference Shares of Rs. 10 each, Rs. 8 paid up (all shares issued on 1st April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs. 80,000; General Reserve Rs. 1,20,000; Securities Premium Account Rs. 15,000 and Capital Reserve Rs. 21,000.

For redemption, 3,000 equity shares of Rs. 10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 20X1 at a premium of Rs. 2 per share. The whereabouts of the holders of 100 shares of Rs. 10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions.

Solution:

In the books of B Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2021	12% Redeemable Preference Share Capital A/c	Dr.	1,80,000	
Jan 1	Premium on Redemption of Preference Shares A/c	Dr.	36,000	
	To Preference Shareholders A/c			2,16,000
	(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)			
	Preference Shareholders A/c	Dr.	2,14,800	
	To Bank A/c			2,14,800
	(Being the amount paid on redemption of 17,900 preference shares)			
	Bank A/c	Dr.	33,000	
	To Equity Shares Capital A/c			30,000
	To Securities Premium A/c			3,000
	(Being the issue of 3,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No....... Dated......)			
	General Reserve A/c	Dr.	1,20,000	
	Profit & Loss A/c	Dr.	30,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)			
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	To Bonus to Shareholders A/c			1,20,000
	(Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No dated...)			
	Bonus to Shareholders A/c	Dr.	1,20,000	
	To Equity Share Capital A/c			1,20,000
	(Being the utilisation of bonus dividend for issue of 12,000 equity shares of ₹ 10 each fully paid)			
	Profit & Loss A/c	Dr.	36,000	

	To Premium on Redemption of Preference Shares A/c			36,000
	(Being premium on redemption of preference shares adjusted against to Profit & Loss Account)			

Working Note:

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	₹1,80,000	
Less: Proceeds from fresh issue (excluding premium)		(₹ 30,000)
	₹1,50,000	

(3) No bonus shares on 3,000 equity shares issued for redemption.

12. QP Dec 2023

A Ltd issued 25000 equity shares of ₹ 100 each at a premium of ₹ 25 per share payable as below:

On application ₹ 50

On allotment ₹ 50 including premium, and

On final call ₹ 25

Applications were received for 29000 shares. Letter of regret were issued to applicants for 4000 shares and shares are allotted to all other applicants.

Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited.

Show the journal entries and cash book in the books of a limited.

True and False

1. When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Reserve account by debiting the distributable profit.
   Ans:- False: When shares are redeemed by utilising distributable profit, an amount equal tothe face value of shares redeemed is transferred to Capital Redemption Reserve account by debiting the distributable profit.

2. A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing for premium on the redemption of Redeemable Preference shares of the Company.
   Ans:- True: A company who prepares financial statements in compliance with Accounting Standards under Section 133 of the Companies Act, 2013, it cannot utilize securities premium for the purpose of providing the premium on the redemption of redeemable preference shares.

3. The balance in forfeited shares account can be used for transfer to capital redemption reserve account.
   Ans:- False: The balance in Forfeited shares account cannot be used for transfer to capital redemption reserve account.

4. Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses
   Ans. True: Capital redemption reserve cannot be used for writing off miscellaneous expenses and losses.

Multiple Choice Questions

1. Securities premium cannot be used to ____ _.
   a) Issue bonus shares
   b) Redeem preference shares
   c) Write-off preliminary expenses
   Ans:- b
2. S Ltd. issued 2,000, 10% Preference shares of ` 100 each at par on 1.4.2021, which are redeemable at a premium of 10%. For the purpose of redemption, the company issued 1,500 Equity Shares of ` 100 each at a premium of 20% per share. At the time of redemption of Preference Shares, the amount to be transferred by the company to the Capital Redemption Reserve Account = ?
   a) ` 50,000
   b) ` 40,000
   c) ` 2,00,000
   Ans: a

3. Which of the following cannot be used for the purpose of creation of capital redemption reserve account?
   a) Profit and loss account (credit balance)
   b) General reserve account
   c) Unclaimed dividend account
   Ans:- c

4. According to Section 52 of the Companies Act, 2013, the amount in the Securities Premium A/c cannot be used for the purpose of
   a) Issue of fully paid bonus shares
   b) Writing off losses of the company
   c) For purchase of own securities
   Ans:- b

5. Which of the following can be utilized for redemption of preference shares?
   a) The proceeds of fresh issue of equity shares
   b) The proceeds of issue of debentures
   c) The proceeds of issue of fixed deposit
   Ans:- a

6. Preference shares amounting to ` 2,00,000 (already issued on 1.4.2021) are redeemed at a premium of 5%, by issue of shares amounting to ` 1,00,000 at a premium of 10%. The amount to be transferred to capital redemption reserve = ?
   a) ` 1,05,000
   b) ` 1,00,000
   c) ` 2,00,000
   Ans:- b

Theoretical Questions

1. What is the purpose of issuing redeemable preference shares?

Answer

A company may issue redeemable preference shares to raise finance in a dull primary market. Preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use. For details, refer para 5.2 of the chapter.

2. What are the provisions of the Companies Act, 2013 related with redemption of preference shares? Explain in brief.

Answer

Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares. It ensures that there is no reduction in shareholders' funds due to redemption and, thus, the interest of outsiders is not affected. For details, refer para 5.3 of the chapter

REDEMPTION OF DEBENTURES

Q. No.		R1	R2	R3	Special Point
Class Work					
1	ICAI Illustration 1				
2	ICAI Illustration 2				
3	ICAI Illustration 3				
4	ICAI Illustration 4				
5	ICAI PQ 1				
6	ICAI PQ 2				
7	ICAI PQ 3				

Let's Get Started... With Class Work

1. **Illustration 1**

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

Solution:

6% Mortgage Debentures Account

2022			₹	2022			₹
Feb. 28	To	Debenture-holders A/c	10,00,000	Jan. 1	By	Balance b/d	10,00,000

Premium on Redemption of Debentures Account

2022			₹	2022			₹
Feb. 28	To	Debenture-holders A/c	10,000	Feb. 28	By	Profit and loss A/c	10,000

Debentures Redemption Reserve Investment Account

2022			₹	2022			₹
Jan. 1	To	Balance b/d	1,50,000	Feb. 28	By	Bank	1,50,000

Debenture Interest Account

2022			₹	2022			₹
Feb. 28	To	Bank (10,000 x 100 x 6% x 2/12)	10,000	Feb. 28	By	Profit & Loss A/c	10,000

Bank A/c

2022			₹	2022			₹
Jan 01	To	Balance b/d	9,00,000	Feb. 28	By	Debenture-holders	10,10,000
Feb 28		To Interest on Debentures	1,000			(10,000 x 101)	
		Redemption					
		Investments					
		(1,50,000 x 4% x					
		2/12)					
	To	Debentures Redemption			By	Deb. Interest A/c	10,000
		Reserve investment A/c	1,50,000		By	Balance c/d	31,000
			10,51,000				10,51,000

Debenture Redemption Reserve Account

2022			₹	2022		₹
Feb 28				Jan.1	By Balance b/d	50,000
	To	General Reserve-note	1,00,000	Jan.1	By Profit & Loss (b/f)	50,000
			1,00,000			1,00,000

Note

Amount to be transferred to DRR before the redemption = ₹ 1,00,000 [i.e. 10% of (10,000 X 100)].

2. Illustration 2

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment 1,12,500 represented by 10% ₹ 1,125 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) Debentures Account

(2) DRR Account

(3) DRR Investment Account

(4) Bank Account

(5) Debenture Holders Account.

Solution:

1. **12% Debentures Account**

Date	Particulars	₹	Date	Particulars	₹
31st March, 2022	To Debenture holders A/c	7,50,000	1st April, 2021	By Balance b/d	7,50,000
		7,50,000			7,50,000

2. DRR Account

Date	Particulars	₹	Date	Particulars	₹
			1st April, 2021	By Balance b/d	25,000
31st March, 2022	To General reserve A/c (Refer Note 1)	75,000	1st April, 2021	By Profit and loss A/c (Refer Note 1)	50,000
		75,000			75,000

3. **10% Secured Bonds of Govt. (DRR Investment) A/c**

		₹			₹
1st April, 2021	To Balance b/d	1,12,500	31st March, 2022	By Bank A/c	1,12,500
		1,12,500			1,12,500

4. **Bank A/c**

		₹			₹
31st March, 2022	To Balance b/d	7,50,000	31st March, 2022	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500 X 10%)	11,250			
	To DRR Investment A/c	1,12,500		By Balance c/d	48,750
		8,73,750			8,73,750

5. **Debenture holders A/c**

		₹			₹
31st March, 2022	To Bank A/c	8,25,000	31st March, 2022	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 X 10%)	75,000
		8,25,000			8,25,000

Note 1 –

Calculation of DRR before redemption = 10% of ₹ 7,50,000 = 75,000

Available balance = ₹ 25,000

DRR required = 75,000 – 25,000 = ₹ 50,000.

3. Illustration 3

XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Solution:

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion	
[₹ 4,200/ ₹ 20]	210 shares

Calculation of cash to be paid:	₹
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160
Redemption value of 160 debentures (160 × ₹ 105) ie. ₹ 16,800.	

4. **Illustration 4**

The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2021 is as under:

Liabilities	₹	**Assets**	₹
Share Capital :		Freehold property	1,15,000
Authorised:		Stock	1,35,000
30,000 Equity Shares of ₹ 10 each	3,00,000	Trade receivables	75,000
Issued and Subscribed:		Cash	30,000
20,000 Equity Shares of ₹ 10 each		Balance at Bank	2,00,000
fully paid	2,00,000		
Profit and Loss Account	1,20,000		
12% Debentures	1,20,000		
Trade payables	1,15,000		
	5,55,000		5,55,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution), this option being taken up by all shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Solution:

Journal of BEE Co. Ltd.

	Dr.	Cr.

		₹	₹
Bank A/c	Dr.	75,000	
To Equity Shareholders A/c			75,000
(Application money received on 5,000 shares @ ₹ 15 per share to be issued as rights shares in theratio of 1:4)			
Equity Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			25,000
(Share application money on 5,000 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	25,000	
Profit & Loss A/c	Dr.	25,000	
To Bonus to Shareholders A/c			50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)			
Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 10% x 1,20,000)	Dr.	12,000	 12,000
Debenture Redemption Reserve Investment A/c To Bank A/c (for DRR Investment created 15% x 1,20,000)	Dr.	18,000	 18,000
12% Debentures A/c Premium Payable on Redemption A/c @ 3%	Dr. Dr.	1,20,000 3,600	
To Debenture holders A/c			1,23,600
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	3,600	
To Premium Payable on Redemption A/c			3,600
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			

Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve)	Dr.	12,000	 12,000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	18,000	 18,000
Debenture holders A/c	Dr.	1,23,600	
To Bank A/c			1,23,600
(Amount paid to debenture holders on redemption)			

Balance Sheet of BEE Co. Ltd. as at (after completion of transactions)

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	91,400
(2) Current Liabilities		
(a) Trade payables		1,15,000
Total		5,06,400
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	3	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	4	1,81,400
Total		5,06,400

Notes to Accounts

			₹
1.	**Share Capital**		
	30,000 shares of ₹ 10 each fully paid (5,000 sharesof ₹ 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		3,00,000
2.	**Reserve and Surplus**		
	Profit & Loss Account Less: Premium on redemption of debenture	1,20,000 (3,600)	
	Less: Utilisation for issue of bonus sharesLess: DRR created	(25,000) (12,000)	
	 General Reserve	79,400 12,000	91,400
3.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
4.	**Cash and bank balances**		
	Cash at bank (2,00,000 + 75,000 – 1,23,600-18000+18000)	1,51,400	
	Cash in hand	30,000	1,81,400

5. ICAI Practical Question 1

A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Solution:

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	₹ 3,67,500
Equity shares of ₹ 10 each issued on conversion	
[₹ 3,67,500/ ₹ 15]	24,500 shares

6. ICAI Practical Question 2

Libra Limited recently made a public issue in respect of which the following information is available:

a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.

b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

d) Underwriting Commission- 2%.

e) No. of debentures applied for- 1,50,000.

f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Solution:

Journal Entries in the books of Libra Ltd.

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
			₹	₹
1.5.20X1	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	(Application money received on1,50,000 debentures @ ₹ 100 each)			
1.6.20X1	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on ₹ 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
01.06.20X1	Debenture Redemption InvestmentA/c To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made forredemption purpose)	Dr.	12,00,000	12,00,000
30.9.20X1	Debenture Interest A/c To Bank A/c	Dr.	10,00,000	10,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)			
31.10.20X1	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000

	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.20X2	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year) (Refer working note below)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On ₹ 80,00,000 for 6 months @ 15% = ₹6,00,000

On ₹ 1,20,00,000 for 1 months @ 15% = ₹ 1,50,000

₹7,50,000

7. ICAI Practical Question 3

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2021:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹ 10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of ₹ 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500

(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Solution

Journal Entries in the Books of Case Ltd.

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	

To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)			75,000
12% Debentures A/c Premium Payable on Redemption A/c (@ 3%) To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,80,000 5,400	 1,85,400
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to P&L A/c)	Dr.	5,400	 5,400
Debenture Redemption Reserve A/c To General Reserve (For DRR transferred to general reserve)	Dr.	18,000	 18,000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	27,000	 27,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,85,400	 1,85,400

Balance Sheet of Case Ltd. as at (after completion of transactions)

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,50,000
(b) Reserves and Surplus	2	1,37,100
(2) Current Liabilities		
(a) Trade payables		1,72,500
Total		7,59,600
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	3	1,72,500
(2) Current assets		
(a) Inventories		2,02,500
(b) Trade receivables		1,12,500
(c) Cash and bank balances	4	2,72,100
Total		7,59,600

Notes to Accounts

			₹
1.	**Share Capital**		
	45,000 shares of ₹ 10 each fully paid (7,500 shares of ₹ 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		4,50,000
2.	**Reserve and Surplus**		
	Profit & Loss Account	1,62,000	
	Less: Premium on redemption of debenture	(5,400)	
	Less: Utilisation for issue of bonus shares	(37,500)	
		1,19,100	
	General Reserve	18,000	1,37,100
3.	**Property, Plant and Equipment**		
	Freehold property		1,72,500
4.	**Cash and bank balances**		
	Cash at bank (2,73,000 + 1,12,500 - 1,85,400 + 27,000)	2,27,100	
	Cash in hand	45,000	2,72,100

True and False

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
   Ans: False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.
   Ans: False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.

3. Sale of grass by a sports club is to be treated as sale of an asset.
   Ans: False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.

4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.
   Ans:- False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.

5. Receipts and payments account gives the details about the expenses outstanding for the year.
   Ans:- False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.

6. Adjustments in the form of additional information shall be adjusted in the final accounts of a Non- profit organisation only in one place.
   Ans: False: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.

7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.
   Ans:- False: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.

8. For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
   Ans: False: The excess of the income over the expenditure is called as Surplus and not profit for an Non-profit organisation.

9. Surplus of non-profit organizations is distributed among its members.
   Ans:- False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.

10. Tournament fund, building fund, library fund is based on the fund based accounting.
    Ans:- True: It is Fund based accounting that records the fund balances in the balance sheet.

11. Subscription fees refers to the one-time fees paid by the members to get admission for the benefits of the club.
    Ans:- False: Subscription is a regular fees paid by the members to keep the membership alive.

12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
    Ans:- True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.

13. An Insurance company is an example of non-profit organization.
    Ans:- False: Insurance Company has a profit motive, hence it is not a non-profit organization.

14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
    Ans:- False: It shall be shown in the Balance sheet- where it is to be capitalized.

15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.
    Ans:- False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.

16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.
    Ans:- True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as Legacy.

17. Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

    Ans: True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.

18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.

    Ans:- False: The Non-profit organisation has its very existence to serve the members and the society. Profit earning shall never be its motive.

19. All the receipts are of revenue nature in case of Non-profit organisation.

    Ans: False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.

20. There is opening balance of Income and expenditure account

    Ans:- False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

Multiple Choice Questions

1. Scholarship granted to students out of specific funds provided by Government will be debited to
   a) Income and Expenditure Account.
   b) Receipts and payments Account.
   c) Funds granted for Scholarship account.

   Ans:- c

2. In case of NPO, excess of total assets over liabilities is known as
   a) Profits.
   b) Surplus.
   c) Capital Fund.

   Ans:- c

3. General donations and legacies are credited to
   a) Receipts and Payments Account.
   b) Income and Expenditure Account.
   c) Capital Fund.

   Ans: b

4. Interest on prize funds is
   a) Credited to Income and Expenditure Account.
   b) Credited to Receipts and Payments Account.
   c) Added to prize fund.

   Ans:- c

5. Special aids are
   a) Treated as capital receipts.
   b) Treated as revenue receipts.
   c) Both (a) and (c).

   Ans:- c

6. If there exist a specific sports fund, the expenses incurred in relation to sports activities will be taken to
   a) Income and Expenditure Account
   b) Receipt and Payment Account
   c) Sports fund

   Ans:- c

Theory Questions

1. Distinguish between Receipt and Payment and Income and Expenditure Account.

Answer

Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. For distinguishing features of both the accounts, Refer para 3.2.