Accounts Theory

Chapter 1 (Unit-1)

Q1) Define accounting. What are the sub-fields of accounting?

Answer: Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof. Various subfields of accounting are listed as:

- Financial Accounting
- Management Accounting
- Cost Accounting
- Social Responsibility Accounting
- Human Resource Accounting.

Q2) Who are the users of accounting information?

Answer: Users of accounts can be listed as Investors, Employees, Lenders, Suppliers and Creditors, Customers, Govt. and their agencies, public and Management.

Q3) Discuss briefly the relationship of accounting with

(i) Economics (ii) Statistics (iii) Law

Answer:

(i) **Accounting & Economics**:

a. Accounting overlaps economics in many respects. It contributed a lot in improving the management decision-making process. But, economic theories influenced the development of the decision-making tools used in accounting

b. An example may be given to explain the nexus between accounting and economics. Economists think that value of an asset is the present value of all future earnings which can be derived from such assets. Now think about a plant whose working life is more than one hundred years. How can you estimate future stream of earnings? So accountants developed the workable valuation base – the acquisition cost i.e., the price paid to acquire the assets.

(ii) Accounting & Statistics

a. The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But, for decision-making purposes such precision is not necessary and hence, the statistical approximations are sought.

b. wherever a need arises for only broad generalizations or the average of relationships, statistical methods have to be applied in accounting data.

c. In accountancy, a number of financial and other ratios are based on statistical methods, which help in averaging them over a period of time. Several accounting and financial calculations are based on statistical formulae.

d. Statistical methods are helpful in developing accounting data and in their interpretation. For example, time series and cross-sectional comparison of accounting data is based on statistical techniques.

(iii) **Accounting & Law**:

a. An economic entity operates within a legal environment. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc. The entity itself is created and controlled by laws. For example, a company is created by the Companies Act and also controlled by Companies Act.

b. Every country has a set of economic, fiscal and labour laws. Transactions and events are always guided by laws of the land. Very often the accounting system to be followed has been prescribed by the law. For example, the Companies Act has prescribed the format of financial statements for companies

c. Banking, insurance and electric supply undertakings may also have to produce financial statements as prescribed by the respective legislations controlling such entities.

Q3) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Answer: Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations

Q4) What services can a Chartered Accountant provide to the society?

Answer: The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by accountants to the society are briefly mentioned hereunder:

- Maintenance of Books of Accounts
- Statutory Audit
- Internal Audit
- Taxation
- Management Accounting and Consultancy Services

- Financial Advice
- Other services like Company Formation, Secretarial work, etc.

Chapter 1 (Unit-2)

Q1) Write short notes on:

a. Fundamental accounting assumptions.
b. Periodicity concept.
c. Accounting conventions

Answers:

a. **Fundamental accounting assumptions**: There are three fundamental accounting assumptions: Going Concern; Consistency and Accrual. If nothing has been written about the fundamental accounting assumption in the financial statements, then it is assumed that they have already been followed in their preparation of financial statements.

b. **Periodicity concept**: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

c. **Accounting conventions**: Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

Q2) Distinguish between:

a. Money measurement concept and matching concept
b. Going concern and cost concept

Answer:

a. Distinction between Money measurement concepts and matching concept:
As per *Money Measurement concept*, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In *Matching concept* all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized them expenses related to earn that revenue should also be recognized.

b. **Distinction between Going concern and cost concept**

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, it should be disclosed in the financial statements.

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

Q3) Briefly explain the qualitative characteristics of the financial statements.

Answer: Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The following are the important qualitative characteristics of the financial statements:

a. Understandability
b. Relevance
c. Reliability
d. Comparability

These are the four principal qualitative characteristics. There are other important qualitative characteristics as well, such as:

e. Materiality
f. Faithful Representation
g. Substance over Form
h. Neutrality
i. Prudence
j. Full, fair and adequate disclosure
k. Completeness

Chapter 1 (Unit-3)

Q1) Define following terms:

a. Accrual Basis of Accounting
b. Amortization
c. Contingent Asset
d. Contingent Liability

Answer:

a. *Accrual Basis of Accounting*
The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

b. *Amortization*
The gradual and systematic writing off of an asset or an account over an appropriate period.

c. *Contingent Asset*
An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

d. *Contingent Liability*
An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Chapter 1 (Unit-5)

Q1) Differentiate between:

a. Provision and Contingent Liability
b. Liability and Contingent liability.

Answer:

a.

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

b. A **liability** is defined as the present financial obligation of an enterprise, which arises from past events.
On the other hand, in the case of **contingent liability**, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

Chapter 1 (Unit-6)

Q1) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

Answer: Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.

Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.

Different accounting policies are frequently encountered in the areas like:

a. Valuation of inventory
b. Valuation of Investments
c. Methods of Depreciation

Q2) "*Change in accounting policy may have a material effect on the items of financial statements*." Explain the statement with the help of an example.

Answer: Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

Chapter 1 (Unit -7)

Q1) Define Measurement in brief. Explain the significant elements of measurement.

Answer: Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Three elements of measurement are:

a. Identification of objects and events to be measured;
b. Selection of standard or scale to be used;
c. Evaluation of dimension of measurement standard or scale

Q2) Describe in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

Answer: There are four generally accepted measurement bases or valuation principles. These are:

a. *Historical Cost:*
It means acquisition price. For example, the businessman paid Rs. 7,00,000 to purchase the machine and spend Rs. 1,00,000 on its installation, its acquisition price including installation charges is Rs. 8,00,000. The historical cost of machine would be Rs. 8,00,000.
According to this base, assets are recorded at an amount of cash or cash equivalent paid at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation

b. *Current Cost*:
Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently
Example: Take that Mr. X purchased a machine on 1st January, 2011 at Rs. 7,00,000. As per historical cost base he has to record it at Rs. 7,00,000 i.e. the acquisition price. As on 1.1.2020, Mr. X found that it would cost Rs.25,00,000 to purchase that machine. So as per current cost base, the machine value is Rs. 25,00,000

c. *Realizable Value:*
As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
Suppose, Mr. X found that he can get Rs. 20,00,000 if he would sell the machine purchased, on 1.1.2011 paying Rs. 7,00,000 and which would cost Rs. 25,00,000 in case he would buy it currently. So, the machine should be recorded at Rs. 20,00,000 as per this basis.

d. *Present Value*
As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Chapter 1 (Unit-8)

Q1) Explain the objective of "Accounting Standards" in brief.

Answer: Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives.

The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

Q2) State the advantages of setting Accounting Standards.

Answer: The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure *uniformity*, *comparability* and *qualitative improvement* in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

Chapter 1 (Unit-9)

Q1) Explain the need of convergence rather adoption of IFRS as Global Standards.

Answer: The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (IND AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

Q2) What is the significance of issue of Indian Accounting Standards? Explain in brief.

Answer: Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

Other Important Questions

Q1) What do you mean by principal books of accounts?

Answer: 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).

Q2) What are the rules of posting of journal entries into the Ledger?

Answer: Rules regarding posting of entries in the ledger:

a. Separate account is opened in ledger book for each account and entries from ledger posted to respective account 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.

Q3) Is cash book a subsidiary book or a principal book? Explain.

Answer: 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; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

Q4) What are the advantages of a three column cash book?

Answer: 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. Also the chances of error are 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 Bank Account

Q5) Briefly explain the following terms:

a. Materiality
b. Conservatism
c. Extraordinary item
d. Floating Charge
e. Accrual Basis of Accounting

Answer:

a. Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

b. Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.

c. Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

d. Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

e. The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

Q6) "The cost of Property, Plant and Equipment comprises 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". Give any five examples of such 'directly attributable costs'.

Answer: 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.

Q7) Explain Cash and Mercantile system of accounting

Answer: Cash and mercantile system:

Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, *Mercantile system* of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually. Mercantile system of accounting is generally accepted accounting system by business entities

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Important Questions *(Already discussed during practical classes)*

Q8) Discuss the rules if there is no Partnership Agreement.

Answer: As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

a. No partner has the right to a salary,
b. No interest is to be allowed on capital,
c. No interest is to be charged on the drawings,
d. Interest at the rate of 6%. p.a. is to be allowed on a partner's loan to the firm, and
e. Profits and losses are to be shared equally

Q9) Periodic Inventory System Vs Perpetual Inventory System

S. No.	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory.
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

Q10) Discuss the factors taken into consideration for calculation of depreciation.

Answer: Following factors are taken into consideration for calculation of depreciation.

a. **Cost of Asset**: Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

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

c. **Estimated Residual value**: If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Q11) What is petty cash book? Write it's any two advantages.

Answer: In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.

Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

a. Saving of time of the chief cashier
b. Saving in labour in writing up the cash book and posting into the ledger
c. Control over small payments

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Cap & Rev. Exp and Receipts

Expenditure
- Revenue → P&L A/c
- Capital → Bal. Sheet

Benefit — <12month (Revenue) — >12month (Capital)

Cap Exp - 1) Acq. of fixed Assets
- Tangible
- Intangible — License

→ All exp connected with fixed Assets
  ↳ To Make Asset ready to use

2) Inc. in efficiency / prod. capacity.
  ↑ in Rev. Gen. capacity

Repair
- Major Repair — Inc. eff. — Cap Exp
- Normal Rep — Maintenance — Rev Exp

Rev. Exp - Other than Cap Exp
  ↳ Maintain Rev. Gen. capacity.

* Basic Considerations:

1. Nature of Business.
2. Recurring Nature of Exp.
   - Recurring — Rev. Exp.
   - Non-Recurring — Cap Exp.
3. Purpose of Exp
   - Normal Maintenance - Revenue
   - ↑ in prod. Cap - Cap.
4. Materiality

4. Materiality -

Receipts

Capital

- ↓ in Fixed Asset
↑ in Liab.

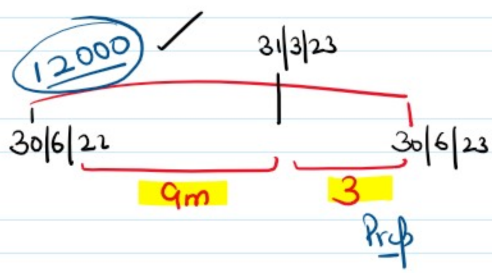
Non-Rec. in Nature

Revenue

↓ Obtained in the course of normal bus. Activity

Recurring in nature

Ex- Rent



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UNIT – 4 CAPITAL AND REVENUE EXPENDITURES AND RECEIPTS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Learn the criteria for identifying Revenue Expenditure and distinguishing from Capital Expenditure
- Learn the distinction between capital and revenue receipts.
- Understand the linkage of such distinction with the preparation of final accounts.

UNIT OVERVIEW

Capital
- Payments
- Receipts

Revenue
- Payments
- Receipts

4.1 INTRODUCTION

Accounting aims in ascertaining and presenting the results of the business for an accounting period. For ascertaining the periodical business results, the nature of transactions should be analyzed whether they are of capital or revenue nature. The Revenue Expense relates to the operations of the business of an accounting period or to the revenue earned during the period or the items of expenditure, benefits of which do not extend beyond that period. Capital Expenditure, on the other hand, generates enduring benefits and helps in revenue generation over more than one accounting period. Revenue Expenses must be associated with a physical activity of the entity. Therefore, whereas production and sales generate revenue in the earning process, use of goods and that period. Capital Expenditure, on the other hand, generates enduring benefits and helps in revenue generation over more than one accounting period. Revenue Expenses must be associated with a physical activity of the entity. Therefore, whereas production and sales generate revenue in the earning process, use of goods and services in support of those functions causes expenses to occur. Expenses are recognised in the Profit & Loss Account through matching principal which tells us when and how much of the expenses to be charged against revenue. A part of the expenditure can be capitalised only when these can be traced directly to definable streams of future benefits.

The distinction of transaction into revenue and capital is done for the purpose of placing them in Profit and Loss account or in the Balance Sheet. For example: revenue expenditures are shown in the profit and loss account as their benefits are for one accounting period i.e. in which they are incurred while capital expenditures are placed

on the asset side of the balance sheet as they will generate benefits for more than one accounting period and will be transferred to profit and loss account of the year on the basis of utilisation of that benefit in particular accounting year. Hence, both capital and revenue expenditures are ultimately transferred to profit and loss account.

Revenue expenditures are transferred to profit and loss account in the year of spending while capital expenditures are transferred to profit and loss account of the year in which their benefits are utilised. Therefore we can conclude that it is the time factor, which is the main determinant for transferring the expenditure to profit and loss account. Also expenses are recognized in profit and loss account through matching concept which tells us when and how much of the expenses to be charged against revenue. However, distinction between capital and revenue creates a considerable difficulty. In many cases borderline between the two is very thin.

4.2 CONSIDERATIONS IN DETERMINING CAPITAL AND REVENUE EXPENDITURES

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

(a) **Nature of business:** 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. Therefore, the nature of business is a very important criteria in separating an expenditure between capital and revenue.

(b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

(c) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature. However, determination

(c) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature. However, determination of the cost of maintenance and ordinary repairs which should be expensed, as opposed to a cost which ought to be capitalised, is not always simple.

(d) **Effect on revenue generating capacity of business:** The expenses which help to generate income/ revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.

When expenditure on improvements and repair of a fixed asset is done, it has to be charged to Profit and Loss Account if the expected future benefits from fixed assets do not change, and it will be included in book value of fixed asset, where the expected future benefits from assets increase.

(e) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

4.3 CAPITAL EXPENDITURES AND REVENUE EXPENDITURES

As we have already discussed, capital expenditure contributes to the revenue earning capacity of a business over more than one accounting period whereas revenue expense is incurred to generate revenue for a particular accounting period. The revenue expenses either occur in direct relation with the revenue or in relation with accounting periods, for example cost of goods sold, salaries, rent, etc. Cost of goods sold is directly related to sales revenue whereas rent is related to the particular accounting period. Capital expenditure may represent acquisition of any tangible or intangible fixed assets for enduring future benefits. Therefore, the benefits arising out of capital expenditure last for more than one accounting period whereas those arising out of revenue expenses expire in the same accounting period.

ILLUSTRATION 1

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

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

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

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

(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.* False

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

(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. False

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

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

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

(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. True

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.

ILLUSTRATION 2

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

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.* Cap Exp

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

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

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

(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.* - Cap Exp Cap Exp

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.

4.4 CAPITAL RECEIPTS AND REVENUE RECEIPTS

Just as a clear distinction between Capital and Revenue expenditure is necessary, in the same manner capital receipts must be distinguished from revenue receipts.

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.). On the other hand, receipts which are not revenue in nature are capital receipts (e.g. receipts from sale of fixed assets or investments, secured or unsecured loans, owners' contributions etc.). Revenue and capital receipts are recognised on accrual basis as soon as the right of receipt is established. Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

etc.). Revenue and capital receipts are recognised on accrual basis as soon as the right of receipt is established. Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

On the other hand, Capital receipts are not directly credited to Profit and Loss Account. For example, when a fixed asset is sold for ₹ 92,000 (cost ₹ 90,000), the capital receipts ₹ 92,000 is not credited to Profit and Loss Account. POMZ Profit PS Loss on sale of fixed assets is calculated and credited to Profit and Loss Account as follows:

Sale Proceeds	₹ 92,000
Cost	(₹ 90,000)
Profit	₹ 2,000

ILLUSTRATION 3

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2020.

(1) *Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹1,000. The furniture was installed by own workmen, wages for this being ₹200.* Cap - 10200

Cap Exp

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

(3) *Fire insurance, ₹1,000 was paid on 1st October, 2019 for one year.*

(4) *Temporary huts were constructed costing ₹ 1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.* - Cap Exp

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, 2020. 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.

ILLUSTRATION 4

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.* - Cap Exp

(2) *Inauguration expenses of ₹ 25 lacs incurred on the opening of a new manufacturing unit in an existing business.* — Rev Exp

*(3) *Compensation of ₹2.5 crores paid to workers, who opted for voluntary retirement.* Rev.

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.

ILLUSTRATION 5

Classify the following expenditures and receipts as capital or revenue:

Cap Exp

(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.* Rev. Rec.

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

(iv) *Insurance claim received on account of a machinery damaged by fire.* - Cap Rec.

SOLUTION

(i) Capital expenditure.

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

ILLUSTRATION 6

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.* - Cap Exp

Rev. Gen. Cap

(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.* – Rev. Exp

(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, 2019.* - Cap Exp

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.

SUMMARY

- Revenue expenditures are shown in the profit and loss account while capital expenditures are placed on the asset side of the balance sheet since they generate benefits for more than are accounting period.
- Prepaid expenses are future expenses that have been paid in advance. These are shown in the balance sheet as an asset.
- Receipts obtained should be classified between revenue receipts and capital receipts.

TEST YOUR KNOWLEDGE

True and False

1. The nature of business is not an important criteria in separating an expenditure between capital and revenue. False
2. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue (Cap) in nature. False
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 (Rev.) Expenditure. False
4. Amount spent for replacement of worn out part of machine is Capital (Rev.) Expenditure. False
5. Legal fees to acquire property is Capital Expenditure. True
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. True

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 expenditures

(a) Capital expenditures (b) Revenue expenditures

(c) Prepaid revenue expenditures

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

3. Entrance fee of ₹ 2,000 received by Ram and Shyam Social Club is

   (a) Capital receipt (b) Revenue receipt

   (c) Capital expenditures

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

5. Insurance claim received on account of Cap Rec Mach | Inventory → Rev. Rec

   (a) Capital receipt (b) Revenue receipt

   (c) Capital expenditures

6. Interest on investments received from

   (a) Capital receipt (b) Revenue receipt

   (c) Capital expenditures

7. Amount received from IDBI as a medium term loan Cap Rec - ↑ Liab for augmenting working capital is

   (a) Capital expenditures (b) Revenue expenditures

   (c) Capital receipt

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.

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 Rev Exp

   (a) ₹ 2,99,000. (b) ₹ 44,000.

   (c) ₹ 30,000.

(a) ₹ 2,99,000. (b) ₹ 44,000.

(c) ₹ 30,000.

Theoretical Questions

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

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

ANSWERS/HINTS

True and False

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

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

Multiple Choice Questions

1	(a),	**2**	(b),	**3**	(a),	**4**	(b),	**5**	(a),	**6**	(b),
7	(c),	**8**	(a),	**9**	(c)						

Theoretical Questions

1. The basic considerations in distinction between capital and revenue expenditures are:

Theoretical Questions

1. 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. 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.

RTP QUESTIONS

16 December 2023 12:46

RTP
QUESTIONS

May -2021

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

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

Nov -2021

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

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

May-2022

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area. - Capital
(ii) Amount spent on painting the factory. - Rev.
(iii) Payment of wages for building a new office extension. Cap
(iv) Amount paid for removal of stock to a new site. - Rev.
(v) Rings and Pistons of an engine were changed to get full efficiency. - Cap

Nov-2022

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Expenses incurred to keep the machine in working condition. - Rev.

(ii) Registration fees paid at the time of purchase of a building. - Cap

(iii) Expenses incurred for advertisement in newspaper. - Rev.

(iv) Amount spent on renewal fee of patent rights. Rev.

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

June-2023

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure: / Rec.

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

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

(iii) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery. - Cap Exp

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

Dec 2023

Capital or Revenue Receipt or Expenditure

(b) Classify the following expenditures as capital or revenue receipt or capital or revenue expenditure:

(i) Traveling expenses of the chief executive officer for trips abroad for purchase of capital assets. - Cap Exp

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

exit

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

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

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

- Cap Exp

x— Chapter Over —x

10pm - Bus. Cycle

True and False

28 December 2023 09:59

True and False

True/False

1) Issue of Debentures

True and False

1. Debenture holder are the owners of the company. False (Shareholders; Creditors)
2. Perpetual debentures are payable at the time of liquidation of the company. - True (Irredemable)
3. Registered debentures are transferable by delivery. - False (Bearer; transfer deed)
4. When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures - True
5. Debentures suspense account appears on liability side of balance sheet. - False (Debit balance; Asset)
6. If a company incurs loss, then it does not pay interest to the debenture holders. - False (Charge ag. profit)
7. At the time of liquidation, debenture holders are paid off after the shareholders. False
8. Convertible debentures can be converted into equity shares. True
9. Redeemable debentures are not payable during the life time of the company. False (Irr)
10. Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc. True

2) Issue, Forfeiture & Re-issue of Shares

FV - 10 Issue - 20

True and False

1. Liability of a holder of shares is limited to the face value of shares acquired by them. False (Issue)
2. Authorised capital appears in the balance sheet at face value. - True (Notes to A/c)
3. The rate of dividend on preference shares may vary From year to year. False
4. A company may issue shares at a discount to the public in general. - false . Sweat eq. sh.
5. Sweat equity shares are those which are issued to employees & directors at a discount. True
6. As per table F, rate of interest on calls in arrears is ~~12~~%. 10% - False
7. As per Table F, rate of interest on calls in advance is ~~10~~%. 12% - False
8. Non-participating preference shareholders enjoy voting rights. False
9. Forfeited shares are available to the company for the purpose of resale. True
10. Loss on reissue should exceed the forfeited amount. False (not)

3) **Introduction to Company Accounts**

True and False

1. Every public company is a listed company. False
2. Shares of a private company are not listed on stock exchange. True
3. It is not mandatory to incorporate a company under the companies act. False
4. Company is an artificial, legal person created by law. True
5. Death, insolvency or change of members affects the existence of a company. False
6. If the shares are fully paid-up by the shareholder, he is subject to no further liability. True
7. Public limited company has restrictions on transferability of shares. False
8. Financial statements of company show the financial position of the business. True
9. Schedule I gives proforma of Balance Sheet. - False
   Schedule III

4) **Non-Profit Organizations**

True and False

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting. - False
   Cash

2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account. - False
   - Revenue nature

3. Sale of grass by a sports club is to be treated as sale of an asset. False

4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet. - False
   Current Asset

5. Receipts and payments account gives the details about the expenses outstanding for the year. - False

6. Adjustments in the form of additional information shall be adjusted in the final accounts of a Non- profit organisation only in one place. False
   Two

7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet. False
   Inc & Exp

8. For Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit. - Surplus - False

9. Surplus of non-profit organizations is distributed among its members. False
   → Cap fund +

10. Tournament fund, building fund, library fund is based on the fund based accounting. - True

11. Subscription fees refers to the one-time fees paid by the members to get admission for the benefits of the club. - False
    Regular

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. - True

13. An Insurance company is an example of non-profit organization. - False
    Profitable

14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account. - False
    Cap fund +

15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account. - False

16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy. - True

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. True

18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues. False

19. All the receipts are of revenue nature in case of Non-profit organisation. - False
    Capital

20. There is opening balance of Income and expenditure account. False
    Nominal

5) **Death of a Partner**

True and False

1. Business of partnership comes to an end on death of a partner. - False
2. Legal heir of a deceased partner automatically becomes partner in the firm.- False
3. A revaluation account is opened in the books of accounts on death of a partner. True
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
5. Legal heirs of a deceased partner are entitled to his capital account balance only. - False
6. It is not necessary to adjust goodwill on death of a partner. False
7. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio. True
8. On death of a partner, the firm gets surrender value (Sum assured) of the joint life policy. False
9. Only legal heirs of deceased partner (All the partners) are entitled to amount received from joint life policy.- False

6) **Retirement of a Partner**

True and False

1. Business of a partnership has to be closed if any one of the partners retires.- False
2. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.- False
3. After retirement of a partner, profit sharing ratio of continuing partners remains the same. False
4. If any partner wants to retire from the business, he must retire on 1st day of the accounting year. False
5. Retiring partner has to forego (is entitled) his share of goodwill in the firm. False,
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
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
8. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio. True
9. No revaluation account is necessary on retirement of a partner. False
10. Profit on revaluation is credited to continuing (all the) partners, retiring partner is not entitled to any profit on revaluation. False

7) Admission of a Partner

True or False

1. A newly admitted partner does not have same rights as old partners. False
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
3. Revaluation account is also called as Profit and Loss Adjustment Account. True
4. Any appreciation in the value of an asset is credited to Revaluation account. True
5. All the partners may decide not to change the values of assets and liabilities in the books of accounts. Memorandum True
6. New partner is entitled to have share in reserves appearing in the balance sheet prior to his admission. False
7. If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally. - PSR - False
8. New partner brings necessary amount as his capital. Assets - True
9. New partner is entitled to share in revaluation profit. - False
   old partner

8) Treatment of Goodwill

True and False

1. Goodwill is intangible asset therefore it cannot be valued. Methods - False
2. Goodwill is valued whenever there is change in the profit sharing ratio among the partners. True
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
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. Goodwill Or - False
5. Only simple average method can be used for valuation of goodwill. - False
6. Super profit means excess of actual average profit over normal profit. - True, AP - NP
7. Normal profit means profit earned by similar companies in the same industry. - True
8. Normal profit depends upon Normal Rate of Return and past profits. - NP. Cap Emp x NRR False
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
10. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners. False Sac. partner Sac. ratio

9) Introduction to Partnership Accounts

True and False

1. In absence of any agreement partners share profits of the business in the ratio of their equally capital contribution.- False
2. Profit sharing ratio and capital contribution ratio need not be same. True
3. Every partnership firm must register itself with Registrar of firms. False
4. A partner can advance loan to the partnership firm in addition to capital contributed by him. True
5. A partner can demand interest on capital even if it is not provided in the partnership deed. - False
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 No Intx
7. Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed. True
8. Husband and wife cannot be partners in the same firm. False
9. One senior partner is Principal and other partners are his agents. - False
10. Partners are the agents of the firm and each other. True

10) Final Accounts of Manufacturing Entities

True and False

* 1. By-products valued at ~~cost~~ -NRV or net realisable value whichever is lower. - False
2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced. False
3. If there remain unfinished goods WIP - at the beginning op bal and at the end cl. bal. of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account. - True
4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials. - True
5. The Trading Account will show the quantities of finished goods, raw materials and work-in-progress. Manuf. False
6. Overhead Indirect Exp is defined as total cost of direct Ind material, direct wages and direct expenses. - False

~~1~~1) **Final Accounts of Non-Manufacturing Entities**

True and False

P&L A/c

1. The income statement shows either net profit or net loss for a particular period. True

P&L A/c
Rev. Receipts

2. Gains from the sale or exchange of assets are not considered as the revenue of the business. - False

Prepaid Asset

3. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities. - True
4. A loss is an expenditure which does not bring any benefit to the concern. True

Current Liab

5. All liabilities which become due for payment within the year are classified as long-term liabilities. - False
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. - True

CY - benefit

7. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed. - True
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. - True └ Rent A/c / Salary A/c
9. Sales less cost of goods sold = gross profit. - True

Exp
Loss

10. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit. False

P&L Dr
To prov.

11. The provision for bad debts is debited to Sundry Debtors Account. - F

P&L A/c

12. The provision for discount on creditors is often not provided in keeping with the principle of conservatism. - True

Bad debt Recovered

13. The debts written off as bad, if recovered subsequently are credited to Debtors Account. - False
14. The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account. - False Income Dr.
To Inc. Rec in Adv.

Drawing.

15. Premium paid on the life policy of a proprietor is debited to profit and loss account. - False
16. Depreciation account appear in the trial balance is taken only to profit and loss account. - True

Drawing

17. Personal purchases included in the purchases day book are added to the sales account in the Trading account. - FALSE └ Purch (-) & Draw. +

Goods

18. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account. True

Purchase A/c

19. Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet.

↳ True

Cl. st
To Purchase

12) **Account Current**

True and False

1. Current account and account current are one and the same. - False
2. The account current is an extension of the average due date concept. True
3. Date of transaction or the due date whichever is earlier is considered for computation of the number of days. False
4. A is in account current with B- The person rendering the account current is Mr. A. - False
   Books B
5. The honored bills of exchange will not be recorded in the account current. - Debtor | creditor
   → Bank To B/R
   - True

13) **Average Due Date**

True and False

1. The specific due date excludes the addition of grace days to arrive at the due date. True
   28th/12
2. Payment made before the average due date entitles rebate to the customer. True
3. Average due date results in loss to the party making the payment. False
4. Interest has to be paid by the party making payment exactly on the average due date. False
5. Where the due date is a Public holiday and the preceding day is Sunday (holiday), then the due date falls on the day preceding Sunday. - True

24 ← 25/Jan Sund ← 26/Jan

14) **Consignment**

True and False

1. Value of the abnormal loss is debited to the consignment account Credited False
2. Sales account and account sales are one and the same. False
3. Consignor is the owner of consignment stock. True
4. Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock. Del-credre False
5. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him. True
6. Consignment account is a representative personal account. Nominal False
7. Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost, invoice price, etc. - False → Consignor to consignee
8. The bad debts in case of del credere commission shall be debited to the Consignment account False
9. Abnormal loss is created out of uncontrollable situations and circumstances. False
10. The relationship between the consignor and his consignee is that of a seller and a buyer. - False Principal Agent

15) **Sales of Goods on Approval or Return Basis**

True and False

1. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out in case the business entity sell goods casually on sale on return basis. False
2. The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no express consent given. - False
3. At the end of the year- those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller. False
4. No entry needs to be passed in the books of the seller, when the customer rejects the goods (awaiting approval) after the closing of the books of the seller. True
5. The period within which the customer has to reject or accept is fixed by the buyer. False

Year End → Sales Reversal

Return → No Entry

16)**Bills of Exchange**

True and False

Liability Personal

1. Bills payable account is a nominal account. - False

Order

2. Promise to pay is included in a bill of exchange. - False

Grace

3. Days of rebate are added to the due date to arrive at the maturity date. False
4. There are always 2 parties to the bills of exchange. False
5. Foreign bill is drawn in the country and payable outside the country. True
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. - True

P.N BOE

Buyer

Acceptor

17)**Depreciation**

True and False

1. Dec. Increase in market value of a fixed asset is one of the reasons for depreciation being charged. False

2. Depreciation of an asset begins when it is available for use in the location & condition necessary for it to be capable of being operated. True

3. Cost of property, plant and equipment includes purchase price, refundable (Non-Ref.) taxes & import duties after deducting any discount or rebate. False

4. Cost of fixed asset should also include cost of opening a new facility such as inauguration costs. False

5. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method. True

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. True

7. In case the carrying amount (B.S.) of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account. - Rev. Reserve - False

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 method shall be ₹ 2,00,000. True

9. Depletion is the allocation of the cost of intangible assets (Natural Resources) such as patents and copyrights. False

10. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life. - True

11. If the equipment account has a balance of ₹ 12,50,000 (-O.C. -Acc Dep) and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000. 850.000 - False

12. Sum of the years digit method is an example of accelerated method of charging depreciation. - True

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. False

14. While depreciating land cost, Straight line method shall give more depreciation than the written down value. - False

15. Provision for depreciation account is debited (Cr.) at the time of recording the depreciation on an asset. - False
Dep Dr.
To prov. for Dep

16. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation. - False

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. True
Prov. for Dep Dr.
To Mach.

18. While calculating the depreciation as per diminishing balance method (WDV), the salvage value of the asset at the end of its life is reduced from its cost. False

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. True

20. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year. False

18)**Inventories**

True and False

1. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation. True
2. A building is considered inventory in a construction business. True
3. Inventory is valued as carrying cost less percentage decreases. Cost or NRV, lower - False
4. Management has daily information about the quantity and valuation of closing stock under physical Inventory System. False

   Trad. Cr.
   Cl. stk ↑
5. Periodic Inventory System is more suitable for small enterprises. True
6. When closing inventory is overstated, net income for the accounting period will be ~~understated~~ Over. False
7. Closing inventory = Opening inventory + Purchases + Direct expenses = Cost of goods sold. False
8. Cost of inventories should comprise all cost of purchase., conv. other Exp - False
9. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only. False Fixed Indirect | Variable
10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories. – False
11. Perpetual system requires closure of business for counting of inventory. False
12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count. True
13. The value of ending inventory under simple average price method is realistic as compare to LIFO. - True
14. The value of stock is shown on the assets side of the balance-sheet as ~~fixed~~ Current assets. False
15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold. False
16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur. False
17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism. True
18. Finished goods are normally valued at cost or market price whichever is higher Lower False

10/12	15/12	20/12	24/
100	120	130	140

FIFO

19) **Bank Reconciliation Statement**

True or False

Pass Book

1. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book. False
2. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors. True
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. — False Compul.
4. Debit balance in cash book is same as overdraft as per pass book. False +ive (-)ive
5. Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation. False Cr. Transac
6. Overcasting of the debit side of the cash book is an example of a difference that is due to error. True
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. True
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. False
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. True
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. - False (–) Bal Method
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. True
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. False Payment Lower
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. True
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. True Pay
15. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation. True
16. The difference between cash book & pass book that relates to errors are those mostly made by Bank. False C.B
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. False 81600 81600
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. False
19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement. True
20. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book. False diff.

20) **Rectification of Errors**

True and False

1. The method of rectification of errors depends on the stage at which the errors are detected. True
2. In case of error of complete omission, the trial balance does not tally. False
3. When errors are detected after preparation of trial balance, suspense account is opened. True
4. When purchase of an asset is treated as an expense, it is known as error of principle. True
5. Trial balance agrees in case of compensating errors. True
6. When amount is written on wrong side, it is known as an error of principle. False Commission
7. On purchase of furniture, the amount spent on repairs should be debited to repairs account. False Furn.
8. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period. False next
9. Rent paid to land lord of the proprietors house, must be debited to 'Rent account'. False Drawing A/c
10. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. False One Sided

21) **Cash Book**

Two Column
Cash
Bank Discount

True and False

1. Cash book is a subsidiary book as well as a principal book. True
2. Two column cash book consists of two columns cash column & bank column. True
3. Discount column of cash book is never balanced. True
4. Contra entry is passed in a two column cash book. False Three
5. If the bank column is showing the opening balance on credit side, it is an overdraft. True
6. A cash book records cash transactions as well as credit transactions. False
7. Discount column of cash book records the trade discount. False Cash disc.

22) **Subsidiary Book**

True and False

1. Transactions recorded in the purchase book include only purchases of goods on credit transactions. True
2. Transactions regarding the purchase of fixed asset are recorded in the purchase book. False
3. Cash sales are recorded in the sales book. False
   Cash
4. Subsidiary books are also known as the books of original entry. True
   Journal
5. Bills receivable book is a subsidiary book. True
6. Return inward book is also known as purchase return book.
   Sales Ret
7. Purchase of a second hand machinery will be recorded in purchase book. - False
8. Total of sales return book is posted to the debit side of sales account. True
9. If the sales are on a frequent basis, the transactions are recorded in the sales book.
   True

Dr. S/R A/c → Dr. Sales A/c

Sales Dr.
To S/R

23) **Trial Balance**

True and False

1. Preparing trial balance is the third phase of accounting process. True
2. Trial balance froms a base for the preparation of Financial statement. True
   forms
3. Agreement of Trial balance is a conclusive proof of accuracy. False
4. A trial balance will tally in case of compensating errors. True
5. A Trial balance can find the missing entry from the journal. False
6. Suspense account opened in a trial balance is a permanent account.
   Temporary
7. The balance of purchase returns account has a credit balance. True

24) **Ledger**

True and False

1. A ledger is also known as the principal book of accounts. True
2. Cash account has a debit balance. True
3. Posting is the process of transferring the accounts from ledger to journal. False
4. At the end of the accounting year, all the nominal accounts of the ledger book are balanced. - False
   B/s
5. Ledger records the transactions in a chronological order. False
   Analytical
6. If the total debit side is greater than the total of credit side, we get a credit balance. False
   Debit
7. Ledger accounts of assets will always be debited when they are increased. True

Eq + Liab = A
Eq + NCL = FCA + CA − CL

25) **Journal**

True and False

1. In accounting equation approach, equity (Cap) + Long-term liabilities = fixed asset + current assets – current liabilities. True
2. In the traditional approach a debtor becomes receiver (giver). False
3. The rule of nominal account states that all expenses & losses are recorded on credit (debit) side. False
4. Journal proper is also called a subsidiary book. True
5. Capital account has a debit balance. False
6. Purchase account is a nominal account. True
7. All the personal & real (Nominal) account are recorded in P&L A/c. False
8. Asset side of balance sheet contains all the personal & nominal accounts (Real A/c). False
9. Capital account is a personal account. True
10. Journal is also known as the book of original entry. True

26) **Meaning & Scope of Accounting**

True and False

1. There is no difference between book keeping and accounting, both are same. False
2. Management (Financial) Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts. False
3. Financial (Management) accounting is concerned with internal reporting to the managers of a business unit. False
4. Customers of business should not be (be) considered as users of accounts prepared by business. They are not interested to know performance of the business True
5. Summarising (Recording) is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account. False
6. Balance sheet shows the position of the business on the day of its preparation and not on the future date. True
7. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business. True

27)**Accounting Concepts, Principles & Convention**

True and False

1. The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept. - False
   Business Entity
2. Entity concept means that the enterprise is liable to the owner for capital investment made by the owner. True
3. Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred. False
4. Realisation
   The Conservatism Concept also states that no change should be counted unless it has materialized. False
5. The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting. False does not
6. The materiality depends ~~only~~ upon the amount of the item and ~~not~~ upon the size of the business, nature and level of information, level of the person making the decision etc. False

28)**Accounting Terminology**

True and False

1. drawee
   The drawer's signed assent on bill of exchange, to the order of the drawee is called an acceptance: False
2. not
   That portion of an expenditure whose benefit has been exhausted is called Unexpired Expenditure. False
3. Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made. False
4. Authorised Share capital is sometimes referred to as nominal share capital. True
5. Fixed assets less interest on obligations undertaken to purchase asset less accumulated depreciation thereon up-to-date are called Net Fixed Assets. False - Fixed Asset - Acc. Dep = Net F.A
6. The credit balance in the profit and loss statement is called a deficit. - False
   Profit

29)**Contingent Assets & Liabilities**

True and False

1. need to be
   A contingent liability need not be disclosed in the financial statements. False
2. Cont Liab
   A Provision fails to meet the recognition criteria. False
3. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability. - False
   Asset
4. Provision
   When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability. False
5. Present financial obligation of an enterprise, which arises from past event is termed as ~~contingent~~ liability. False

30) **Accounting Policies**

True and False

1. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances. no False
2. Selection of accounting policy doesn't impact financial performance and financial position of the business does False
3. A change in accounting policies should be made as and when business like to show result as per their choice. False ↳ Change only when 1) Required by law or Acc. standard 2) Better Presentation
4. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy. T
5. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time. False overstate/understate

31) **Accounting as a Measurement Discipline**

True and False

1. There are four generally accepted measurement bases. False

   (i) Historical Cost; (ii) Current Cost;

   (iii) Realizable Value; (iv) Future Value. Present

2. Historical Cost means price paid at time acquisition. True
3. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Realisable value False
4. At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business. Discounted - False
5. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Historical cost of machine is 20,00,000 10lac - False
6. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Current cost of machine is ₹ 20,00,000 True

32) **Accounting Standards**

True and False

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements. True
2. Accounting standards can override the statute. cannot False
3. Difficulties in making choice between different treatments is one of the benefits of accounting standards. limitation False
4. Requirements for additional disclosures is limitation of accounting standards. benefits False
5. ASB stands for Accounting standardisation benchmarking. False Accounting Standard Board
6. There are ~~no~~ limitation to accounting standards. False

↳ Choices b/w diff. Accounting treatment

— Limited in scope

(bcz cannot override the Law)

33)**Indian Accounting Standards**

True and False

1. The Government of India in consultation with the ICAI decided to adopt IFRSs issued by the IASB. Converge False
2. There are many benefits of convergence with IFRSs to the economy, investors, industry etc. True
3. There was no need to converge to global accounting standards. need False
4. International Financial Reporting Standards (IFRSs) are considered a "rules-based" set of standards. Principle False
5. Govt of India has taken IASB support to develop Ind AS standards. ASB - Acc. Standard Board False
6. IASC stands for International Accounting Standards Council. Committee False

Other Important Questions (RTP / PYQ / MTP)

1) A fixed charge generally covers all the assets of the company including future one. False
2) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability. Asset - False
3) There are two ways of preparing an Account Current. False
4) A partnership firm cannot own any Assets True
5) Prior period items need not be separately disclosed in the current statement of profit & loss. False
6) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current. - True
7) Net income in case of persons practicing vocation is determined by preparing profit & loss account. Income & Exp False.
8) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle, True
9) The debit notes are used to prepare Sales Return Book. Cr - False
10) If closing stock appears in the Trial Balance, then the closing inventory is not entered in Trading Account. It is shown only in the Balance sheet. - True
11) The concept of conservatism when applied to Balance sheet results in understatement of assets. True
12) In the calculation of average due date, only the due date of first transaction must be taken as the base date. False
13) The business of partnership must be carried on by all the partners. False
14) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together WDV True
15) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend, False
16) Warehouse rent paid for storage of finished inventory should be included in the cost of Finished inventory. False
17) A person holding preference shares of a company cannot hold equity shares of the same company False
18) Re-issue of forfeited shares is allotment of shares but not a sale. False
19) If del-credere commission is paid to the consignee, the loss of bad debts is to be borne by the consignor. False Consignee

1st Stage

09 October 2023 10:30

1] Duration - 1.5 hrs

2] Chat ×
3] Doubts

ROE [5-10]

Journal/ Sub. book → Ledger → Trial balance

Journal/Sub. book ↓ Recording

Ledger ↓ Posting

a] Purchase of goods from Tanya ₹ 10,000, entered/recorded as ₹1000

→ Subsidiary books → Credit purch → Purch book → ~~₹10,000~~ ₹1000

Posting

a) Purch of goods from Tanya ₹10,000, posted at ₹1000

→ Purch. A/c Dr. 10,000
To Tanya 10,000

→ ~~Purch. A/c~~ Dr. ~~1000~~

Tanya Cr. 1000

Purchase book

Tanya	10,000
X	✓
Y	✓
Z	✓
Total	✓

→ Tanya Cr. 1000

Total → Purch. A/c ✓

b) Sale of goods to Tanya ₹5000, posted as ₹500

Sales book

Tanya	5000
Total	✓

→ Dr. Tanya 500

Types of Errors

Types of Errors

Error of Principle (4T4)

Clerical Errors

- Error of omission
- Compensating Error
- Error of Commission

Expense ↓ Rev. exp → Cap. Exp. Asset

Ex- Repairs to Mach. 1000, debited to Mach A/c

P&L A/c ← Repair Dr.
To Cash A/c → Mach. Dr. 1000
To Cash A/c 1000

→ Rev. Receipt → Cap. Receipt

Furniture
↳ Cash Dr.
To Sales A/c
↓
P&L A/c

– Cash Dr.
To Furniture
└ Asset - Cap Re

1. Error of omission → Partial omission
   Complete Omission

* Sales Ret of ₹2000, omitted to be recorded.

Imp * Goods Sold to Jassi ₹1000, not posted.

Sales book

Jassi	1000 → Jassi A/c
Total	✓

2. Compensating Error

1. Rent of ₹5000, recorded as ₹500

Rent Dr 500 → 5000
To Cash 500 → 5000

2. Salary of ₹500, recorded as ₹5000

Salary Dr. 5000 → 500
To Cash 5000 → 500

3. Error of Commission

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

Question:

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

a. Sale of Machinery credited to Sales Account. Principle.

b. Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted. Omission

c. Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. - Commission Recording

d. Purchase worth Rs. 4,500 from Mr. Jassi posted to the debit of Machinery A/c. - Principal
Exp. Asset

e. Credit sale wrongly passed through the Purchase Book.
Sales book Purch book - Comm.

3 Stages

Recording Posting Trial Balance Financial statements

Stage I
before prep. of Trial bal.

After T.b but before final A/c.

After Final A/c

1. Before prep of T.b

Errors

One-sided → Rectification entry Cannot be recorded

Two-sided → Rectification entry can be recorded.

a. Sale of ₹10,000 to Pinku, posted as ₹1000
Credit Sales
↓
Sales book

Pinku	10,000
Total	10,000

→ Sales A/c

Pinku
Dr.
1000
9000

Pinku Dr. 9000
?
"To mistake in posting ₹9000"

b. Sale of ₹10,000 to Pinku, recorded as ₹1000

Sales book

Pinku	1000

Dr. Pinky
1000

Pinku Dr. 9000
To Sales A/c 9000

Pinku Dr. 9000
To Sales A/c 9000

C. Total of sales book amounting to ₹10,000 posted to the debit of Purch. A/c

Sales book

Total	10,000

Dr. Purch. A/c Cr.

Dr.	Cr.
10,000	10,000

Sales A/c Cr.

	by ~~10,000~~

To purch A/c 10,000
To Sales A/c 10,000
One-sided

Rectification of one-sided error

"Rectification Statement"

a. Sales of ₹ 10,000 to Mimi, posted as ₹1000
Dr. Mimi Dr.

Mimi A/c - "To mistake in Posting ₹9000"

b. Total of Purch. book has been undercast by ₹1000

Purch. book

Total	~~10,000~~ 9000

"To undercasting of P.B ₹1000"

Purch. A/c

Dr.	
9000	
1000	

C. Payment of ₹1000 for Salaries has been posted twice to Salaries A/c

Salaries Dr.
To Cash A/c

Salaries A/c

Dr.	Cr.
1000	1000
1000	

"By double posting ₹1000"

d. Credit Sale of ₹789 to Jasi, has been posted as ₹798

Jasi Dr. 789
Dr. 798 +9 Dr

"By wrong posting ₹9"

Jasi Dr. 789
Dr. 798] +9 Dr → 9 Cr.

"By wrong posting ₹9"

e. Discount allowed to Mr. X ₹1000 has not been posted.
↓ Mr. X

Cash book

Dr.	Disc		Disc	Cr.
Disc all.	Disc		Disc. Rec	Disc.
To Mr.	1000			
Total				

Disc. all Dr.
To X

↳ Disc. all. A/c (Dr.)

Dis. Rec A/c (Cr.)

Mr. X (Cr. 1000)

Mr. X - "by omission of posting ₹1000"

* f. Disc. all. to Mr. X ₹1000 has not been entered.
└ Record X

2 sided error
Disc. all. Dr. 1000
To Mr. X 1000

Two-sided errors

a. Purch. of Mach. from Tina ₹20,000 has been recorded in Purch. book.

Correct	Wrong	Rectification
Mach. Dr. 20,000	Purch. A/c Dr. 20,000	Mach. A/c Dr. 20,000
To Tina 20,000 (Cr.)	To Tina 20,000 (Cr.)	To purch A/c 20,000

b. ₹10,000 paid to Shyam for salary wrongly debited to his personal A/c

Correct	Wrong	Rectification
Salary Dr. 10,000	Shyam Dr. 10,000	Salary A/c Dr 10,000
To Bank 10,000	To bank 10,000	To Shyam 10,000

c. Cheque of ₹10,000 received (Bank Dr) from Hari, was dishonoured & debited to Allowance A/c

Correct	Wrong	Rectification
Receiv. Hari Dr. 10,000	Allowance Dr. 10,000	Hari Dr.
To Bank A/c	To bank A/c 10,000	To Allowance A/c

1 – Hari Dr. 10,000
To Bank A/c

Allowance Dr. 10,000
To bank A/c 10,000

Hari Dr.
To Allowance A/c

d. Goods purchased from Mr. X ₹10,000 has been wrongly entered in Sales book = Credit Sales

Correct	Wrong	Rec.
Purch. A/c Dr 10,000 To Mr. X 10,000	Mr. X Dr. 10,000 To Sales A/c 10,000 Cr. 10,000 Cr. 10,000	Purch. A/c Dr. 10,000 Sales A/c Dr. 10,000 To Mr. X 20,000

e. Amt of ₹5000 received from Mr. Sahil, whose A/c was written off as bad debt in PY., posted to his personal A/c

Correct	Wrong	Rec.
Bank Dr. 5000 To bad debt Rec A/c 5000 Income	Bank Dr. 5000 To Sahil 5000	Reverse Sahil Dr. 5000 To bad debt Rec 5000

f. ₹1000 withdrawn by proprietor for personal use, debited to Trade exp A/c.

Correct	Wrong	Rec.
Drawings Dr. 1000 To Cash 1000	Trade exp Dr. 1000 To Cash A/c 1000	Drawings A/c Dr. 1000 To Trade exp. 1000

g. On 31st Mar. 23 goods of value ₹3000 returned by Jassi (Sales Ret), were taken into inventory, but no entry passed.

Correct	Wrong	Rec
Sales Ret Dr. 3000 To Jassi 3000	–	Sales Ret Dr. 3000 To Jassi 3000

X —— X

Test Series

2nd Stage

10 October 2023 11:54

Stage (ii) - Rectification after Trial Balance

Trial Balance → Arithmetical Acc.

	Dr.	Cr.
Suspense A/c		20,000
	200,000	≠ 180,000
	Dr. excess by 20,000	Cr. Short by 20,000

Suspense A/c

			Cr.
To Sales A/c	20,000	By diff in T.B	20,000

* Sales book was undercasted by 20,000

Sales book

	80,000

→ **Sales A/c**

	Cr.
	80,000
	20,000

Susp A/c Dr. 20,000
To Sales A/c 20,000

- One-sided → Trial Bal ✗
- Two-sided → Trial Bal ✓

One sided	Two sided
↓	↓
Trial Bal ✗	Trial Bal ✓
⇓	⇓
Suspense A/c ✓	Susp ✗
Rectify - Journal Entry with the help of Susp A/c	J.E. without Susp A/c

Ex- Goods purchased from Tanya ₹10,000, posted to the debit of Tanya.

Correct	Wrong	Rectify
Purch. A/c Dr. To Tanya	Tanya Dr. 10,000	Suspense A/c Dr 20,000 To Tanya 20,000

Ex- Sales Return book was carried forward as ₹1220 instead of ₹1120

Correct	Wrong	Rectification
Sales Ret Dr. 1120	Sales Ret Dr 1220	Suspense A/c Dr 100 To Sales Ret A/c 100

Ex- Credit purch. of ₹940 from Jassi recorded as ₹490

Purch. book

Jassi	490

Jassi

	Cr.
	490

Correct	Wrong	Rectify
Purch Dr. 940 To Jassi 940	Purch Dr 490 To Jassi 490	Purch Dr 450 To Jassi 450

2 sided

Ex- Mach. purch. ₹100,000 posted to the debit of Purchase A/c

Correct	Wrong	Rectification
Mach. Dr. 100,000 To Bank 100,000	Purch. Dr. To Bank	Mach Dr 100,000 To Purch. 100,000

Ex- Disc. allowed ₹1000 to Tara has not been entered in cash book

Ex- Disc. allowed to Tara ₹1000 has not been entered in cash book but Tara's A/c has been correctly posted

Correct	Wrong	Rectification
Disc. all. Dr. 1000	?	Disc. all. Dr. 1000
To Tara 1000	To Tara 1000	To Susp A/c 1000

Vrite out the Journal Entries to rectify the following errors, using a Suspense Account. 2nd stage

1) Goods of the value of ₹ 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
3) A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20; and
4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹ 250 was not posted.

	Correct	Wrong	Rectification
1]	Sales Ret Dr 100 / To Mr. Sharma 100	To Sales A/c / To Mr. Sharma	Sales Dr 100 / Sales Ret Dr. 100 / To Susp 200
2]	Sales Ret Dr. 150 / To Mr. Philip 150	Mr. Philip Dr 150	Susp Dr. 300 / To Mr. Philip 300
3]	Ghanshyam Dr. 200 / To Sales 200	→ Radheshyam Dr. 20	Ghanshyam Dr. 200 / To Susp A/c 180 / To Radheshyam 20
			Disc. all. Dr. 250 / To Susp 250

(a) 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 debit 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 Sales price being ₹ ~~6,000~~) distributed as free samples amount prospective customers were not recorded anywhere.

personal account of Mahesh Chand.

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

(v) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.

(5 Marks)

	Correct	Wrong	Rectification
(i)	Building Dr. 20,000 To Bank 20,000	→ Wages A/c Dr.	Building Dr 20,000 To Wages 20,000
(ii)	Ramesh Dr. 1200 To Sales A/c 1200	Purch Dr. 1200 To Ramesh 1200	Ramesh Dr 2400 To Purch A/c 1200 To Sales 1200
(iii)	Cash Dr. 2000 To Bad debt Rec. 2000	→ To Mahesh chand 2000	Mahesh chand Dr 2000 To bad debt Re 2000
(iv)	Adv. exp Dr. 5000 To Purch A/c 5000		Adv. exp Dr 5000 To Purch 5000
(v)			Sales Ret Dr. 1500 To Green 1500

2. On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. Dr. +150 This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed: Susp Cr. 150

Dr. +50

(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.-Cr. ↑ 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. - Sales Ret

(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.

	Correct Entry	Wrong	Rec	Effect on Profits (Exp - Gn)
(i)			Susp A/c Dr 50 To Exp 50	+ 50

Profits - in

(i) Susp A/c Dr 50 +50
To Exp 50

(ii) Susp Dr 100 +100
To Sales A/c 100

(iii) Supplier Dr. 225 No effect
To Susp 225

(iv) Sales Ret Dr
To customer

Sales Ret Dr. 100 (–) 100
To susp 100

(v) Trade Pay Dr. → Purch. A/c Dr.
To bank A/c

Trade Pay Dr 500 +500
To purch. 500

(vi) Trade Rec Dr. 50
To Sales A/c

To Trade Rec 50
Cr
Dr 50

Trade Rec Dr 100 No effect
To Susp 100

Susp. A/c

Dr			Cr.
To Exp A/c	50	by diff in T.B.	150
To Sales A/c	100	by Supplier A/c	225
To bal c/d	425	by Sales Ret	100
		by Trade Rec.	100
	575		575

(c) 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

(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 Airconditioner 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. (4 Marks)

Correct	Wrong	Rect
1. Cash To Int A/c	To comm.	Comm A/c Dr 4500 To Int 4500
2. Sobhag Dr. 2760 To Sales A/c 2760	Sobhag Dr 2670	Sobhag Dr. 90 To Susp 90
3. Drawings Dr.	→ Mach. Dr	Draw. Dr. 35000 To Mach A/c 35000
4.		Sales Rt Dr. 5000 To Cust A/c 5000

Imp.

vehicle Dr. 1200

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

Correct

Bank Dr. 1500
To P&L A/c 300
To vehicle 1200

Rect. Entry

Susp Dr. 1500
To P&L 300
To vehicle 1200

2) A bad debt of Rs. 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 Rs. 23,390 with a credit provision for bad debts at Rs. 2,320.

Trial Balance

	Dr.	Cr.
Trade Rec	23,390	

Trial Balance

	Dr.	Cr.
Trade Rec	23390	
Prov. for DD.		2320

→ P&L Dr. 2320
To prov. for DD 2320

1. Bad debt- 1560

a. Bad debt Dr. 1560
To Trade Rec. 1560

b. Prov. for D.D Dr. 1560
To Bad debt 1560

2320
1560
760 - Prov.

Trade Rec- 23390 - 1560 = 21830
Prov. - 10% 2183

1423

→ P&L Dr. 1423
To prov. for DD 1423

x——x

Application upload

5pm BCK →

3rd Stage

11 October 2023 09:45

Stage-3 Rectification after Final A/c

Trial Bal. 2021-22

	Dr.	Cr.
Susp		1000
	10,000	10,000

Suspense
Cr. bal. 1000

Nominal A/c ← P&L A/c

Balance Sheet - Cap. A&L

Liab → Susp

Asset

2022-23 Next Year

"Sales book is undercasted by ₹1000"

Suspense Dr. 1000
To Sales A/c 1000 → Sales ↑ X

⇓ Nominal A/c → P&L Adj A/c

→ Suspense Dr. 1000
To P&L Adj A/c 1000

⇓ Bal. will be t/f to cap A/c

2] A Sale of ₹573 to Tanya was entered in the Sales book as ₹753

C.E	W.E	Rec
Tanya Dr. 573	Tanya Dr. 753	P&L Adj Dr. 180
To Sales A/c 573	To Sales 753	To Tanya 180

RTP (b) The books of accounts of Dime Ltd. for the year ending 31.3.2021 (20-21) were closed with a difference in books carried forward (Susp) (Bal. Sheet). The following errors were detected subsequently:

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

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

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

Rec.

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

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

Customer

(v) The Sales of ₹ 10,000 was omitted to be recorded.

Pass rectification entries in the next year.

(i) Susp A/c Dr. 100
To P&L Adj A/c 100

(ii) Susp. A/c Dr 1500
To P&L Adj A/c 1500

(iii) Furniture A/c Dr. 6000
To P&L Adj A/c 6000

(iv) Customer Dr. 760
To Sales A/c 760
→ Cust Dr 670 | Customer Dr. 90
To Susp A/c 90

(v) Debtor Dr. 10,000
To p&L Adj 10,000

(vi) P&L Adj Dr. 17600
To Cap A/c 17600

WN

P&L Adj A/c

		Cr.	
		by susp A/c	100
To Cap A/c	17600	by susp.	1500
		by furn. A/c	6000
		by Debtor	10,000
	17600		17600

Susp A/c

		by bal. b/d →	1510 - bal. fig.
To p&L Adj	100	by customer	90
To p&L Adj	1500		
	1600		1600

Recorded

1) A sale of Rs. 573 was entered in the sales book as Rs. 753 and posted to the credit of the customer. (Recorded)
2) Cash received from C. Dass Rs. 620 was posted to the debit of G. Dass
3) Goods worth Rs. 840 were dispatched to a customer before the close of the year but no invoice was made out. (Sales)
4) Goods worth Rs. 1,000 (SP) were sent on sale or return basis to customer and entered in the sales book. At the close of the year, the customer still had the option to return the goods. The sales price was 25% above the cost. → Sales of Goods on approval
5) Rs. 7,000 due by Mr. Kohli (Dr.) was omitted to be taken to trial balance.

Imp

	C.E	Wrong	Rec.
1]	Customer Dr. 573 To Sales 573	To Customer 753 To Sales A/c 753	Customer Dr. 1326 P&L Adj A/c Dr. 180 To Susp A/c 1506
2]	Cash book Cash Dr. 620 To C. Dass 620	G. Dass Dr. 620	Susp Dr. 1240 To G. Dass 620 To C. Dass 620
3]			Customer Dr. 840 To P&L Adj 840

4)

Sales 1000 → Customer Dr 1000 To Sales 1000

31/3 Cl stock

100 → 125

Profit

$\frac{1}{4} \cancel{\frac{25}{100}} \times \text{cost} = \frac{1}{1+4} \times \text{Sales}$

$= \frac{1}{5} \times \text{Sales}$

$\frac{1}{5} \times 1000 = 200$

a] P&L Adj Dr. 1000
To customer 1000

b] Inventory with cust Dr. 800
To P&L Adj A/c 800
Cost

5)

Kohli Dr. 7000
To Susp A/c 7000

2021-22

Suspense
Cr. 1000
bal.
written off in
P&L

written off in

P&L

→ Susp Dr. 1000
To P&L A/c 1000 → P ↑ 1000
Cap ↑ 1000

Next year

Sales book was undercasted by 1000

Susp Dr. 1000
To P&L Adj A/c 1000 → Cap A/c ↑ 1000

Cap A/c

↑ 2000

Cap Dr. 1000
Cap ↓ 1000 To Susp A/c 1000

Net Cap ↑ 1000

Suspense

writeoff

P&L A/c

Next year

Susp. → Cap A/c
P&L Adj → Cap A/c

Suspense

P&L A/c

Susp → Cap A/c
P&L Adj → Cap A/c

Bal Sheet

→ P&L Adj → Cap A/c
Suspense → Cap A/c X

(b) 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.

v Imp

(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.

Cash sales Sales book total Sales A/c

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

→ Amt of 4167 of Sales to Tanya a wrongly posted as 4617

Credit sale → Sales book

(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.

~~(vi)~~ A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale. posted as 4617

Suggest the necessary rectification entries.

Cash
To Ashok → To Anubhav

(i) P&L Adj A/c .. 16000
To Susp A/c 16000

(ii) Rahim Dr. 5000
To P&L Adj A/c 5000

(iii) Anubhav Dr. 1200
To Ashok 1200

(iv) Cash Dr. 4167
To Sales A/c 4167 → To Sales A/c 4617
↓
Cash book

P&L Adj A/c Dr. 450
To Susp A/c 450

(v) P&L Adj A/c Dr. 6100
To Mach A/c 6100

(vi) P&L Adj Dr 6000
To Paul 6000

C.E.
Purch Dr. 3000
To Paul 3000

W.E.
Paul Dr. 3000
To Sales 3000

R.E. P&L Adj Dr 6000
To paul 6000

(vii) Anirudh cap Dr. 23550
To P&L Adj 23550

(viii) Susp Dr 16450
To Anirudh cap 16450

WN

P&L Adj A/c

To Susp	16000	by Rahim	5000
To Susp	450	by Anirudh Cap A/c	23550
To Mach	6100		
To Paul	6000		

Susp A/c

To Anirudh Cap A/c	16450	by P&L Adj	16000
		by P&L Adj	450

X —— X

Chapter over

Test

Avyukt - 499

Comment

Notes-

Free Study Mat

12 pm

Bcp. 5pm

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BRS- Concepts

10 October 2023 11:53

Bank Reconciliation Statement

Bank A/c → Asset

Ayukt → Cash Book (Bank)

100,000 →

SBI → Customer A/c → Liability

Pass book

Cash Book Dr.	Cash Book Cr.	Pass book Dr.	Pass book Cr.
+	(−)	(−)	Liab +

Bal. as per C.B ≠ Bal. as per P.B

1) Dr. in cash book = Cr. in the PB
Cr. in Cash book = Dr. in the PB

	Cash book		Pass book
Favourable [Dr > Cr.]	Dr. bal in C.B (Asset)	=	Cr. bal in P.B
Unfav. - Overdraft (Liab.)	Cr. bal in C.B	=	Dr. bal in PB.

Causes of Difference → Timing Diff. / Transaction / Errors

1 Cheque deposited ₹100,000 on 28/3 –

Cash book	Pass book
Dr. ✓	Cr. ✗

Bank charges ₹1000

Pass book	Cash book
Dr. ✓	Cr. ✗

Differences

30/6

1. Cheque deposited ₹200,000, on 28th June, not yet Credited by bank

Cash book	Pass book
Dr. 200,000 ✓	Cr. ✗

⇒ Cheque paid (deposited) into the bank

encashed

⇒ Cheque paid into the bank

2. Cheque issued but not yet presented / encashed · ₹50,000

Cash book — Dr | Cr: 50,000 ✓

Pass book — Dr: ✗ | Cr

3. Int allowed by the bank

Cash book — Dr: ✗ | Cr

Pass book — Dr | Cr: ✓

4. Int charged by the bank

Cash book — Dr | Cr: ✗

Pass book — Dr: ✓ | Cr

5. Int / Dividend collected by bank

Cash book — Dr: ✓ | Cr

Pass book — Dr | Cr: ✓

6. Direct payment by the customer into the bank

Cash book — Dr: ✓ | Cr

Pass book — Dr | Cr: ✓

7. Dishonour of a bill discounted with bank

Cash book — Dr: 10,000

Jassi —(Sale 10,000)→ Tanya - B/P

Jassi → BR → BOE - 2 months

Jassi —(Discount)→ Bank → BOE 10,000 → Tanya

आप कौन ? - Dishonour of a bill

Pass book — Cr: 10,000

↳ Pass Book — Dr: 10,000 ✓ — Difference — Cash book — Cr: ✗ ✓

* 8. Cheque deposited dishonoured - ₹1,00,000

Cash book — Dr: 1,00,000 | Cr: ✗

Pinku —(Sale)→ Jassi

Jassi —(Cheque)→ Pinku

Pinku ↓ 1,00,000 Bank deposit

↳ Cheque dishonour

Bank deposit → Cheque dishonour

Pass book

Dr.	Cr.

Reconciliation

	Bal. as per CB	Bal. as per PB
1. Cheq. deposited but not clear	Minus	Plus
2. Cheq. issued but not presented	Plus	Minus
3 Int allowed by bank	Plus	Minus
4. Exp. directly paid by bank	Minus	Plus
5. Bank ch. / Int ch.	Minus	Plus
6. Cheque dishonoured	Minus	Plus
7. Excess debit in the cash book	Minus	Plus
8. Undercasting of payment side of cash book	Minus	Plus
9. Overcasting of Receipt Side of CB.	Minus	Plus
10. Excess credit in Pass book	Plus	Minus
	Bal. as per PB: +ive Cr, -ive Dr.	Bal. as per CB: +ive Dr, -ive Cr.

CB

Dr	Cr.
20,000	1000

Dr bal. 19000

1. From the following particulars prepare a bank reconciliation statement as on 31st December 2019:

(i) On 31st December, 2019 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).

CB (−) 11,00,000

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

CB+

(iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2019 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, 2019 but was banked on 3rd January, 2020.

deposited CB+

(iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2019 but was dishonoured and the advice was received on 2nd January, 2020.

Information PB −

(v) Pass-book showed bank charges of ₹ 2000 debited by the bank.

was dishonoured and the advice was received on 2nd January, 2020.

(v) Pass-book showed bank charges of ₹ 2000 debited by the bank. Information PB –

(vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2019 but the intimation in this respect was received from the bank on 2nd January, 2020. PB+ Info.

Bank Rec Stat.
as on 31st Dec.

Particulars	Plus (₹)	Minus (₹)
(i) Dr. bal. as per Cash book	60,000	
(ii) Cheque issued but not pres.	11,00,000	
(iii) Cheques deposited but not credited		11,40,000
Cheque not banked		500,000
(iv) Cheque dish.		400,000
(v) Bank charges		2000
(vi) Amt directly dep by Debtor into Bank	500,000	
Dr. bal. as per Pass book	382000	
	2042000	2042000

(b) From the following information prepare a 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.	Cheques deposited on 15th February, 2022 credited on 5th April, 2022 (CB+, 31/3 PB×)	12,50,000
2.	Interest debited by bank on 31st March, 2022 (PB(–))	1,75,500
3.	Cheques issued before 31st March, 2022 but not yet presented (CB(–))	7,75,000
4.	On 10th March, 2022 bank credited to A Ltd in error (PB+)	1,50,000
5.	Draft deposited in bank but not credited till 31st March, 2022 (CB+)	12,75,000
6.	Bills for collection credited by bank but no advice received by the company (Info, PB+)	9,45,000
7.	Bank charges charged by bank not entered in cash book (PB(–))	2,85,000
8.	Transport subsidy received from the state government directly by the bank not advised to the company (PB+, Info)	17,50,000

(5 Marks)

Bank Recon. St.
as on .

	Plus	Minus

as on ..

	Plus	Minus
Bal. as per cash book		15,50,750
1.		1250,000
2.		175,500
3.	775000	
4.	150000	
5.		1275000
6.	945000	
7.		285000
8.	1750000	
Dr. Bal. as per Pass Book	916250	
	4536250	4536250

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,39,200 for the period ended on 30th June, 2019, this did not agree with the balance in the cash book.

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

1. A deposit of ₹ 3,09,200 paid on 29th June, 2019 had not been credited by the Bank until 1st July, 2019. CB+ deposited

* 2. On 30th March, 2019 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,00,000 on the 10th of each month, commencing from April, 2019. No entries had been made in Cash Book. 10/4 10/5 10/6 9L→

16000 – chq. 384000

* 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. 4L PB +384000 CB + 400,000

4. Bank charges amounting to ₹ 3,000 had not been entered in Cash-Book.

PB+400,000

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. deposited PB +11200 CB +11200 +11200

Imp 7. A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on ~~5th~~ July, 2019. Dish.

11L CB + PB Dr. 11L Cr. 11L 0

Prepare Bank Reconciliation Statement on 30 June, 2019.

Bank Rec. St.
as on..

	+	−
Cr. bal. as per Pass book	1039200	
1.	309200	
2.	900,000	
3.	16000	
4.	3000	
5.		400,000
6.	11200	
7.	11,00,000	
Dr. Bal. as per Cash book		2,978,600

6.	11900	
7.	11,00,000	
Dr. Bal. as per Cash book		2978600
	3378600	

x——x

Bck 5 pm

Comment

Dayitty

3 Share

Adj Cash Book

14 October 2023 11:10

Adjusted Cash book

Year end - 31st Mar

Cash book ⟷ Difference ⟷ Pass book

Cash book
↳ Cashbook
⇒ Correct
Adj. Cash book

⇒ Adj. Cash book
↳ Only if mentioned in the Question.

What to Adjust

Errors of Cash Book
- Overcasting / underc. of CB
- Amt entered twice

Omission in CB
- Bank charges
- Int allowed by bank
- Cheque dishonour

BRS

1. Cheque deposited but not cleared.
   ↳ CB ✓ ↳ PB ✗
2. Cheque issued but not present for payment
   ↳ CB ✓ ↳ PB ✗
3. Bank credited ₹10,000 by error.
   ↳ PB ✓

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

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

   (ii) Cheques paid into bank (deposited) amounting to ₹ 11,05,000 (CB ✓) out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2019. - 5,55,000 - BRS

   (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. ↳ PB ✓

   (iv) Insurance premium (up to 31st December, 2019) paid by the bank ₹ 27,000 not entered in the cash book. – PB ✓

   (v) The payment side of the cash book had been under casted by ₹ 5,000. ↓ 5000

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

   (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. 59000

   → Bank Dr. 59000
   Disc. ch Dr. 1000 ⟶ Disc ch A/c - P&L A/c
   To B/R 60,000

Required:

(a) to make the appropriate adjustments in the cash book, and had also not been recorded in cash book. 59000

Disc. ch Dr 1000 → Disc ch A/c - P&L A/c
To B/R 60,000

Required:

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

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

Cash Book

Dr. ↑ Payment Cr.

Part	₹	Part	₹
To bal. b/d	4450,000	By Ins. prem.	27000
To Dividend	40,000	by undercasting of paym.	5000
To Rent	600,000	by bank ch.	1500
To Bill Rec.	59000	by bill pay.	200,000
		by bal. c/d	49,15,500

Bank Recon. St
as on 30th June, 2019

	Plus	Minus
Adj. Cash. book bal.	4915,500	
1. Cheq. issued but not pres.	600,000	
2 Cheq. dep. but not cleared		555000
Cr. bal. as per Pass book		4960500
	55,15,500	55,15,000

Dec 23

5. 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:

Credit

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022 CB ✓ BRS
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book. Rec. - CB → R.E Party Dr. To Bank → Reverse Bank Dr. To Party
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. PB Info
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book. CB ✓
5. On 6th September, 2022, the bank credited ₹ 40,000 to Vikrant in error. BRS
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. - Dishonour Customer Dr. 280,000 To Bank 280,000
7. Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹ 26,52,000. - CB ✓ - BRS

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

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.

Adj. Cash book

Dr. Cr.

Part	₹	Part	₹
To parl A/c	32000	by bal. bld	8124
To Customer A/c	234800	by bank charg.	1160
		by Customer A/c	280.000
To bal. cld	22484		

Bank Rec. St.
as on ..

	Plus	Minus.
Adj. Cash balance		22484
1. Cheque deposited but not cleared		2628000
2. Bank credited ₹40000 in error	40000	
3. Cheq. issued but not pres. for pay.	2652000	
Cr. Bal. as per Pass book		41516
	2692000	2692000

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

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

2. *Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2019, but were entered in the bank statement on ~~1st January, 2020~~.* deposit BRS(-)

3. *A cheque received for ₹ 73,000 had been dishonoured prior to 30th December, 2019, but no record of this fact appeared in the cash book.* CB Cr. – Bank Dr. To Debtor → Debtor Dr. To Bank

4. *A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.* → Bank Dr. To Div.

5. *Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.* – CB Cr.

6. *No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2019.* CB Cr.

7. *A cheque for ₹ 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2019.* BRS (–) issued by

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*

(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.*

x —— x

Important Adjustments: bw. Bank A/c

1) Amount transferred from Fixed Deposit A/c into the current A/c Rs. 2,000 appeared in the pass book.

2) The debit balance of Rs. 8624 as on the previous day, was brought forward as credit balance in cash book

Dr. 8624

Cr. 8624 — Reverse — Dr. 8624, Dr. 8624, Dr. 17248

Disc. ch. 800

3) A bill for Rs. 22,800 was discounted from the bank, entered in the cash book but proceeds credited in bank statement amounted to Rs. 22,000 only

4) The bank had debited a cheque for Rs. 450 by mistake, it should have been debited by them to another A/c holder.

5) A cheque for Rs. 1,18,000 issued, was not taken in the bank column CB

	Bal. as per CB	Bal. as per PB
1)	+	−
	+ 17248	−
	−800	+800
	−450	+450
	−118000	+118000

x —— x Chapter over → Test (Avyukt)

+8624

−0

+8624

(−) 8624

Cash Book

Dr. 8624 → Cr. 8624 Negative

Dr. 17248

Dr. 8624

Attempt the Test of this chapter : https://ymtcr.courses.store/389106?utm_source%3Dother%26utm_medium%3Dtutor-course-referral%26utm_campaign%3Dcourse-overview-webapp

Download the "Avyukt" Application for Live Classes and Notes: http://on-app.in/app/home?orgCode=ymtcr&referrer=utm_source%3Dcopy-link%26utm_medium%3Dstudent-app-referral

Join this Telegram Group : https://t.me/targetcafoundation

30 October 2023 09:23

Depreciation

Methods — WDV, SLM

Prov. for Dep & Asset Disposal A/c

Quest — Profit/Loss

Depreciation

PPE - £10,00,000

Est. useful Life - 5 years

Estimated R.V - £100,000

Depreciable value — £900,000 — Cap Exp

5 years

1 year $\frac{900,000}{5}$ = £180,000

Factors

- Cost of Asset
- Estimated Useful life
- Estimated R.V.

1. Cost of Asset — Till it is Ready to Use

* Purch. price

\+ Tax — Non Ref.

\+ Transportation

\+ Installation

1. Straight Line Method – Equal Installment Method - Orig. cost cost

31/10/22 Asset - 10,00,000

Life - 5 years

R.V - 100,000

Dep. value - 900,000 (Cost of Asset - R.V.)

R.V. 100,000

Dep value - $\frac{900,000}{5}$ [Cost of Asset - R.V. / Useful life]

= £180,000 p.a.

Dep (22-23) 1/11 — 31/3 - $180,000 \times \frac{5}{12}$

23-24 - 180,000

Dep [%] → Original cost ✓
Dep value ✗

$\frac{180000}{10,00,000} \times 100 = 18\%$ p.a.

Ex-

31/10 Mach. A/c Dr. 10,00,000
To Bank A/c 10,00,000

31/3/23 Dep. A/c Dr. 75000 → Nominal A/c
To Mach. A/c 75000

31/3/23 P & L A/c Dr. 75000
To Dep A/c 75000

* Prov. for Dep / Accumulated Dep → Total Dep. till date of B/s

Ex- Mach. 100,000 - Dep 10% p.a.

1. Dep A/c 10,000 To Mach 10,000	1. Dep A/c Dr 10,000 To prov. for Dep A/c 10,000 Cr. bal. Contra Asset
Bal. sheet Mach. 90,000	Bal. sheet Mach. 100,000 OC Less: Prov. for Dep (10,000) 90,000

Less: Prov for Dep (10,000) 90,000

2nd year

1. Dep Dr. 10,000 To Mach 10,000 Bal. sheet Mach. 80,000	1. Dep Dr. 10,000 To Prov. for Dep A/c 10,000 Bal. sheet Mach. 100,000 Less: Prov for Dep (20,000) 80,000

Prov. for Dep A/c

					Cr.
31/3/22	To bal. c/d	10,000	31/3/22	by Dep	10,000
			1/4/22	by bal. b/d	10,000
31/3/23	To bal c/d	20,000	31/3/23	by Dep	10,000

Question:
Reliance Ltd. Purchased a second hand machine for Rs 56,000 on October 01, 2021 and spent Rs 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for Rs 6,000 at the end of its useful life of 15 years. Another machine costing Rs.1,00,000 was purchased on 1st April, 2022 having useful life of 10 years with no residual value. Prepare machine account and Provision for depreciation account for the years ending 31st March, 2022, 2023 & 2024 charging depreciation by fixed Instalment Method.

84000

Cost - 84000
Useful life - 15 years
RV - 6000

WN Dep: $\left(\frac{84000-6000}{15}\right)$
= 5200 pa.
21-22 - $5200 \times \frac{6}{12} = 2600$

M1
84000
1/10/21 — 31/3/22 — 1/4/22 M2 100,000 — 31/3/23 — 31/3/24

Mach. A/c

Date	Particulars	Amount	Date	Particulars	Amount
2021 Oct 1	To Bank A/c (M1)	84000	2022 Mar 31	by bal c/d (M1)	84000
2022 April	To bal. b/d (M1)	84000	2023		

2022 April	To bal. bld (M1.)	84000	2023 Mar 31	by bal. cld M1. 84000 M1. 100,000	184000
April	To Bank (M2)	100,000			
2023 April	To bal bld M1 - 84000 M2 100,000	184000	2024 Mar 31	by bal. cld M1. - 84000 M2 - 100,000	184000

Prov. for Dep A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/3/22	To bal cld (M1)	2600	31/3/22	by Dep (M1)	2600
			1/4/22	by bal. bld	2600
31/3/23	To bal cld M1 7800 M2 10,000	17800	31/3/23	by Dep M1 - 5200 M2 - 10,000	15200
			2023 April	by bal. bld M1 - 7800 M2 - 10,000	17800
2024 Mar 31	To bal cld M1 13000 M2 20,000	33000	2024 Mar 31	by Dep M1 - 5200 M2 - 10,000	15200

	M_1 13000 M_2 20,000	33000		M_2 10,000	15200
		33000			33000

*

Written Down Valu / Reducing balance

Ex- 1/4/21 Mach. 100 00
SV - 10 00
Dep - 10 pa.

1/4/21 Cost - 100.0

21-22 Dep 10.0 0 Max
31/3/22 90. 0 → WDV

22-23 Dep 90 ↓
31/3/23 81 0 → WDV

23-24 8 0 ↓

→ Accelerated Method of Dep

Question:
Reliance Ltd. Purchased a second hand machine for Rs 56,000 on October 01, 2021 and spent Rs 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for Rs 6,000 at the end of its useful life of 15 years**.** Another machine costing Rs.1,00,000 was purchased on 1st April, 2022 having useful life of 10 years with no residual value. Prepare machine account and Provision for depreciation account for the years ending 31st March, 2022, 2023 & 2024 charging depreciation @ 10% p.a. on WDV

Mch. A/c Cr

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2021 Oct 1	To Bank A/c (M.)	84000	2022 Mar 31	by bal. cld	84000
2022 Apr 1	To bal. bld (M.)	84000	2023 Mar 31	by bal. cld	
	To Bank A/c (M.)	100,000		M. -84000 M. 100000	184000

	To Bank A/c (M₂)	100,000	Mar 31	by bal. c/d M₁ - 84000 M₂ - 100,000	184000
2023 Apr 1	To bal. b/d M₁ - 84000 M₂ - 100,000	184000	31/3/24	by bal. c/d M₁ - 84000 M₂ - 100000	184000

Prov. for Dep A/c

Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2022 Mar 31	To bal c/d	4200	2022 Mar 31	By Dep	4200
			2022 Apr 1	by bal. b/d (M₁)	4200
31/3/23	To bal. c/d M₁ 12180 M₂ - 10,000	22180	31/3/23	by Dep M₁ 7980 $\left[\frac{10}{100} \times (84000 - 4200)\right]$ M₂ - 10,000	17980
			1/4/23	by bal. b/d M₁ - 12180 M₂ - 10,000	22180
31/3/24	To bal. c/d M₁ - 19362 M₂ - 19000	38362	31/3/24	by Dep M₁ - 7182 M₂ - 9000	16182

Q.

Dep A/c

Dr.

Dep A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/3/22	To prov. for Dep	4200	31/3/22	by P&L A/c	4200

* Sum of Years of Digit Method

Mach. 100,000
RV. 20,000
Life. 5 year

Dep value = 80,000

Year	No. of years of Rem. useful life Beg. of year	Dep
1	5	$80{,}000 \times \frac{5}{15} = 26{,}667$
2	4	$80{,}000 \times \frac{4}{15}$
3	3	$80{,}000 \times \frac{3}{15}$
4	2	$80{,}000 \times \frac{2}{15}$
5	1	$80{,}000 \times \frac{1}{15}$
	15 Sum of years	

$$\text{Dep p.a.} = \text{Dep value} \times \frac{\text{No. of year of Rem. life}}{\text{Sum of year}}$$

4th year — $80{,}000 \times \frac{2}{15}$

Ques - Cost of Asset - 200,000
Useful life - 10 years
R.V - 20,000

a) Dep. for 4th year -

4th year

a) Dep. for 4th year -

b) Book value at the end of 4th year. [Op bal - Dep]
WDV
4th year

Dep = 180,000 × $\frac{7}{55}$

= 22909 → $\frac{n \times (n+1)}{2}$ - $\frac{10 \times 11}{2}$

Bal. of Mach. at the beg. of 4th year

Cost - (Dep of 3 years)

200,000 - [180,000 × $\frac{21}{55}$]

200,000 - 88364

111636 - 3rd year cl. bal

1st - 180,000 × $\frac{10}{55}$

2nd 180,000 × $\frac{9}{55}$

3rd 180,000 × $\frac{8}{55}$

$\frac{1}{55}$

WDV at the end of 4th

1,11,636 - 22909

= 88727

x——x

Comment

12pm

Gain/Loss

31 October 2023 11:59

Profit/Loss on Sale of Mach.

Cost / WDV — Sale Price

1/4/20 Mach. 100,000 WDV @10% pa.
Sold on 30/9/23 for ₹75000

Dep (20-21)	Dep	(10,000)
WDV 31/3/21		90,000
Dep 21-22		(9000)
WDV 31/3/22		81000
Dep 22-23		(8100)
WDV 31/3/23		72900
30/9/23 6m Dep		(3645)
Cr. 69255 ← WDV 30/9/23		69255

69255 → 75000

Profit 5745

Journal

30/9 Bank A/c Dr. 75000
To Mach. 75000] Cr 69255
Mach Dr. 5745
To gain on Sale 5745

Sale - 65000

1. Bank A/c Dr. 65000
To Mach 65000] Cr. 69255
2. Loss on Sale Dr. 4255
To Mach 4255

A firm purchased on 1st January, 2018 certain machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On July 1, 2018 another machinery for ₹ 2,00,000 was acquired. On 1st July, 2019 the machinery purchased on 1st January, 2018 having become obsolete was auctioned for ₹ 3,86,000 and on the same date fresh machinery was purchased at a cost of ₹ 4,00,000.

600,000

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.

1/1/18 — 1/7/18 — 31/12/18 — 1/7/19

M₁ - 600,000 — M₂ 200,000 — — M.

1/1/18 — M1 - 600,000
1/7/18 — M2 200,000
31/12/18
1/7/19 — M1 Sale - 386000; M3 - 400,000

Dr. **Machine A/c** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan 1	To Bank M1 -	600,000	Dec 31	By Dep	
July	To Bank M2	200,000		M1 - 60,000	
				M2 - 10,000	70,000
				by bal. cld	
				M1 - 540,000	
				M2 - 190,000	730,000
2019			2019		
Jan 1	To bal. bld		July 1	By Dep (M1)	27000
	M1 - 540,000			by Bank	386000
	M2 - 190,000	730,000		by Loss on sale	127000
July 1	To bank A/c M3	400,000			
			Dec 31	By Dep	
				M2 - 19000	
				M3 - 20000	39000
				by bal. cld	
				M2 - 171000	
				M3 - 380,000	551000
		11,30,000			11,30,000

[540000 - 27000
513000]

WN WDV as on 1/7/19 : 540,000
(-) 27000 513000

Gain/Loss : 513000 − 38600
Loss : 127000

Machine Disposal A/c

Dr. **Machine A/c** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan 1	To Bank M1 -	600,000	Dec 31	By Dep	
July	To Bank M2	200,000		M1 - 60,000	
				M2 - 10,000	70,000
				by bal. cld	
				M1 - 540,000	
				M2 - 190,000	730,000

				by bal. cld M1 - 540000 M2 - 190000	730000
2019 Jan 1	To bal. bld M1 - 540000 M2 - 190000	730000	2019 July 1	By Dep (M1)	27000
				by Mach Disp	513000
July 1	To bank A/c M3	400000	Dec 31	By Dep M2 - 19000 M3 - 20000	39000
				by bal. cld M2 - 171000 M3 - 380000	551000
		1130000			1130000

→ Mach. Disp Dr. 513000
To Mach A/c 513000

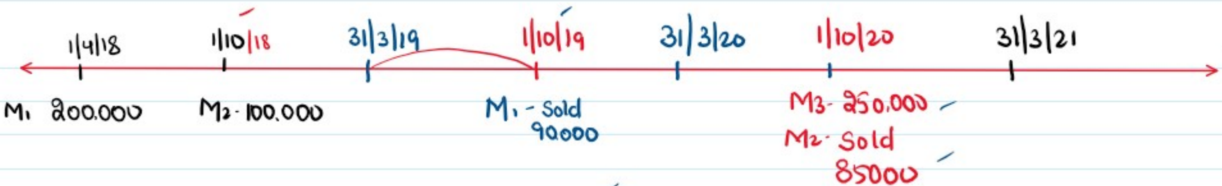
Mach. Disposal A/c

Cr.

Date	Part	₹	Date	Part	₹
2019 July 1	To Mach.	513000		by Bank by Loss	386000 127000

On April 1, 2018 a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2019, the machinery purchased on 1st April 2018, having become obsolete was sold off for ₹ 90,000. On October 1, 2020, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October 2018 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, 2021.

Mach. Disp



Mach A/c

Date	Particulars	Amount	Date	Particulars	Amount
2018 Apr 1	To Bank (M1)	200000	2019 Mar 31	by bal. cld M1 - 200000 M2 - 100000	300000
Oct 1	To Bank (M2)	100000			
2019	To bal bld		Oct 1	By Asset	

				M₂ - 100000	300,000
2019 Apr	To bal bld M₁ - 200000 M₂ - 100,000	300000	Oct1	By Asset Disp A/c	200000
			2020 Mar31	by bal cld	100000
		300000			300000
2020 Apr1	To bal. bld (M₂)	100,000	2020 Oct1	by Asset disp	100,000
Oct 1	To Bank (M₃)	250,000			
			2021 Mar31	by bal. cld (M₃)	250000

Prov. for Dep A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019 Mar31	To bal. cld M₁ - 20000 M₂ - 5000	25000	2019 Mar31	by Dep M₁ - 20000 M₂ - 5000	25000
Oct1	Asset Disposal	30,000	2019 Apr1	by bal. bld M₁ - 20,000 M₂ - 5000	25000
			Oct1	by Dep (M₁)	10,000
2020 Mar31	To bal cld (M₂)	15000	2020 Mar31	by Dep (M₂)	10,000
2020 Oct1	To Asset Disp.	20,000	2020 Apr1	by bal. bld (M₂)	15000
			Oct1	by Dep (M₂)	5000
2021 Mar31	To bal cld	12500	2021 Mar31	by Dep (M₃)	12500

Asset Disposal A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019 Oct 1	To Mach A/c	200000	Oct 1	by prov. for Dep	30.000
				by bank A/c	90.000
				by Loss on Sale	80.000
2020 Oct 1	to Mach A/c	100.000	Oct 1	by prov. for Dep	20000
	To gain on Sale	5000		by bank	85000

June 23

2. (a) The following balances appear in the books 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

OC

1/4/18 — 1/4/21

200.000

10.00.000

410800

54200

On 1st October 2021 the Machinery which was purchased 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 depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March 2022. (10 Marks)

WN 1

	Mach.	Prov. for Dep
1/4/18	200.000	
Dep	20000	20.000
31/3/19	180.000	
Dep	18000	18000
WDV 31/3/20	162000	
Dep	16200	16200
WDV 31/3/21	145800	54200

Mach A/c

Date	Particulars	Amount	Date	Particulars	Amount
1/4/21	To bal. b/d M_1 - 10.00.000 M_2 - 200.000	1200.000	Oct 1	By Mach Disp	200.000
Oct 1	To Bank A/c	480.000	2022 Mar 31	by bal. c/d	

Oct1	To Bank A/c M3 -	480000	2022 Mar31	by bal. cld M1 - 10,00,000 M3 - 480000	1480,000

Prov. for Dep

Date	Particulars	Amount	Date	Particulars	Amount
			1.4.21	by bal. bld M1 - 410800 M2 54200	465000
Oct1	To Mach Disp	61490	Oct1, 2021	by Dep (M2) $\left[200.000 - 54200\right] \times \frac{10}{100} \times \frac{6}{12}$	7290
2022 Mar31	To bal cld M1 - 469720 M3 - 24000	493720	2022 Mar 31	By Dep M1 - 58920 $\left[10,00,000 - 410800\right] \times \frac{10}{100}$ M3 - 24000	82920

Mach Disp

Date	Particulars	Amount	Date	Particulars	Amount
2021 Oct1	To Mach	200000	2021 Oct1	by Prov. for Dep	61490

138510

2021 Oct1	To Mach	200000	2021 Oct1	by prov. for Dep	61490	138510
				by bank	1,10,000	
				by Loss on sale	28510	

(a) The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st 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 1st 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 1st September, 2020 a machine which had cost ₹ 21,87,000 on 1st April, 2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April, 2019 was scrapped on 1st 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. **(10 Marks)**

1/4/20 — 1/9/20 — 31/3/21

WDV - 9500000

M2 - 1444600

Mach Sold - 1/4/18 - 2187000

WDV as on 1/4/20

Mach - 1/4/19 - 2185000

WN Mach 1

1/4/2018 - 2187000

Dep 218700

31/3/19 WDV 1968300

Dep	218700
31/3/19 WDV	1968300
Dep	196830
31/3/20 WDV	17,71,470

Mach2	1/4/2019 -	2185000
	Dep	(218500)
	31/3/20	1966500

Mach A/c

Date	Particulars	Amount	Date	Particulars	Amount	
1/4/20	To bal. b/d M1 - 17,71,470 M2 - 1966500 M3 5762030	9500000	1/9/20	By Dep (M1) by bank by Loss on Sale	73811 376000 1322659	1697659
1/9/20	To Bank A/c M4	1444600	1/9/20	By Dep (M2) by Loss on Sale	81938 1884562	1884562
			31/3/21	by Dep M3 - 576203 M4 - 84268	660471	
				by bal c/d M3 - 5185827 M4 - 1360332	6546159	

x——x

Kal....

Q1 12pm.

* Change in the Method of Dep.

1/4/20 Mach. 100,000
SLM Method
Useful life - 5 years
SV - NIL

20-21	Dep	20,000
31/3/21	WDV	80,000
21-22	Dep	20,000
31/3/22	WDV	60,000 — WDV @10% pa
1/4/22	60,000	10% Dep
22-23	6000	
31/3/23	54000	
23-24	5400	

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

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

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

Required

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

Ans.

	M1 1.1.15	M2 1.1.2016	M3 1.1.2019
Cost	700,000		
Dep. 2015	(105000)		
31.12.2015	595000		
Cost		150,000	
Dep. 2016	89250	22500	
31.12.2016	505750	127500	
Dep 2017			
31.12.2017	429888	108375	
Dep 2018			
31.12.2018	365405	92119	
Cost			200,000
Est. useful life	6 years	6 years	10 years
Dep. 2019 as per SLM	60901	15353	20,000

150000

as per SLM 66401 13333 20,000

150,000

(c) A purchased a machinery for ₹1,30,000 on 1st April, 2019 and paid ₹20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for ₹1,00,000. The machine purchased on 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 charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022. **(4 Marks)**

Mach. A/c

Date	Particulars	Amount	Date	Particulars	Amount
1/4/19	To Bank A/c	150,000	31/3/20	By Dep	30,000
				by bal. c/d	120000
1/4/20	To bal b/d	120,000	31/3/21	by Dep	30,000
				by Bal c/d	90,000
1/4/21	To bal b/d	90,000	1/10/21	by Dep $\left(90{,}000 \times \frac{15}{100} \times \frac{6}{12}\right)$	6750
1/10/21	To Bank A/c	50,000		by bank	100,000
	To gain on sale	16750			
			31/3/22	by Dep $\left(50{,}000 \times \frac{15}{100} \times \frac{3}{12}\right)$	1875
				by bal. c/d	48125
		156750			156750

W/N
BV
90,000 - 6750
83250

* Change in Estimated useful life.

1/4/20 - Mach. 100,000
Useful life - 5 years
SV ×

20-21 Dep 20000

31.3.21 WDV - 80,000
→ Rem. useful life - 4 years
↓
Revise - 6 years

21-22 $\frac{80{,}000}{6} = 13{,}333$

A Machine costing ₹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.

Dep. p.a = $\frac{600000}{10} = 60000$

3 years - 60,000 × 3
= ₹180000

10

3 years - 60.000 × 3
= ₹180.000

WDV at end of 3rd year - 600.000 − 180.000 = 420.000

Rem. Life - 7 years
↓
Revise - 5 years

4th year - $\frac{420.000}{5}$ = 84000

Revaluation of PPE

Machine - ₹10.00.000

1st time Rev.

Upward Revaluation

FMV - 1200.000

Mach A/c Dr. 200.000
To Rev. Res. A/c 200.000
↓
2nd time Rev

BV - ₹800.000

a) FMV - 700.000
Rev. Res. Dr. 100.000
To Mach 100.000

b) FMV - 900.000
Mach Dr. 100.000
To Rev. Res. 100.000

c) FMV - 500.000
Rev. Res. Dr. 200.000
P&L A/c Dr. 100.000
To Mach A/c 300.000

Downward Revaluation

FMV - ₹800000

P&L A/c Dr. 200.000
To Mach A/c 200000
↓
2nd time Rev.

BV - Mach - 600000

a) ₹500.000
P&L A/c Dr 100000
To Mach A/c 100.000

b) 700.000
Mach Dr 100.000
To P&L 100.000
Loss Reversal

c) ₹900.000
Mach Dr. 300.000
To P&L A/c 200000
To Revaluation Reserve A/c 100.000

M/c
P&L A/c ↓ 200000
↑ 100.000
↑ +1L Gain
2L Reverse

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

31/12/2019 PPE - 3500.000
Rev. Surplus 300.000

a) FMV - 3700.000

Mach Dr 200.000
To Rev. Res. 200000

b) FMV - 3300000

Rev. Res. A/c Dr. 200.000
To Mach 200.000

c) FMV. 3100000

Rev. Res. A/c Dr 300000
P&L A/c Dr. 100000
To Mach A/c 400000

×═══× Chapter over

Attempt the Test of this chapter : https://ymtcr.courses.store/389106?utm_source%3Dother%26utm_medium%3Dtutor-course-referral%26utm_campaign%3Dcourse-overview-webapp

Download the "Avyukt" Application for Live Classes and Notes: http://on-app.in/app/home?orgCode=ymtcr&referrer=utm_source%3Dcopy-link%26utm_medium%3Dstudent-app-referral

Join this Telegram Group : https://t.me/targetcafoundation

Basic Journal

23 October 2023 11:02

Bill of Exchange - 3 days
5 - 15

₹ 10,000

Pinku
Seller
Asset Bills Receivable

2 month

BOE
Legal document

Tanya
Accept Liab.
Bill Payable

* Parties to BOE

Drawer
Seller

Drawee
Buyer

Payee *
Who Will Receive the money.

Important Terms:

1. Term of the bill / Period the Bill
2. Expiry of the bill

BOE - 23rd Oct

a]

	Term	Expiry
	2 months	23rd Dec
	60 days	8 + 30 + 22 22nd Dec
→ 31/12/2020	2 months	28th Feb
→ 28/2/2020	2 month	28th Apr
30/6/2023	2 months	30th Aug.
31/8/23	1 month	30th Sep

31/8/23   1 month   30th Sep

10th Jan 23   45 days   21 + 24
Feb 24th

3. Date of Maturity / Due date

Expiry Date + 3 Grace days
3rd day

23rd Oct - 2 months   23rd Dec Exp
↳ Mat. Date - 26th dec

Maturity Date
- Public Holiday, Sunday → Preceding work day
- Emergency Holiday → Next Working Day

Maturity Date - 26/Jan
↳ 25th Jan

	Date of bill	Period	Maturity	
1)	13th Feb. 2022	45 days	2nd Apr	Feb-15 Mar-30th Mar
2)	30th Nov. 2022	3 months	3rd Mar.	Exp-28/Feb
3)	23rd Oct. 2022	3 month	25th Jan	
4)	30th June. 2023	43 days	14th Aug.	31 + 12

* Types of Bills

Bill after   Bill after   Bill at

Bill after Date

Bill after Sight

Bill at Sight → Payable on Demand, No Grace Days

Ex- Bill drawn 23rd Oct
3 months after date
Maturity - 25th Jan

3 months after sight
Acceptance date - 28th oct
Mat - 31st Jan

Journal

Jassi → Sale ₹10,000 → Pinku

Jassi 23/10/23 → BR

BOE

Time period - 2 months

Pinku → BP

Jassi

23/10 Pinku Dr. 10,000
To Sales A/c 10,000

Asset ↑ Bill Receiv. Dr 10,000
Asset ↓ To Pinku 10,000

Pinku

Purch. A/c Dr. 10,000
To Jassi 10,000

Jassi Dr. 10,000
To Bill Pay. A/c 10,000

B/R
- Retain till Maturity
- Discounting from Bank
- Endorsement
- * Sent for collection

i) Retain till Maturity

a) Amt Rec. on Maturity

a) Amt Rec. on Maturity

Jassi

26/12 Bank A/c Dr. 10,000
To B/R 10,000

Pinky

Bills Pay. Dr. 10,000
To Bank 10,000

b) Dishonour

J — 26/12 — Pinku - आप कौन ?

Notary Public — Noting charges ₹50
Paid by Jassi

Certificate

26/12 Pinku Dr. 10050
To B/R 10,000
To Cash A/c 50
Noting Charges

Pinky

Bills Pay. Dr. 10,000
Noting ch. Dr. 50
To Jassi 10050
Creditor - Liab

2) Discounting from Bank

J 23/10

9800

Bank BoE

Disc. charges @12% pa.

$10,000 \times \frac{12}{100} \times \frac{2}{12} = 200$

Pinky

Jassi

23/10 Bank Dr. 9800
Disc. ch. Dr. 200

Pinky

No Entry

23/10 Bank Dr. 9800
Disc. ch. Dr. 200
To B/R 10,000

No Entry

At Maturity

a] Met on Maturity: Honour

26/12 No Entry

26/12 Bill pay. Dr. 10,000
To Bank A/c 10,000

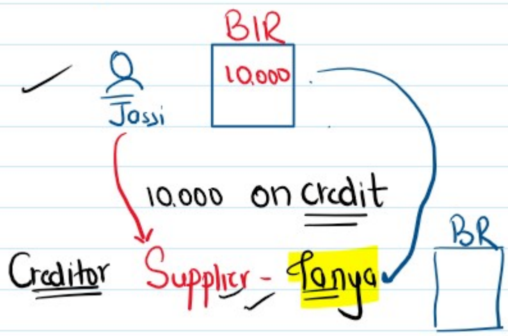
b) Dishonour

26/12 Pinku Dr. 10,050 — Receivable
To Bank A/c 10,050 — paid
(10,000 + 50)

26/12 Bill pay. Dr. 10,000
— Noting ch Dr 50 — Expense
To Jassi 10050

c) Endorsement

Purch. Dr.
To Tanya



Pinku

Sale Jassi Dr.
To Sale

Jassi	Pinku	Tanya
23/10 Tanya Dr. 10,000 To B/R 10,000	No Entry	B/R Dr 10,000 To Jassi 10,000

a) Honour

26/12 No Entry

Bill pay. Dr. 10,000
To bank 10,000

Bank Dr. 10,000
To B/R 10,000

b) Dishonour

26/12

Jassi Dr. 10,050

b) Dishonour

26/12 Pinku Dr. 10,050
To Panya 10,050
Liab

Bills pay Dr. 10,000
Noting ch. Dr 50
To Jassi 10050

Jassi Dr. 10,050
To cash A/c 50
To B/R 10,000

* Renewal of Bill

23/10/23

Jassi 10000 2months

Pinku

Original bill - Dishonour

26/12 2month

New Bill → Interest @12% pa

$10{,}000 \times \frac{12}{100} \times \frac{2}{12}$

$= 200$

In cash | Included in the bill

Jassi

	In cash	Included in the bill
Dishonour	Pinku Dr. 10,000 To B/R 10,000	Same
Renew 26/12	Cash Dr. 200 To Int A/c 200 B/R Dr. 10,000 To Pinku 10,000	B/R Dr. 10200 To Pinku 10,000 To Int A/c 200

Vijay sold goods to Pritam on 1st September, 2019 for ₹1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% p.a. 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.

bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% p.a. 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.

Date	Vijay	Date	Pritam
Sep 19	Pritam Dr. 106000 To Sales 106000		Purch. A/c Dr. 106000 To Vijay 106000
Sep 1	Bills Rec Dr. 106000 To pritam 106000		Vijay Dr. 106000 To B/P 106000
Dec 4	Pritam Dr. 106000 To B/R 106000		B/P Dr. 106000 To Vijay 106000
Dec 4	Cash Dr. 1590 To Int A/c 1590 $\left(106000 \times \frac{9}{100} \times \frac{2}{12}\right)$		Int. Dr 1590 To Cash A/c 1590
Dec 4	B/R Dr. 106000 To Pritam 106000	Dec 4	Vijay Dr. 106000 To B/P 106000
Feb 7	Bank Dr. 106000 To B/R 106000		B/P Dr. 106000 To Bank 106000

x———

5pm

Retirement of a Bill

Jassi → 10,000 → Pinku - lottery

Jassi
24th oct
2 month
Maturity 27th Dec
Exp 24th Dec

Pinku
After 1m
↓
27th Nov
24th Nov
↓
Rebate/ Discount
@12% pa.

$-10{,}000 \times \frac{12}{100} \times \frac{1}{12}$

$= 100$

Jassi	Pinku
27/11 Bank A/c Dr 9900	Bill Pay Dr 10,000
Discount Dr 100	To bank 9900
To B/R 10,000	To Disc 100

1/3 1/4

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

$5L \times \frac{12}{100} \times \frac{1}{12}$

Date	Ankita	Bhavika
Jan 1	Bhavika Dr 500,000 To Sales A/c 500,000	Purch. Dr 500,000 To Ankita 500,000
Jan 1	Bill Rec. Dr 500,000 To Bhavika 500,000	Ankita Dr 500,000 To B/P 500,000
Mar 1	Bank A/c Dr 495000 Discount Dr 5000	Bills Pay Dr 500,000

Mar 1 Bank A/c Dr. 495000
Discount Dr. 5000
To B/R 500,000

Bills Pay Dr 500,000
To bank 495000
To Disc. 5000

* INSOLVENCY

10,000 sale

Jassi — Pinku

24/10

2 month

Insolvent
↳ 40 Paisa in a rupee
40 P

27/12 Dishonour

~~Pinku Dr 10,000~~
To B/R 10,000

→ Bank Dr. 4000
Bad debt Dr 6000
To ~~Pinku 10,000~~

B/P Dr. 10,000
To Jassi ~~10,000~~

~~Jassi Dr. 10,000~~
To bank 4000
To deficiency 6000

⇒ Bank 4000
Bad debt 6000
To B/R 10,000

⇒ B/P Dr. 10,000
To bank 4000
To Def. 6000

Drawer BR① BR②

Mr. David draws two bills of exchange on 1.1.2020 for ₹ 6,000 and ₹ 10,000. The bills of exchange for ₹ 6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2020, 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 20.3.2020, Mr. Thomas retires the acceptance for ₹ 10,000, the interest rebate i.e. discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

You are to give the journal entries in the books of Mr. David.

BR1 - 6000 — 2m 4.3.20
BR2 - 10,000 - 3m 4.4.20
1.1.20

WN Int. $6000 \times \frac{18}{100} \times \frac{2}{12} = 180$

In the book of Mr. David

Journal

1.1.20 Bill Rec. (1) Dr. 6000
Bill Rec. (2) Dr. 10,000
To Mr. Thomas 16000

4.3.20 Thomas Dr. 6000
To B/R (1) 6000

⇒ 4.3.20 Thomas Dr. 180 + — 6180
To Int 180

4.3.20 Thomas Dr. 6000
To B/R (1) 6000

4.3.20 2m B/R (3) Dr. 6180
To Thomas 6000
To Int A/c 180

20.3.20 Bank A/c Dr. 9900
Disc Dr. 100
To B/R (2) 10,000

7.5.20 Bank A/c Dr 3090
Bad debt Dr. 3090
To B/R 6180

⇒ 4.3.20 Thomas Dr. 180 + 6180
To Int 180

4.3.20 B/R (3) 6180
To Thomas 6180

⇒ 7.5.20 Thomas Dr. 6180
To B/R 6180
⇓
Bank Dr 3090
Bad debt 3090
To Thomas 6180

8. Priya (buyer) owed ₹5,00,000 to Pratika (Seller). 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.

In the book of Pratika

1/10/22 Bills Rec. Dr. 500,000
To Priya 500,000

3/10/22 Bank A/c Dr. 495000
Disc. ch. Dr. 5000

5|10|22 Bank A/c Dr. 495000
Disc. ch. Dr. 5000
To B/R 500000

4|1|23 Priya Dr. 500.000 — Dishonour
To Bank A/c 500.000

4|1|23 Bank Dr. 256250
To Priya 250.000
To Interest 6250
$\left(250.000 \times \frac{10}{100} \times \frac{3}{12}\right)$

4|1|23 Bills Rec Dr. 250.000
To Priya 250.000

7|4|23 Bank A/c Dr. 150.000
Bad debt Dr 100.000
To B/R 250,000

a) Priya Dr. 250.000
To B/R 250.000
Bank Dr 150.000
bad debt Dr. 100.000
To Priya 250.000

B/P G. Gupta → B/R Samarth → Endorsement Sahni

Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's (B/P) acceptance to Aarav (B/R) 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 (Drawer) 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.

v.Imp (iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

In the books of Samarth

Samarth: B/P 19000, B/R 19000 — Patel: B/R 19000 — Sandeep B/P

(i) a. Bills pay. Dr. 1250
To Aarav 1250

b. Aarav Dr. 500
To Cash A/c 500

b. Aarav Dr. 500
To Cash A/c 500

Sandeep
B/P

c. Aarav Dr. 750
Interest Dr. 25
To B/P 775

(ii) a) G. Gupta Dr 4020
To Sahni 4020

b) Sahni Dr. 4020
To Bank A/c 4020

(iii) Bank A/c Dr. 4980
Disc. Dr 20
To B/R 5000

(iv) B/P Dr. 19000
To B/R 19000

x———x

Accommodation

26 October 2023 11:00

Accommodation Bill

(a) 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 from 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 three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee.

Give the journal entries in the books of T and J. **(15 Marks)**

Rough

1/4/2022

	T Drawer	2:1	J Drawee
	115200 (2/3)	172800 →	57600 $\left[\frac{57600}{172800}\right] = \frac{1}{3}$
	4800 ←	7200	$\left[\frac{57600}{172800} \times 7200\right]$ 2400
	120,000	180,000	60,000

4/7/2022

			(180,000)
Net position	+120,000		(120,000)

2:1 2nd bill	Drawee		Drawer
$\left[240660 \times \frac{2}{3}\right]$	40,440 ←	240660 →	200220
160440	$\frac{160440}{240660} \times 11340 = 7560$ ←	11340 (2:1) →	3780
(120,000)	48000	252000	204000
			(252000)

2nd bill pay

Net position	+168000		(168000)
Pay	(84000)		+ 84000
Deficiency	84000	Bad debt	(84000)

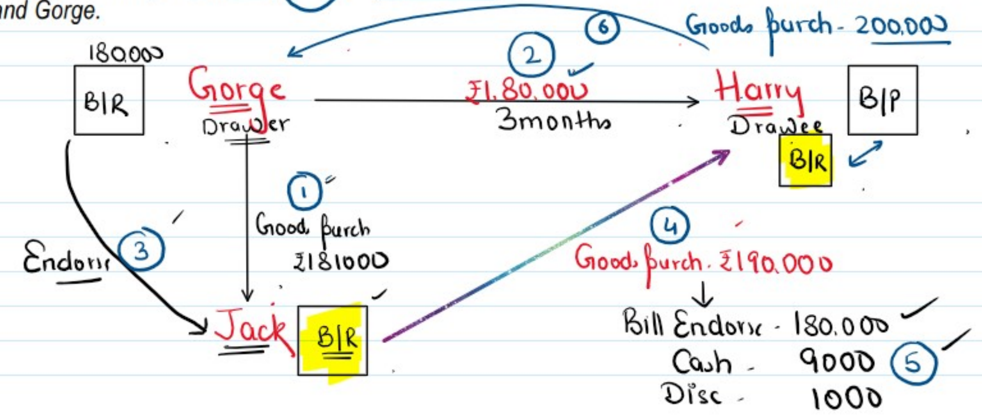
Journal

Book of T	Books of J
1/4 Bills Rec. Dr. 180000	T Dr. 180000 Rec.

1/4	Bill. Rec. Dr. 180000 To J 180.000 . Payable	T Dr. 180.000 - Rec. To B/P 180.000
1/4	Bank Dr. 172800 Disc. ch Dr 7200 To B/R 180.000	×
1/4	J Dr. 60.000 To Disc ch 2400 To Bank 57600	Bank Dr. 57600 Disc ch Dr 2400 To T 60.000
4/7	×	Bill. pay Dr 180.000 To bank 180.000
4/7	J Dr. 252000 To B/P 252000	Bill. Rec. Dr. 252000 To T 252000
4/7	×	Bank Dr. 240660 Disc. ch Dr. 11340 To B/R 252000
4/7	Bank Dr. 40440 Disc. ch Dr. 7560 To J 48000	T Dr. 48000 To Disc. ch. 7560 To Bank 40440
7/10	B/P Dr. 252000 To J 252000	T Dr. 252000 To bank A/. 252000
→	J Dr. 168000 To bank 84000 To def. 84000	Bank Dr 84000 Bad debt Dr 84000 To T 168000

Q11.9

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



Book of Gorge

1st July — Purch. Dr. 181000
To Jack 181000

1/7 — B/R Dr. 180,000
To Harry 180,000 - Credit Payable

1/7 — Jack Dr. 181000
To B/R 180,000
To Disc. Rec 1000

1/9

1/10/19 — Harry Dr. 200,000 - Debit
To Sales 200,000

Book of Harry

Gorge Dr 180,000 - Debit bal.
To B/P 180,000

×

Jack Dr. 190,000
To Sales A/c 190,000

1/9 — Bills Rec Dr. 180,000
Cash Dr 9000
Disc. All. Dr 1000
To Jack 190,000

1/9 — Bills pay. Dr. 180,000
To B/R 180,000

1/10 — Purch. Dr. 200,000
To Gorge 200,000

J To Sales 200,000 — To Gorge 200,000

1/10 Bank Dr. 20,000
To Harry 20,000

1/10 Gorge Dr. 20,000
To bank 20,000

x——x

Chapter Over

Test- Avyukt

Eco BCR A/c

Attempt the Test of this chapter : https://ymtcr.courses.store/389106?utm_source%3Dother%26utm_medium%3Dtutor-course-referral%26utm_campaign%3Dcourse-overview-webapp

Download the "Avyukt" Application for Live Classes and Notes: http://on-app.in/app/home?orgCode=ymtcr&referrer=utm_source%3Dcopy-link%26utm_medium%3Dstudent-app-referral

Join this Telegram Group : https://t.me/targetcafoundation

18:49

Shares → 10-15

5-6 Questions

40.00.000

1) 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 2,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

FV-10
+2
12
2 | 5
5
(3+2)

(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 31st 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;

2:1

(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;

Ap , All.
5:1
$600.000 \times \frac{1}{5}$

(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.

WN1

	Applied	-	Allotted
	840.000	-	260.000
I	40.000	-	40.000
II	200.000	-	100.000
III	600.000	-	120.000

WN2

	II	III	
Excess App Money	200.000	960.000	
Eq. Share All. Due (Shares All. x All. persh)	500.000	600.000	
Excess App Money adj	(200.000)	(600.000)	
Allotment Money Rec.	300.000	—	
		360.000	

Allotment Money Rec.	300,000	—
Money Returned		360,000

JOURNAL

Date	Particulars		Dr.	Cr.
2022 July 1	Bank A/c Dr.	(840,000 x 2)	1680,000	
	To Eq. Sh. App A/c			1680,000
July 10	Eq. Sh. App A/c Dr.		1680,000	
	To Eq. Sh cap A/c	(260,000 x 2)		520,000
	To Eq. Sh. All. A/c			800,000
	To Bank A/c			360,000
July 10	Eq. Sh. All. A/c Dr.	(260000 x 5)	1300,000	
	To Eq. Sh. Cap A/c	(260000 x 3)		780,000
	To Sec. Prem A/c	(260,000 x 2)		520,000
—	Bank A/c Dr.		500,000	
	To Eq. Sh. All.			500,000
—	Eq. sh. first & final call Dr.	(260,000 x 5)	1300,000	
	To Eq sh cap A/c			1300,000
Mar 31	Bank A/c Dr.		1300,000	
	To Eq. Sh. final call			1300,000

To Eq. Sh. final call 600,000

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:

10 + 2
3 5 4
(3+2)

On Application	-	₹ 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 Allotted
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.

Eq. sh cap - FV

Pass necessary journal entries for the above transactions in the books of BP Ltd, Open call in arrears account whenever required. **(15 Marks)**

WN1

	Application	-	Allotment	
	360,000	-	120,000	
	80,000	-	NIL	
I	160,000	-	80,000	[Pro-rata - 16:8 or 2:1]
II	120,000	-	40,000	

WN2 Calls in Arrear

Applied - 680 [category - I]

Allotted - $680 \times \frac{1}{2} = 340$

Calls in Arrear - $340 \times 4 = 1360$

WN3 Total Amt Rec

	Cat I	Cat II
Excess App Money	240,000	240,000
Allotment Money due	400,000	200,000
Excess App Money adj	(240,000)	(200,0000)

Allotment Money due	400,000	200,000
Excess App Money adj	(240,000)	(200,0000)
All. Money Rec	160,000	—
Money Returned		40,000

Journal

1. Bank A/c Dr. (360,000x3) 1080,000
   To Eq. Sh. App A/c 1080,000

2. Eq. Sh. App A/c Dr. 1080,000
   (120,000x3) To Eq. Sh. Cap 360,000
   (180,000x3 + 40,000) To Bank A/c 280,000
   To Eq. Sh. All. A/c 440,000

3. Eq. Sh. All. A/c Dr. (120,000x5) 600,000
   To Eq. Sh cap 360,000
   To Sec. Prem A/c 240,000 → Cr.

4. Bank A/c Dr. 160,000
   To Eq. Sh. All A/c 160,000

5. Eq. Sh. first & final call Dr (120,000 x4) 480,000
   To Eq. sh Cap A/c 480,000

6. Bank A/c Dr. 478640

6. Bank A/c Dr. 478640
Calls in Arrear Dr. 1360
To Eq. Sh All 480,000

7. Eq. Sh. Cap A/c Dr. (340 x 10) 3400
To calls in Arrear A/c 1360
To eq. sh. forf. A/c 2040 (Bal fig.)
Amt Rec on forfeited sh (except SPR)

8. Bank A/c Dr. (340 x 13) 4420
(340 x 10) To Eq. sh cap 3400
(340 x 3) To Sec. Prem A/c 1020

9. Sh. forf Dr. 2040
To Cap Res. A/c 2040

Nov 22

(a) PQR Limited issued 2,00,000 equity shares of, 10 each payable as ₹ 3 per share on application & ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from 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 J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company. **(15 Marks)**

10
3 5 4
(3+2)

Journal

7 15 +3

Journal

1. Bank A/c Dr. (200,000 x 3) 600,000
   To Eq. Sh. App 600,000

2. Eq. Sh. App Dr. 600,000
   To Eq. Sh All 600,000

3. Eq. Sh. All Dr (200,000 x 5) 10,00,000
   To Eq. sh cap 600,000
   To Sec. Prem A/c 400,000

4. Bank A/c Dr. 975000
   (5000 x 5) Calls in Arrear Dr. 25000
   To Eq. Sh All 10,00,000

5. Eq. Sh. first & final call Dr 800,000
   To Eq. sh cap 800,000

6. Bank A/c Dr. 740,000
   (15000 x 4) Calls in Arrear Dr. 60,000
   To Eq. Sh. f & f call A/c 800,000

7. Eq. sh cap Dr. (15000 x 10) 150,000
   Sec. Prem. A/c Dr. (5000 x 2) 10,000
   To Calls in Arrear 85000 - Close
   To Eq. Sh. forf A/c 75000

8. Bank A/c Dr. (10,000 x9) 90,000
Eq.sh. forf. Dr (10,000 x1) 10,000
(10,000 x10) To Eq.sh cap 100,000

9. Eq. Sh. forf Dr. (WN) 35000
To Cap Res. 35000

Working Note

Mr. J (5000)	Mr. K (10,000)
Reissued shares - 5000	Reissued sh - 5000
Amt forf on 5000 shares - 15000	Amt forf. on 5000 sh - 30,000
(-) Discount (5000)	(-) Disc (5000)
Cap Res. 10,000	Cap Res. 25000

Balance Sheet of ...
as on .

Part	Note No	₹
I. Eq. & Liab		
Shareholder Funds		
Share cap	1	1980,000
Res. & Surplus	2	425000
		2405000
II Assets		
Current Assets		
Cash & cash eq.	3	2405000
		2405000

Cash & Cash eq. | 3 | | 2405000

2405000

Notes to Account

Particulars	₹
1. Share Capital	
Issued share cap	
200,000 eq. sh. of ₹10 each	20,00,000
ALIVE Public ← Subscribed, Called up & paid up cap	
195000 eq. sh. of ₹10 each — 19,50,000	
Add: share forfeiture (5000×6) — 30,000	1980,000
2. Reserves & Surplus	
(400,000 - 10,000) Security Prem. Res — 390,000	
Cap Reserve — 35000	425000
3. Cash & Cash eq.	
Amt Rec on App — 600,000	
Amt Rec on All — 975000	
Amt Rec on call — 740,000	
Re-issued sh. — 90,000	2405000

Ashish applies for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1,000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his share were forfeited. These share were reissued at ₹ 8 per share, ~~his shares were forfeited~~. Paid-up X = Calledup ✓

✗ At the time of re-issue of forfeited shares of Mr. Ashish, final call money ~~amount~~ on all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

10 + 2.5 − 3

You are required to pass journal entries to record forfeiture and reissue of shares.

10 + 2.5 - 3

3 | 2

4.5

(2+2.5)

WN Calls in Arrear

Excess App Money (1000x3) 3000

Allotment money due → FV(2) SPR(2.5)

2000 2500

Excess App Money adj (2000) (1000)

Calls in Arrear NIL 1500

Called up

1. Eq. Sh. cap A/c Dr. (1000x7) 7000

Sec. Prem. A/c Dr. 1500

(1500 + 2000) To Calls in Arrear 3500

To eq. Sh. forf. A/c 5000

2. Bank A/c Dr. 8000

Eq. sh. forf Dr. 2000

(1000 x10) To eq. Sh. cap 10,000

Paid up

3. Sh. forf Dr. 3000

To Cap Res. 3000

May 22

①

(a) *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* 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).

(15 Marks)

10+1 — 3
2 4 2
(3+1)

Int on Calls in Adv - 12% pa.
Arrear 10% pa.

1. Bank Dr. (20,000 x 2) 40,000
To Eq. Sh. App 40,000

2. Eq. sh. App Dr. 40,000
To Eq. sh cap 40,000

3. Eq. Sh. All. Dr. (20,000x4) 80,000
To Eq. sh Cap 60,000
To Sec. Prem A/c 20,000

4. Bank A/c Dr 80,000
To Eq. Sh All. 80,000

5. Eq. sh. first Call Dr. 40,000
To Eq. sh cap A/c 40,000

6. Bank A/c Dr. 46000
To Eq. sh. first Call A/c 40,000
To Calls in Adv. A/c 6000

7. Eq. Sh. Second & final call Dr. 60,000
To Eq. sh cap 60,000

8. Bank A/c (60,000 - 6000 - 900) 53100
Call. in Adv. Dr. 6000
Call. in Arrear Dr. 900
To Eq. sh. final call 60,000

9. Int on call. in Advance Dr 240
$\left(6000 \times \frac{12}{100} \times \frac{4}{12}\right)$
To Eq. Shareholder. A/c 240

10. Sh. holder A/c Dr. 240
To Bank A/c 240

11. Shareholder Dr. 15
To Int on Call. in Arrear 15
$\left(600 \times \frac{10}{100} \times \frac{3}{12}\right)$

12. Bank Dr. (600+15) 615
To Call. in Arrear 600
To sh. holder A/c 15

13. Shareholder Dr. 10
To Int on Calls in Arrear 10
$\left(300 \times \frac{10}{100} \times \frac{4}{12}\right)$

14. Bank A/c Dr. 310
To Call. in Arrear 300

To Calls in Arrear 300

To Sh. holder A/c 10

x——x

x— Chapter over —x

10 pm. Chapter 4

Unit 1 & 2

21 December 2023 10:40

Accounts

Unit 1 & 2

15 questions

Effective cap

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 1st January, 2019.

A introduced a further capital of ₹ 10,000 on 1st April, 2019 and another ₹ 5,000 on 1st July, 2019. On 30th September, 2019 A withdrew ₹ 40,000.

On 1st July, 2019, B introduced further capital of ₹ 30,000.

The partners drew the following amounts in anticipation of profit. Draw against profit

A drew ₹ 1,000 per month at the end of each month beginning from January, 2019. B drew ₹ 1,000 on 30th June, and ₹ 5,000 on 30th September, 2019.

12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing 31.12.2019. Calculate: (a) Profit-sharing ratio; (b) Interest on capital; and (c) Interest on drawings.

a) Effective cap

A

Date	Amt.	Months	Prod.
1/1/2019	100,000	3	300,000 $\times \frac{12}{100} \times \frac{1}{12}$
1/4/19	1,10,000	3	3,30,000
1/7/19	115000	3	345000
30/9/19	75000	3	225000
		Eff. cap	1200000

B

Date	Cap bal.	Months	Prod.
1/1/19	60,000	6	360,000
1/7/19	90,000	6	540,000
		Eff. cap	900,000

PSR = ~~1200000~~ : ~~900,000~~

4:3

b) Int on cap.

A - $\frac{12}{100} \times \frac{1}{12} \times 1200{,}000 = 12000$

B = $\frac{12}{100} \times \frac{1}{12} \times 900{,}000 = 9000$

c) Int on Drawings

A - Total draw. $\times \frac{Rate}{100} \times \frac{Avg.\ period}{12}$

31/1 $= 12000 \times \frac{10}{100} \times \left[\frac{5.5}{12} \right]$

₹550

B $= 1000 \times \frac{10}{100} \times \frac{6}{12} + 5000 \times \frac{10}{100} \times \frac{3}{12}$

= ₹175

Employee, as a partner

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2019, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered. ↳ Rem. Sh. $\frac{9}{10}$ < Ram, Rahim] 3:2

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, 2019 is ₹ 1,10,000. Show the distribution of net profit amongst the partners.

WN Amt payable to Ratan, as a chief clerk

Salary - 6000

Commission 4000

$\frac{4}{104} \times [1{,}10{,}000 - 6000]$

10,000

Amt payable, as a partner

$\frac{1}{10} \times 1{,}10{,}000 = 11{,}000$

Excess 1000

Solution

P&L App. A/c
for the year ended.

To profit t/f to part. cap A/c		By P&L A/c (Net profit)	1,10,000
3:2 Ram (3/5 × 100000) - 60,000 (-) 1000	59000		
Rahim - 40,000	40,000		
Ratan - 10,000 + 1000	11000		

Ratan - 10,000
+ 1000

11000

Part +Rec.

1. 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:

	Weak	Able	Lazy
	₹	₹	₹
Capital (1.1.2019)	75,000	40,000	30,000
Current Account (1.1.2019)	10,000	5,000	(Dr.) 5,000
Drawings ag. profit	+750 + 15,000	3000 + 10,000	10,000

The draft accounts for 2019 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, 2019 has been charged to Miscellaneous Expenditure A/c. Drawings. Drawing Dr. To Misc exp

Profit ↓ (b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%. 2000 Dep · P/L Repair A/c

(c) Travelling expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2019 has been debited to Travelling Expenses Account. Drawing,

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, 2019.

WN1 Calculation of Net profit

Given profit -	60,000
Add: Life ins. prem. of Weak	750
Less: Repair debited to plant	(10,000)
Add: Dep on plant wrongly ch.	2000
Add: Trav. Exp of Able	3000
	55,750

WN2 Int on Drawing:

1. Weak - $15750 \times \frac{8}{100} \times \frac{6}{12}$
$= 630$

2. Able - $13000 \times \frac{8}{100} \times \frac{6}{12}$
$= 520$

3. Lazy = $10,000 \times \frac{8}{100} \times \frac{6}{12}$
$= 400$

P&L App A/c

P&L App A/c
for the year

To Int on cap W - 7500 A - 4000 L - 3000	14500	By P&L A/c (WN1)	55750
To profit t/f to: W's Current A/c - 21400 A's Current A/c - 10700 L's Current A/c - 10700	42800	by Int on dr (WN2) W - 630 A - 520 L - 400	1550

Part Current A/c

Dr. Cr.

	W	A	L		W	A	L
To bal b/d			5000	by bal. b/d	10000	5000	
To drawings	15750	13000	10,000	by Int on cap	7500	4000	3000
To Int on dr.	630	520	400	by P&L App	21400	10700	10700
To bal c/d	22520	6180					
				by bal c/d			1700

13. 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 31.03.2022 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 the year 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.

Closing bal.

You are required to pass the necessary adjustment entity for providing interest on capital.

WN 1 Cal. of op Cap bal.

	P	Q	R
Cl. capital	150,000	180,000	210,000
Add: Drawings	20,000	20,000	20,000
Less: profit share	(12000)	(24000)	(24000)

Op. cap 158000 176000 206000

WN2

Adj. Table

	P		Q		R		Firm (P&L App A/c)	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Wrong profit dist	12000		24000		24000			60,000
Int on cap @10%		15800		17600		20600	54000	
Profit share:		1200		2400		2400	6000	
Net eff	5000 Cr.		4000 Dr.		1000 Dr		—	

Journal

Q's Cap A/c Dr 4000

R's cap A/c Dr. 1000

To P cap A/c 5000

14. (a) 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.

P&L App A/c

To Int on cap A - 48000 B - 30000 C - 24000	102000	by p&L A/c	477000
To profit tlf to A - 187500 (-) tlf to C (15000)	172500		
B 112500	112500		
C 75000 + tlf from A - 15000	90,000		

14. (a) 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.

P&L App A/c

Dr. Cr.

To B's Salary	3000	by P&L A/c [70.000 +3000)	73000
To Int on cap A - 2500 B - 2000	4500		
To Reserve [65500 × $\frac{10}{100}$]	6550		
To profit t/f to A's Current A/c 29475 B current A/c 29475	58950		

Dec 23

14. 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: 2022

Balance Sheet of M/s Ved, Jain & Agrawal. Cl. bal.

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.

$$\frac{\text{op Cap} + \text{Cl. cap Emp}}{2}$$

WN1 Cl. Cap Emp = Cl. cap bal.
= 1875000

WN1 Cl. Cap Emp = Cl. cap bal.
= 1875000

Op. Cap Emp - Total of cap bal as on 1.1.2020

Op cap Emp = 1875000 Cl. cap
+ 450,000 - Drawings
− 600.000 - Profit

1725000

Avg. Cap Emp = $\frac{1875000 + 1725000}{2}$ = 1800,000

⇒ Goodwill = Super Profit x5

Super Profit = AP - Normal profit

Normal prof = Avg. Cap Emp x NRR
= 1800,000 x $\frac{30}{100}$
= 540000

Super Profit = 600,000 - 540,000
= 60,000

Super Profit = 60,000 x5
= 300000

June 23

14. 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%. NRR 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.

Partners - Salary
- 90C } - Deduct | Minus to Calculate Avg profit
↓
Avg profit (−)
- Every profit

→ Avg. Profit = $\frac{15000 - 25500 + 75000 + 1,12,500}{4}$ = 44250

Less: Remuneration (9000)

Adj Avg Profit 35250

→ Normal profit = 300,000 x $\frac{10}{100}$ = 30,000

Super Profit = 35250 - 30,000
= 5250

Goodwill = 5250 × 3
15750

Nov22

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 Goodwill of the firm by using

(i) Capitalization method

(ii) Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

(5 Marks)

(i) Cap. Method

GW = Cap. value of firm − Actual Cap Emp

Cap value of firm = $650{,}000 \times \frac{100}{20}$

32,50,000 − 2600,000

= 650,000

(ii) Super Profit

Normal profit = $2600{,}000 \times \frac{20}{100}$

= 520,000

Super Profit = 650,000 − 520,000
= 130,000

GW = 130,000 × 6
= 780,000

(ii) 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%

11%

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. **(5 Marks)**

WN Av.g profit = $\frac{240{,}000 + 216000 + 300{,}000 - 3600}{4}$ = 180,000

Less: Remuneration (36000)

144000

Normal Profit = 900000 × 11 = 99000

144000

Normal Profit = 900000 × $\frac{11}{100}$ = 99000

Super Profit - 45000

GW 270,000

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2020, they decided 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. 12000 | 18000 — 2000 | 3000
3. Cu was entitled to salary of ₹ 2,000/- p.m., it was revised to ₹ 3,000 p.m. from 1st October 2018.
4. Interest on capital was paid at 8% p.a. 7L × 8%
5. Capitals as on 31st March 2020 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
2016-17	2,10,000
2017-18	2,60,000
2018-19	2,10,000
2019-20	3,05,000

These profits were subject to following rectification

(a) A machine costing ₹ 40,000 purchased on 1st October, 2018 was wrongly charged to revenue. Exp - P&L A/c
The machinery was depreciated at 20% p.a. on written down value method

(b) Stock on 31st March 2018 was over valued by ₹ 20,000/-

(c) There was a loss by fire amounting to ₹ 10,000/- in the year 2016-17 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 2020 included bad debts of ₹ 5,800/- ← Profit ↓

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.

Trading A/c 17-18
Cr.
Cl.st ↑

18-19
Dr.
Op stock

WN Calculation of Adj Avg Profit

	2016-17	17-18	18-19	19-20
Profit	210,000	260,000	210,000	305000
Add: Mach wrongly debited			40,000	
Less: Dep on Mach.			(4000)	(7200)
Less: overval. of cl.stock		(20,000)		
Add: over val. of op st			20000	
Add: Loss by fire	10,000			
Less: Bad debts				(5800)
Less: Salary	(24000)	(24000)	(30,000)	(36000)
Less: Int on cap	(56000)	(56000)	(56000)	(56000)
	140,000	160,000	180,000	200000

Less: Int on Cap	(56000)	(56000)	(56000)	(56000)
	140,000	160,000	180,000	200000
Weight	1	2	3	4
Weighted profit	140,000	320,000	540000	800,000

Weighted Avg. profit: $\frac{1800,000}{10} = 180,000$

GW : 180000 × 3

= 540000

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 years' 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 throughout the year.

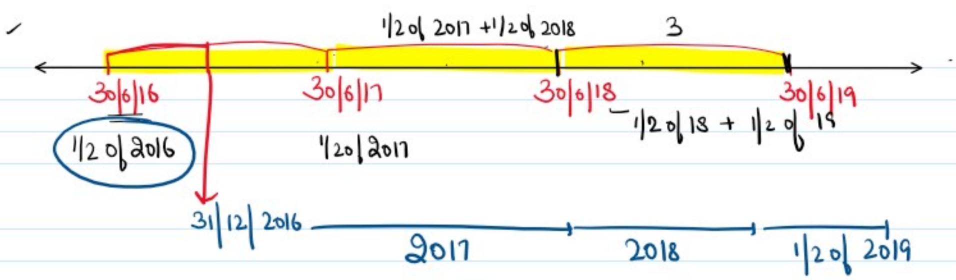
On 30th June, 2019, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet.

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.

	₹
2016	67,200
2017	75,600
2018	72,000
2019	62,400

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.



Year ended 30/6/17 [30/6/16 – 30/6/17]

1/2 of 2016 – 67200 × 1/2 = 33600

1/2 of 2017 – 75600 × 1/2 = 37800 71400

Year ended 30/6/18 [30/6/17 - 30/6/18]

1/2 of 2017 - 37800

1/2 of 2018 - 36000 73800

1/2 of 2017 -	37800	
1/2 of 2018 -	36000	73800

Year Ended 30/6/19 (30/6/18 - 30/6/19)

1/2 of 2018 -	36000	
1/2 of 2019 -	31200	67200

	212400
Avg. profit	70800
(-) Remuneration	(45000)
(-) Int on cap	(12480)
Adj Avg. Profit	13320
Goodwill	39960

x — Unit 1 & 2 over — x

12pm - Unit 3, 4, 5

Unit 3,4 & 5

21 December 2023 19:13

Partnership

Units 1,2,3,4 & 5

6-7 quest

(b) 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. 3:1 - SR 3:1:1

Balance Sheet as at 31st March, 2021

Liabilities		(₹)	Assets	(₹)
Capital 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. → GW = C's Current A/c Dr.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to be appreciated by 20%.

(vi) Capital Accounts 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 Accounts. **(10 Marks)**

WN 1 GoodWill

C's Share $200000 \times \frac{1}{5} = 40000$

C's Current A/c Dr. 40,000 → B/s Asset
To A's cap A/c 30,000
To B cap A/c 10,000

Rev. A/c

Particulars	Amount	Particulars	Amount
To Stock	20,000	by Land & Buil.	50,000
To furn.	1000		
To prov. for DD	8000		
To gain on Rev A - 15750 B - 5250	21000		

Dr. Cap A/c Cr.

B	5250	21000		

Dr. Cap A/c Cr.

Particulars	A	B	C	Particulars	A	B	C
				by bal. b/d	285000	155000	
				By C's Curr.	30,000	10,000	
				by Bank			140,000
To bal c/d	375750	185250	140,000	by Gen. Res	45000	15000	
				by Rev.	15750	5250	
To B's Current A/c		45250		by bal b/d	375750	185250	140,000
To bal. c/d	420,000	140,000	140,000	by A's Current A/c	44250		

Receivable

A's Curr Dr. 44250
To A's Cap 44250

x — x

Bal. Sheet

Liabilities	Amount	Assets	Amount
Cap A/c A - 420,000 B - 140,000 C - 140,000	700,000	A's Current A/c C's Current A/c Bank [1,10,000 + 140,000]	44250 40,000 250,000
Creditors	375000	Bills Rec Stock	30,000 180,000
B's Current A/c	45250	Furn. Debtors 160,000 (-) prov (8000) Cash in hand Land & Build	9000 152000 115000 300,000
	1120250		1120250

WN2 Capital Adj

New part cap × Reciprocal

Total cap = 140,000 × 5
= 700,000

1:1:1

The following was the balance sheet of A, B and C who were equal partners on January 1, 2020

Liabilities	₹	Assets	₹
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 1/4 share in the profits on the following terms:

1:1:1:1

(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;

(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.

Memo

Memorandum Rev. A/c

Dr.

To Stock	1200	by Build.	15000
To furn.	500		
To Liab for Bill disc.	1300		
To gain transferred to (Old Ratio) A 4000, B 4000, C 4000	12000		
To Build.	15000	by Stock	1200
		by furn.	500
		by Liab for bill	1300
		by Loss on Rev. A 3000, B 3000, C 3000, D 3000 (All Partner New Ratio)	12000

Adj. Entry: Gain. Part To Sac.

Journal Entry:

1. Memorand Rev Dr. 12000
   - To A 4000
   - To B 4000
   - To C 4000

2. A Dr. 3000
   B Dr 3000
   C Dr 3000
   D Dr. 3000
   To Mem Rev 12000

1] Bank A/c Dr. 10,000
   To D. Cap A/c 10,000

2) Bank Dr. 6000

To B cap A/c 10,000

2) Bank Dr 6000

To A 2000
To B 2000
To C 2000

3) A cap A/c Dr. 1000
B 1000
C 1000

To Bank A/c

Dec 23

GR: 3:1

15 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

15000

Surrender value

Part Cap Dr.
To JLP

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

$\frac{480000}{4}$ 120000 × 3

360000 × $\frac{2}{6}$

120000

(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Particulars	Amount	Particulars	Amount
To furn.	40000	by off eq.	47000
To stock	50,000	by Build	500000
To JLP	10,000	by prov.	15000
To gain on Rev			
A 231000			
B - 154000			
C - 77000	462000		

A 231000 B - 154000 C - 77000	462000

Particulars	A	B	C	Particulars	A	B	C
To B Cap A/c	90000		30000	by bal. b/d	800000	420000	400000
				by Res.	180000	120000	60000
				by Rev.	231000	154000	77000
To B: Loan A/c		814000		By A&C Cap A/c		120000	
To bal c/d	1121000		507000				

Liabilities	Amount	Assets	Amount
Cap A/c A - 1121000 C - 507000	1628000	Off. eq. Build	327000 1500000
		Furn.	200000
		Stock	200000
B: Loan	814000	Debtors 300000 (-) Prov. (15000)	285000
Cred.	370000	JLP	150000
		Cash at bank	150000
	2812000		2812000

RTP - Nov 22

15 On 31st March, 2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below: 2:3:2

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	1,20,000
Mr. Aadi	80,000	Plant and Machinery	80,000 - 24000
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

280000

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.

Bank Dr. 30200
To JLP 30200

(iv) Goodwill of the entire firm is valued at ₹56,000 and Aadi's share of the goodwill is

(iii) Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained ₹ 30,200.

Bank Dr. 30200
To JLP 30200

JLP 30200
To Aadi
To Arnav
To Arush
2:3:2

$56000 \times \frac{2}{7}$ = 16000

(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.

Dr. Cr.

Particulars	Amount	Particulars	Amount
To P&M	24000	By Land &Buil	24000
To Stock	8000	by cred.	8000
To prov. for DD	2200	by Loss on Rev A - 629 A - 942 A - 629	2200

128000 132942

Dr Cr.

Particulars	Aadi	Arnav	Arush	Particulars	Aadi	Arnav	Arush
To Aadi cap		4000	12000	by bal bld	80,000	120000	80,000
				by Arnav & Aru.	16000		
To Rev.	629	942	629	By JLP	8629	12942	8629
To Bank	52000			by Bank		12000	64000
To Aadi Loan	52000						
To bal cld		140,000	140,000				

Dr Bank A/c Cr.

Particulars	Amount	Particulars	Amount
To bal b/d	28000		
To JLP	30200	by Aadi cap	52000
To Arnav cap	12000		
To Arush	64000	by bal cld	82200

Liabilities	Amount	Assets	Amount
Cap A/c - Arnav	140,000	Land & Buil.	144000
Arush	140,000	Plant & Mach	56000
		Stock	40,000
Aadi Loan A/c	52000	Debtors - 44000	
Creditors	32000	(-) Prov. (2200)	41800
		Bank	82200
	364000		364000

WN

old New

Arnav - $\frac{3}{7} - \frac{1}{2} = \frac{6-7}{14} = \frac{-1}{14}$ Gain

Arush - $\frac{2}{7} - \frac{1}{2} = \frac{4-7}{14} = \frac{-3}{14}$ Gain

1:3

Arnav Cap Dr - 4000
Arush Cap 12000
To Aadi Cap A/c 16000

15. 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 31st March, 2021 is as under:

5:3:2

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 +9000
(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. - B cap Dr 45000 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.

C F

Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(e) 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.

Particulars	Amount	Particulars	Amount
To Build	30,000	by Inv.	9000
To Mach	78000	by Loss on Rev A - 91200 B - 54720 C - 36480	182400
To prov. for DD	83400		

208800 5520

Particulars	A	B	C	F	Particulars	A	B	C	F
To A&B			60,000	60,000	by bal b/d	240,000	60,000	90,000	
To Inv.		45000			by Res	30,000	18000	12000	
To Rev	91200	54720	36480		by C&F	30,000	90,000		
To B: Loan A/c		68280			by bank	31200		234480	180,000
To bal c/d	240,000		240,000	120,000					

Dr. Bank A/c Cr.

Particulars	Amount	Particulars	Amount
To A Cap A/c	31200	by bal b/d	132000
To C Cap A/c	234480		
To F Cap A/c	180,000		
		by bal c/d	313680

B/s

Liabilities	Amount	Assets	Amount
Cap A/c		Land	30,000

Liabilities	Amount	Assets	Amount
Cap A/c A - 240000 C - 240000 F - 120000	600000	Land Build Plant & Mach Trade Rec - 417000 (-) Prov. (83400)	30000 570000 312000 333600
B. Loan A/c Long term debt	68280 900000	Bank Furn.	313680 129000
Trade Pay	510000	Inv	390000
	2078280		2078280

		A	B	C	F
WN	Old Ratio	5 :	3 :	2	
	NR	2 :		2 :	1

G.W - 300000

$A - \frac{5}{10} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10}$ S

B $= \frac{3}{10}$ S

C $= \frac{2}{10} - \frac{2}{5} = \frac{2-4}{10} = -\frac{2}{10}$ G

F = $\frac{1}{5}$ G

C Cap Dr. 60000
F Cap Dr. 60000
To A Cap 30000
To B Cap 90000

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2020 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2020. 6m

6 4200

The partnership deed provides as follows:

(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

(b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2016-17 1,62,000

(b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2016-17	1,62,000
2017-18	1,99,000
2018-19	1,87,000
2019-20	1,96,000

36000

Average capital during preceding four years may be assumed as ₹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 Gain 40000 Cap A/c

1. ₹2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹80,000. Bad debts amounted ₹1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare

1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2020, assuming other Assets and liabilities remaining the same.

Particulars	Amount	Particulars	Amount
To furn.	7500	by Land & buil	33000
To Inv.	8740		
To Bad debts	1760		
To gain on Rev D - 6000 R. 3000 K. 6000	15000		

Particulars	D	R	K	Particulars	D	R	K
To Kiya cap	40000	20,000		by bal bld	150,000	180,000	70,000
				by GR	56000	28000	56000
To Bank			279800	by Int on cap			4200
				by Rev	6000	3000	6000
				by D&R cap			60,000
				by P&L susp			27600
				by JLP	56000	28000	56000
To bal c/d	228000	219000					

Debit bal. Exp

Int on cap Dr. 4200
To Riya cap 4200

P&L Susp Dr. 4200
To Int 4200

Year End
P&L App

To Inc

27600 + 4200

Liabilities	Amount	Assets	Amount
Cap A/c Diya. 228000 Riya. 219000	441000	Land & Build.	198000
		Furn.	67500
		Inv.	80,000
		Trade Rec	94990
Trade Pa.	60000	P&L Susp	31800

		Trade Rec	94990
Trade Pay	60000	P&L Susp (27600 + 4200)	31800
		Bank	34710
	507000		507000

WN Goodwill

Avg Prof. of 4 years - $\frac{744000}{4}$

= 186000

(-) Int on Cap (36000)

GW 150,000

Kiya sh. in GW - $150,000 \times \frac{2}{5}$

= 60,000

WN Profit Share

Avg. Profit - 186000 for 6 month.

= 93000

(-) Int on cap $\left(400,000 \times \frac{12}{100} \times \frac{6}{12}\right)$ (24000)

69000

Kiya Sh = $\frac{2}{5} \times 69000 = 27600$

P&L Susp Dr. 27600

To Kiya cap 27600

x——x JLP | SLP

1 video

Chapter 1

A/C - Revision

Theory

True False

MTP

Adjustments

13 November 2023 12:01

Final A/c [Min. 10 - 20]

Adjustments

Trading, P&L A/c — Balance Sheet

A/c process

1. Journal
2. Ledger
3. Trial Balance

Dr.	Cr.
Assets	Liab ; Cap
Exp	Inc/Rev.

Nominal A/c — Temporary - close

Exp A/c, Loss — Income, Rev/Gain

Close [Trading A/c, P&L A/c] Dr.

Trading A/c Dr.
To Exp

Income/Rev
To Trading

Trading A/c - Nominal

Dr. - Exp		Cr. - Sales	
To op. Stock	40,000	by Sales A/c [Net]	100,000
To purch. [Net]	80,000		
To Direct exp - freight inward	5000		
To GP	10,000	by Cl. Stock	35000
			135000

cost of goods av. for sale

COGS

Clos. stock 35000

125000 → 90,000 — 100,000

COGS = op. st + Purch + D.E - Cl. stock

Closing stock

T.B ✓ — Trial Bal X

T.B ✓ | Trial Bal X

Journal - Cl. Stock Dr. 35000 X
To purch. A/c 35000

Cl. st. Dr - Asset → B/s
To Trading A/c

T.B.

	Dr.
Cl. st	35000 → B/s
Purch. (Adj)	45000 → Trad A/c

Trad A/c	
To pur 45000	

Dr. P&L A/c	Cr.
	by G.P 10,000

Cr > Dr - Net profit
Dr > Cr Net Loss

Adj.

Cr > Dr. , Cr. balanu

Adjustments - Recording - 2 effect
- O/s & prepaid
Exp Inc.

1) O/s Expense -

Exp Dr. → Trading / P&L A/c
To O/s Exp → Liability. B/s

T.B.

	Dr.
Rent	2000

	Dr.
Rent	2000

O/s Rent - 3000 → Exp + ; B/s ✓

Dr. P&L A/c

To Rent - 2000 Add O/s Rent 3000	5000	

2) Prepaid Expense → 1/10/23 - 30/9/24 12000 - 1 year

23-24

TB

	Dr.
Internet	12000

$\frac{12000}{12} \times 6 = 6000$

↓ Prepaid for 6m.

Prep. Exp Dr. 6000
To Exp. 6000

Exp (-) ; Asset

P&L A/c

To Int. - 12000 (-) prep (6000)	6000	

3. Accrued Income

↳ fees - 100,000

T.B.

			Cr.
Fees			100,000

✓ - Accrued fees - 20,000

→ Acc. fees Dr 20,000 - Asset
To fees income 20,000 - Inc +

Dr. P&L A/c Cr.

		by fees 100000 + Acc. 20000	120,000

4) Inc. Rec in Advance

Jan - Apr 200,000
↓
31/3 - 50,000

T.B.

31/3 - 50,000

T. B.

		Cr.
Fees		200000

Adv. 50,000

Inc (-) | Liab +

P&L A/c

		Cr.
	by fees 2L (-) Adv. 50k	150,000

* Bad Debts | Prov. for Doubtful Debts

Ex-1

Trial Bal.

	Dr.	
Debtors	100,000	

1. Bad debts - 10,000 →

P&L A/c Dr | Debtors (-)

Bad debt Dr. 10,000
To Debtors 10,000

Ex-2

Trial Bal.

	Dr.	
Debtors	100,000	
Bad debts	10,000	

Bad debt Dr. 10,000
To Debt 10,000

P&L A/c Dr.

Ex-3

Trial Bal.

	Dr.	
Debtors	100,000	

	Dr.
Debtors	100,000
Bad debts	10,000 → P&L A/c

15000

Adj

1. Bad debts 5000 — P&L A/c
   — Debtor

Total bad debts - 15000

P&L A/c

15000 |

Bal. sheet

	Asset
	Debtors - 100,000
	(-) bad debt (5000) 95000

Ex-4 Trial Bal.

	Dr.
Debtors	100,000

Adj Create prov. for DD @10%

→ P&L A/c Dr. 10,000

To Prov. for DD 10,000

P&L Dr. B/s

Debtors. 100,000

Less prov. (10,000) 90,000

Ex-5 Trial Bal.

	Dr.	Cr.
Debtors	100,000	
Prov. for DD		10,000
Bad debts	12000	

P&L A/c Dr. 10,000

for future bad debts

Prov. for DD Dr 10,000

P&L A/c Dr. 2000

To bad debts 12000

Bal. sheet

Debtors 100,000

Ex-6

Trial Bal.

	Dr.	
Debtors	100,000	
Bad debts	10,000	

P&L Dr.

Adj. Create prov. for DD @10% on Debtors
10,000
After all bad debts

P&L Dr. 10,000
To prov. for DD 10,000

P&L A/c

To bad debts 10,000	
To prov. for DD 10,000	

Bal. sheet

	Debtors 100,000
	(-) prov. (10,000) 90,000

Ex-7

Trial Bal.

	Dr.	
Debtors	100,000	
Prov. for DD		10,000
Bad debts	8000	

for Bad debts

Adj

1. Bad debts - 5000
2. Create prov. for DD @10% on Debtors - 9500

1. Bad debt Dr. 5000
To Debtors 5000

Debtors 95000
Total Bad debts - 13000

Prov. for DD Dr. 10,000
P&L A/c Dr. 3000
To bad debt 13000

P&L A/c Dr. 9500
To prov 9500

P&L A/c

To bad debt 13000 (-) old prov. 10,000 + New prov. 9500	12500	

Bal. Sheet

Debtors 100,000
(-) bad debt (5000)
95000
(-) prov. for DD (9500) 85500

(-) bad debt (5000)
95000
(-) prov. for DD (9500) 85500

Ex. 8

Trial Bal.

	Dr.	
Debtors	100.000	
Prov. for DD		15 000
Bad debt	8000	

for Bad debt

Adj

1. Bad debts - 5000
2. Create prov. for DD @10% on Debtors - 9500

Total bad debt. 13000 ⟷ [Prov. for DD Dr. 13000
To bad debt 13000] Bal in prov 2000

2. P&L A/c Dr. 7500
To prov. for DD 7500

P&L A/c

To bad debt. 13000
(-) old prov. (15000)
+ New prov. 9500 7500

Bal. sheet

Debtors. 100,000
(-) bad debt (5000)
95000
(-) Prov. for DD (9500)
New prov.

T.B

	Dr.	Cr.
Debt	100.000	
Prov.		10.000

Bal sheet

Deb. 100.000
(-) Prov (10.000)

22 November 2023 12:02

Ques-

The balance sheet of Thapar on 1st April, 2019 was as follows: op

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable ~~X~~ - paid during the cy	1,50,000	Furniture & Fixture	3,00,000 - 15000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,000
	66,50,000		66,50,000

During 2019-20, his Profit and Loss Account revealed a net profit of ₹ 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, 2020. P&L Dr. To prov.

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. Exp Dr. To o/s Exp

* His current assets and liabilities on 31st March, 2020 were: Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.

During the year he withdrew ₹ 6,00,000 for domestic use. Draw

Required

Draw up his Balance Sheet at the end of the year.

Insurance 100000 (20,000)
To bank 100000
P&L 100,000 → Dr 100,000
To Ins 100,000 80,000 P↑

1. Exp Dr. ↑ → P&L A/c Dr.
To o/s Exp — Liab ↑ To Exp
└ Bal. sheet

2. Prep. Ins. Dr. 20,000 Asset
To Ins. A/c (20,000) Exp ↓ → Ins. Dr.
Cr To p&L A/c

WN1

Revised p&L A/c

Dr.			Cr.
To Exp.	180000	by bal. b/d	1830,000
To N.P.	1670000	by Insurance	20,000

Bal. sheet
as on 31/3/20

Trade pay.	11,40,000	Inv.	1450,000
		Trade Rec. - 20,00,000	

Trade Pay.	11,40,000	Inv.	1450,000
Cap - 50,00,000		Trade Rec. - 20,00,000	
Add: NP 1670000		(-) Prov. for DD (100,000)	1900,000
Less: Draw. (600,000)	60,70,000	Cash at bank	1035000
O/s Exp	180000	Rep. Ins.	20000
		P&M - 30,00,000	
		(-) Dep (300,000)	2700,000
		Furn & fixt	285000
	7390,000		7390,000

Ques-

Debit Balance	Amount		Credit Balance	Amount
Furniture	3,400		Capital	1,00,000
Building — A	21,700		Discount received	2,000
Drawings - Cap (-)	4,200		Bank Loan	10,000
Cash at Bank - A	2,470		Purchases Return	970
Wages (-) 500 Trad.	31,250		Sales	1,91,940
Discount Allowed - P&L Dr.	2,640		Sundry Creditors	12,450
Bank Chagres - P&L Dr	90		Provision for Doubtful Debts	800
Salaries +500 - P&L	5,610			Bal. x
Purchases (-) 8000 - Trd.	1,32,700			
Opening Stock - Trad	40,200			
Cash in Hand - BL	150			
Sales Return - Sales (-)	1,250			
Carriage Inward - Trad.	3,400			
Machinery —	14,600	+500 = 15100 10% 1510		
Sundry Debtors —	43,800	(-) 300 = 43500		
Bad Debts —	1,000	+300 = 1300		
Insurance - P&L Dr	1,250	- 250 = 1000		
Rent Dr.	2,450			
Bills Receivable - A	2,500			
Advertisement Dr	3,500	- 500 = 3000		
	3,18,160			3,18,160

Prov. Dr. 800
P&L Dr. 500
To bad debt 1300

P&L Dr. 1400
To prov. 1400

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2021 and also the Balance Sheet as at that date after making the following adjustments:

(i) Closing Stock at cost was Rs. 35,000 whereas its net realisation value (market value) was Rs. 30,000. → 30,000
1. Trading A/c Cr. 2. B/s

(ii) Wages included Rs. 500 paid for the installation of machinery.

*(iii) Provision for Doubtful Debts was raised to Rs. 1,400 and further bad debts of Rs. 300 were written off.
New Prov.
Bad debt
To Debtor

(iv) In the month of March, 2021, a fire broke out and destroyed stock to the value of Rs. 8,000. The insurance company admitted claim for loss of stock of Rs. 5,000 only and the amount was paid in April, 2021.
Ab. Loss

(v) Outstanding salaries were Rs. 500. - Liab.

(vi) Prepaid insurance was Rs. 250 and prepaid advertisement Rs. 500.
Asset

(vii) Machinery was depreciated by 10% and furniture by 15%.

1. Total Bad debt
2. Prov. for DD - old

1. Total Bad debts
2. Prov. for DD- old
3. New Prov.

⇒ Total bad debts · 1300
(-) old prov. 800
\+ New prov. 1400 1900

Bal. sheet

Debtors - 43800
(-) baddebts (300)
(-) prov. (1400) 42100

Ab. Loss of Inventory:

Loss by fire Dr. 8000
To purch. A/c 8000

Purch. A/c Dr.

Loss ← P&L A/c Dr. 3000
Asset ← Ins comp Dr 5000
To Loss by fire A/c 8000

The following is the schedule of balances as on 31.3.20 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Bombay:

Particulars	Dr.	Cr.
	₹	₹
Cash in hand - BS	14,000	
Cash at bank - BS	26,000	
Sundry Debtors	8,60,000	×5% = 43000
Stock on 1.4.2019 - Trading	6,20,000	
Furniture & fixtures	2,14,000	(-) 14000
Office equipment	1,60,000	+40,000
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors - Liab		4,30,000
Loan from Viswanath - Liab		3,00,000 ×12/100 × 11/12 = 33000
Provision for bad debts		30,000 10,000
Purchases	(40,000) 14,00,000	
Purchase Returns		26,000
Sales		23,00,000 -14000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000 +11000	
Interest on loan from Viswanath	27,000 - 6000 O/S	
Rates & Taxes - P&L	21,000	
Discount allowed to Debtors - Dr.	24,000	
Discount received from Creditors - Cr.		16,000
Freight on purchases - Dirct. Trad.	12,000	
Carriage Outwards - P&L	20,000	
Drawings	1,20,000 +40000	
Printing and Stationery - P&L	18,000	

5500 × 2 = 11000

55000 / 10

Carriage Outwards - P&L	20,000	
Drawings	1,20,000	+40,000
Printing and Stationery - P&L	18,000	
Electricity Charges - P&L	22,000	
Insurance Premium	55,000 - 40,000 =	
General office expenses P&L	30,000	
Bad Debts	20,000	
Bank charges P&L	16,000	
Motor car expenses - P&L	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

$\frac{15000}{15} \times 12 = 12000$

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and the Balance Sheet as at that date after making provision for the following:

1. *Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.* Sales Dr To furn.&fix
2. *Value of stock at the close of the year was ₹ 4,40,000.*
3. *Two month's rent for godown is outstanding.*
4. *Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2019.* – 31/3/20 11m
5. *Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.*
6. *Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2019 to 30.6.2020.* Drawings

15m | 3m advance

Trading A/c
For the year ended …………

Particulars	Amount	Particulars	Amount
To purch - 1400,000 (-) Rect (40,000) (-) P/R (26000)		By Sales - 2300000 (-) rectif. (14000) by cl stock	 440,000

Profit & Loss A/c
For the year ended …………

Particulars	Amount	Particulars	Amount
To Dep - Build. 30,000 - furn&fix 20,000 - off eq. 30,000 - Mot car 40,000 To Rent 55000 Add: o/s 11000 66000 To Int on Loan - 27000			

Add: O/s 11000	[illegible]		
To Int on Loan - 27000 Add: O/s Int 6000	33000		
To prov. for D.D [bad debt 20,000 (-) old prov. 30,000 + New pr 43000]	33000 ✓		
To Ins Prem. 55000 (-) Draw. 40,000 (-) Pref 3000	12000		

Balance Sheet

As on -...............

Liabilities	Amount	Assets	Amount
		Building - 600,000 (-) Dep 30,000	570,000
Capital (-) Drawing, (120,000 + 40,000)			
		Furn & fix - 214000 (-) Sale (14000) (-) Dep (20,000)	180,000
O/s Int on Loan	6000	Off eq - 160,000 + Purch 40,000 (-) Dep (30,000)	170,000
O/s Rent	11000	Motor car 200,000 (-) Dep (40,000)	160,000
		Closing stock	440,000
		Sundry Debt - 860,000 (-) prov for DD (43000)	817000
		Prepaid Ins.	3000
		Cash in hand	14000

× = ×

Manufacturing A/c | Sat

RTP 12pm

23 November 2023 11:03

Manufacturing A/c

cost of fin. Goods

Manuf. A/c — Trading A/c — P&L A/c — Balance Sheet

Raw Mat — Finished goods

Mfg.

Factory - cost

1. Raw Material Consumed

	Op. Stock	10,000	1,10,000
+	Purchases	100,000	
−	Cl. Stock	20,000	(20,000)
			90,000

2. Direct Wages

per unit

10,000 units @10 = ₹ 100,000

3. Other Manufacturing Exp.

Direct

Royalty
per unit

Hire charges of P&M
per unit

Indirect

→ Plant & Mach. → Factory
Dep. | Rep & Maint.

→ Supervisor Salary
[Salary - office] - P&L A/c

→ Factory Rent, electricity
→ Stores & spares

→ Factory Rent, electricity
→ Stores & spares
→ Carriage Inw.

4. Work-in-Progress

Op stock — Exp - Dr. → Mfg. - Dr.

Cl. stock ↳ Cr. → Mfg. - Cr.

₹ 100,000
Mfg. exp - 30,000
130,000 → 40,000 WIP
Dr.

90,000

Op stock - Dr.
Cl. stock - Cr.

5. By-product ↳ NRV - gain

⇒ Mfg - Cr.

Reduces cost of Mfg.

Manuf. A/c

Dr.

To Raw Mat cons		by Cl. WIP	
To wages		by by-product	
To Mfg. exp.		by Trading A/c (cost of fin. goods)	
To Op stock WIP			
	xxx		

xxx	

Trading A/c → Fin.Goods

To op. Stock	by cl. Stock
To Manuf. A/c	by Sales A/c

1. Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect 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 31.3.2020.

Manufacturing A/c

For the year ended ....

Particulars	Amount	Particulars	Amount
To op. WIP	390000	by cl. WIP	507000
To Raw Mat cons.	1184000	by By-product	20000

To Raw Mat cons. (302000 + 1210.000 - 310.000 - 18000)	1184000	by By-product	20,000
		by Trading A/c	1781000
To Indirect Mat	16000		
To Direct wages	210,000		
To Indirect wages	48000		
To Royalty	130000		
To Rep & Maint	230000		
To Dep	100,000		
	2308000		2308000

=

(b) On 31st March, 2021 the Trial Balance of Mr. Black was as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500 — 16500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000 — 16720
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000	Mfg.	

+ 220

Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000	45000 Mfg.	
Rent	60,000	15000 P&L	
Lighting	13,500	9000	
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available:

Stocks on 31st March,2021 were: Closing

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 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Manufacturing A/c

For the year ended …………

Particulars	Amount	Particulars	Amount
To Raw Mat cons		by Cl. WIP	78000
op - 210,000		by Sale of Scrap	25000
+Purch 850,000		by Trading A/c	11,90,000
-Cl.st -(162000)	898000		
To Wages - 130,000			
Add: o/s Wag 20,000	150,000		
To Dep on Mach	70,000		
To Rent (60,000 × 3/4)	45000		
To Lightning	9000		
To op. WIP	95000		
To carriage	15000		
To Repairs to Plant	11000		

Trading and Profit & Loss A/c

For the year ended ....

Particulars	Amount	Particulars	Amount
To op.stock	155000	by Sales	1672000
To Mfg. A/c	11,90,000	by cl.stock	181000
To GP	508000		
		by GP bld	508000
To Salaries - 100,000 + o/s Sal. 9000	109000		
To Dep on furn.	7500	by commission	4500
To prov. for doubtful	220		
To Rent (60,000 × 1/4)	15000		
To Lightning	4500		
To Telephone & pos	10,000		
To Repairs to off.	3500		
To Gen exp	15000		
To NP	347780		

512500

Balance Sheet

As on -..............

Liabilities	Amount	Assets	Amount
		Cl.stock of RM	162000

Liabilities	Amount	Assets	Amount
Cap - 10,00,000 +NP 347780	13,47,780	Cl. stock of RM Cl. st of FG Cl. stock of WIP	162000 181000 78000
		Plant & Mach - 700,000 (-) Dep (70,000)	630,000
		Furn. - 100,000 (-) Dep (7500)	92500
Bank OD	85000	Debtors - 240,000 (-) prov. (16720)	223280
Bills pay.	75000		
O/s Salary O/s wag.	9000 20,000	Bill Rec. Cash at Bank	150,000 170,000
Sundry Cred.	150,000		
	1686780		1686780

x——x

PYQ/RTP - Final A/c

MTP/RTP/PYQ

24 November 2023 10:46

(b) The following are the balances as at 31st March, 2023 extracted from the books of Mr. Shyam.

	₹		₹
Plant and Machinery +900	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings +7000	16,000	Rent	8,600
Purchases (–) 5150 (–) 3450	3,20,000	Carriage inward	2,250
Opening Stock (–) 7000 – 1650	64,500	Carriage outward	2,700
Wages – 900	24,330	Sales (–) 5150 (–) 3450	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses + 1650	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
		Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

40,000 Liab 23000 4200 12000

Income - P&L Cr. ; P&L ; B/s ; Asset ; P&L ; T ; P&L ; P&L ; P&L ; A ; A ; P&L ; P&L

balance

Salary Dr.
To Sal Pay

Additional Information:

1. Purchases include sales return of ₹5,150 and sales include purchases return of ₹ 3,450.
2. Goods withdrawn by Mr. Shyam for own consumption ₹ 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ₹ 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 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.
7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Adj

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date. Also show the rectification entries. **(8 + 12 = 20 Marks)**

a) Sales Ret Dr. 5150
To purch. 5150

b) Sales Dr. 3450
To purch Ret 3450

2. Drawings Dr. 7000
To purch A/c 7000

3. Adv. Dr. 1650
To purch. 1650

4. P&M Dr. 900
To wages 900

3. a. Prov. for DD 2200
To bad debts 2200

b. P&L A/c Dr. 7800
To prov. for DD 7800

B/s

Debtors 240,000
(–) prov. D.D (12000)
(–) prov for Disc. (5700) 222300

Prov. for Disc. on Debtors - 240,000
(12000)
228000
5700

4. P&L Dr. 2950
To prov. for Dis. on debtors 2950

To prov. for Dis. on debtors 2950

Stock - $\underset{x}{31.3.23}$ → Overdraft Limit - $\left[x \times \frac{80}{100}\right] \times \frac{80}{100}$

$$x \times \frac{80}{100} \times \frac{80}{100} = 160{,}000$$

$$x = 250{,}000$$

Cl. Stock

(a) The trial balance of Sahil as at 31st March, 2021 is as follows:

	Dr.	Cr.
	₹	₹
Sahil's capital account	-	1,91,725
Stock 1st April, 2020	1,17,000	-
Sales	-	9,74,000
Returns inward – S/R	21,500	-
Purchases (–) 1500 + 1000	8,04,250	-
Returns outward	-	14,500
Carriage inwards – Trad.	49,000	-
Rent & taxes – P&L	11,750	-
P&L Salaries & wages	23,250	-
Sundry debtors – 2500	60,000 = 57500	-
Sundry creditors – 2500 + 1000	-	37,000
Bank loan @ 14% p.a.	-	50,000 – 1000
Bank interest +4250	2,750 – 7000	-
Printing and stationary expenses (–) 9000	36,000 – 27000 → $\frac{36000}{12} \times 3 = 9000$	-
Bank balance	20,000	-
Discount earned – P&L – Cr.	-	11,100
Furniture & fittings – 1250	12,500	-
Discount allowed – P&L Dr	4,500	-
General expenses P&L	28,625	-
Insurance – P&L	3,250	-
Postage & telegram expenses P&L	5,825	-
Cash balance	950	-
Travelling expenses	2,175	-
Drawings + 1500	75,000	-
	12,78,325	12,78,325

Sundry Debtors 60,000
(–) Due from Sund. (2500)
57500
(–) Prov. for DD (2875)
(–) Prov. for Disc. (1093)
53532

57500
(–) 2875
54625
1093

The following adjustments are to be made: 2875

Last (1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Sahil amounting to ₹ 1,500 had been recorded in the purchases day book. – Drawings To Purch.

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

(2) Personal purchases of Sahil amounting to ₹ 1,500 had been recorded in the purchases day book. — To Purch.

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

(4) Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him. — Creditor To Debtor

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year. → Prep Exp 9000 To Exp 9000

(6) Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books. → Purch. Dr. To Creditor

(7) Stock on 31.03.2021 was ₹ 1,96,500.

(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 31.03.2021.

→ bank Int Dr. 4250
To o/s Int 4250 — Liab

Max & Co. employs a team of 9 worker 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. **5**

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 :

Expense (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.

(i) 9 workers @ 44000 × 12 = 4752000
2 trainees @ 21000 × 6 252000 5004000

(ii) Dec 2018 → 9 workers @ 40,000 = 360000
Jan 2019 - Nov 2019 - 9 workers @ 44000 × 11 = 4356000
July 2019 - Nov 2 trainees @ 21000 × 5 210,000
4926000

Dec 2018 | 1/1/2019 | 31/12/19 Dec 2019 X

(iii) 9 workers @ 44000 - 396000
2 trainee @ 21000 - 42000 438000

(iii) 9 workers @44000 - 396000 ✗
2 trainee @ 21000 - 42000 438000