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CA FOUNDATION Course

ACCOUNTING

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On behalf of

TEAM ONLY LECTURES

CA CS HARISH A. MATHARIYA

(Founder)

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CA FOUNDATION – ACCOUNTING

TOPIC 1: THEORETICAL FRAMEWORK

A. State with reasons, whether the following statements are true or false:

1. Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

Ans: **False-** The right-hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

2. **Accrual concept implies accounting on cash basis.**

Ans: **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

Ans: **True -** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

4. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle

Ans: **True -** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

5. Net income in case of persons practicing vocation is determined by preparing profit and loss account.

Ans: **False -** Net income is determined by preparing income and expenditure in case of persons practicing vocation.

6. The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Ans: **True -** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

7. Amount paid to Management Company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

Ans: **True -** Amount paid to Management Company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

8. Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.

Ans: **False -** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

9. **Amount spent on the replacement of worn out part of machine is Capital Expenditure.**

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

10. **Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House & were demolished when the Cinema House was ready, is capital expenditure.**

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

11. **A concern proposes to discontinue its business from December 2020 and decides to dispose of all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed of after the Balance Sheet date.**

Ans: False - if the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

12. Accounting Standards for non-corporate entities in India are issued by the Central Government.

Ans: False - Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

13. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

Ans: False - Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

B. Distinguish between

1. Money Measurement concept and matching concept.

Ans: 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 should 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 then expenses related to earn that revenue should also be recognized.

2. Provision and contingent liability.

Ans: Difference between Provision and Contingent liability

No.	Provision	Contingent liability
1	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
2	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3	Provision is 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 recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability

3. Going Concern concept and Cost concept.

Ans: Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

Cost concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective & free from all bias.

4. Distinguish between fundamental accounting assumption and accounting policies

Ans:

Fundamental Accounting Assumption	Accounting Policies
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
If fundamental accounting assumption is not followed, it is to be disclosed in the financial statements together with the reasons	If the policy is changed in subsequent year, the effect of such change should be disclosed in the financial statements
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

5. Distinguish between going concern and cost concept.

Ans: Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its 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: It means that 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.

6. Distinguish between money measurement concept and matching concept

Ans: 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 should 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 then expenses related to earn that revenue should also be recognized.

7. Differentiate between provision and contingent liability

Ans:

Provision	Contingent liability
Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events
A provision meets the recognition criteria.	A contingent liability fails to meet the same.
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
If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

C. Answer Following Questions

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

Ans: Change in accounting policy may have a material effect on the items of financial statements.
For example, 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.

2. State the advantages of setting Accounting Standards.

Ans: 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.

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

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

Ans:

(a) Legal fees on acquisition of land: capital
(b) Complete repaint: revenue
(c) Repainting van: revenue.
(d) Drainage for new equipment: capital.
(e) Carriage costs on replacement part: revenue

4. Define revenue receipts and gives examples. How are these receipts treated? Explain.

Ans: Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).
Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

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

(i) Amount spent on making few more exists in Cinema Hall to comply with Government orders.
(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
(iii) Amount spent to reduce working expenses.
(iv) Amount paid for removal of stock to a new site.
(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Ans:

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

6. Write short notes on the: Fundamental Accounting Assumptions.

Ans: **Fundamental Accounting Assumptions:** Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operation.
2. Consistency: It is assumed that accounting policies are consistent from one period to another.
3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected

in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

7. Write short notes on the: Accounting conventions.

Ans.: **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. 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.

8. Explain Cash and Mercantile system of accounting.

Ans: **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 or 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.

9. Write short notes on the: Accounting conventions.

Ans: **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.

10. State the advantages of setting Accounting Standards.

Ans: 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 ease in comparison.

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

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

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

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

Ans:

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

12. Write short notes on the: Measurement.

Ans: Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale. Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.

Three important elements of measurement are:
1. Identification of objects and events to be measured;
2. Selection of standard or scale to be used;
3. Evaluation of dimension of measurement standard or scale.

13. Classify each of the following transactions into capital or revenue transactions:
(a) Inauguration expenses of a new manufacturing unit in an existing Business.
(b) Installation of a new central heating system.
(c) Repainting of a delivery van.
(d) Providing drainage for a new piece of water-extraction equipment.
(e) Legal fees on the acquisition of land.
(f) Carriage costs on a replacement part for a piece of machinery.

Ans.:
(a) Inauguration expenses of new unit of existing business: **revenue.**
(b) Installation of new heating system: **capital.**
(c) Repainting van**: revenue.**
(d) Drainage for new equipment**: capital**.
(e) Legal fees on acquisition of land: **capital**
(f) Carriage costs on replacement part: **revenue.**

14. What services can a Chartered Accountant provide to the society?

Ans: The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered 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 services rendered by CA to the society are briefly mentioned hereunder:
(a) Maintenance of books of accounts;
(b) Statutory audit;
(c) Internal Audit;
(d) Taxation;
(e) Management accounting and consultancy services;
(f) Financial advice and financial investigations etc.
(g) Other: secretarial work, share registration, company formation receiverships, arbitrations etc.

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

Ans: Change in accounting policy may have a material effect on items of financial statements. Example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, financial statements may not help users of accounts.

16. Define the following terms:
(a) Capital Commitment
(b) Expired Cost
(c) Floating Charge
(d) Obsolescence

Ans:
(a) Capital commitment: Future liability for cap. expenditure for which contracts have been made
(b) Expired cost: Portion of expenditure from which no further benefit is expected. (expense)
(c) Floating charge: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.
(d) Obsolescence: **Diminution in the value of an asset** by reason of it becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output.

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

Ans: Change in accounting policy may have a material effect on the items of financial statements. For example, 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.

18. Write short notes on:

(a) Noting Charges.

(b) Objective of Accounting Standards.

(c) Retirement of bills of exchange.

(d) Over-riding Commission.

Ans:

(a) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(b) Objective of Accounting Standards: 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.

(c) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(d) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be delcredere commission or over riding commission. Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed: - (i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product. (ii) To provide incentive for supervising the performance of other agents in a particular area. (iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

19. Explain Cash and Mercantile system of accounting.

Ans: 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.

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

Ans: Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.). Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account

21. Write short notes on the following:

(a) Going Concern concept.

(b) Objectives of preparing Trial Balance.

(c) Retirement of bills of exchange.

(d) Over-riding Commission.

(e) Trade bill vs. Accommodation bill.

Ans:

(a) Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

(b) Objectives of preparing Trial Balance: the preparation of trial balance has the following objectives:

1. Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(c) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate

(d) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be delcredere commission or over riding commission. Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

(e) Distinction between Trade bill and Accommodation bill: (a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties. (b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio. (c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration. (d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance. (e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

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

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

(a) 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.

(b) 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.

(c) Accounting ignores changes in some money factors like inflation etc.

(d) There are occasions when accounting principles conflict with each other.

(e) Certain accounting estimates depend on the sheer personal judgement of the accountant.

(f) Different accounting policies for the treatment of same item adds to the probability of manipulations.

23. Write short notes on the following:

(a) Rules of posting of journal entries into Ledger.

(b) Importance of bank reconciliation statement to an industrial unit.

(c) Bill of exchange and various parties to it.

(d) Fundamental Accounting Assumptions.

(e) Accounting conventions

Ans:

(a) Rules of posting of journal entries into Ledger: 1.Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly. 2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. 3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(b) Importance of bank reconciliation statement to an industrial unit: Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(c) Bill of exchange and various parties to it: A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange: (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing; (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee

(d) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. Consistency: It is assumed that accounting policies are consistent from one period to another.
3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

TOPIC 2: ACCOUNTING PROCESS

A. State with reasons, whether the following statements are true or false

1. **The balance in petty cash book represents an asset.**

Ans: True - The balance represents the cash physically in existence and is therefore an asset.

2. **Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.**

Ans: False - Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

3. **If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.**

Ans: False - If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

4. **The Sales book is kept to record both cash and credit sales.**

Ans: False - The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book

5. **A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.**

Ans: False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.

6. **Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.**

Ans: True - the trade discount is to be deducted from the total value of ₹ 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book- 36,005 (72,010 x 50%).

7. **A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.**

Ans: False - Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

8. **The rationale behind the opening of a suspense account is to tally the trial balance.**

Ans: False - The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

9. **The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.**

Ans: False - The debit notes issued are used to prepare purchases return book.

10. **The debit notes issued are used to prepare Sales Return Book.**

Ans: True - Yes, they are types of subsidiary books which is alternate to the journals.

11. **If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.**

Ans: False - If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

12. **M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure**

Ans: False - Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, the renovation expense is capital expenditure in nature.

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

Ans: False - When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

14. The Sale Book is kept to record both the cash and credit sales.

Ans: False; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

15. All the personal & real accounts are recorded in P&L A/c.

Ans: False: All the personal & real account is recorded in balance sheet

B. Solve the following questions

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

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

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

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

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

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

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

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

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

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

2. Write short notes on the: Double entry system.

Ans: Double entry system may be defined as that system which recognizes and records both the aspects of a transaction. Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

3. Write short notes on: Objectives of preparing Trial Balance.

Ans: Preparation of trial balance serves the following objectives:

1. **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

4. Write short notes on: Rules of posting of journal entries into Ledger.

Ans:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

5. Write short notes on the: Advantages of subsidiary books.

Ans: Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

1. Division of work
2. Specialization and efficiency
3. Saving of the time
4. Availability of information's
5. Facility in checking

6. Explain Cash and Mercantile system of accounting.

Ans: **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 or 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

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

(i) Sale of furniture credited to Sales Account.
(ii) Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted.
(iii) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.
(iv) Purchase worth ₹ 4,500 from Mr. X not recorded in subsidiary books.
(v) Credit sale wrongly passed through the Purchase Book.

Ans:

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

8. Write short notes:

1. Double entry system. 2. Journal.

Ans: **Double entry system**

may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
(b) The profit earned or loss suffered during a period can be ascertained together with details.
(c) The financial position of the firm or the institution concerned can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

Journal.

Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological; otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

C. Solve the following questions

1. Prepare Journal Entries for the following transactions in the books of Symphony Bros. for the year ending 31st March, 2020

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

(ii) Goods distributed by way of free samples ₹ 2,000.

(iii) Income tax liability of proprietor ₹ 1,400 was paid out of petty cash.

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

Ans:

Journal Entries in the books of Symphony Bros.

SN	Particulars	Dr.	Cr.
(i)	Salaries A/c Dr. To Purchase A/c (Being entry made for stock taken by employees)	7,500	 7,500
(ii)	Advertisement Expenses A/c Dr. To Purchases A/c (Being distribution of goods by the way of free samples)	2,000	 2,000
(iii)	Drawings A/c Dr. To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	1,400	 1,400
(iv)	Purchase A/c To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)	1,800	 1,750 50

2. The following errors were committed by the Accountant of Hari Om Toys.

(i) Purchase of Rs. 1620 from Anupam & Co. passed through Sales Day Book as Rs. 1260

(ii) Credit sale of Rs. 1600 to Soni & Co. was posted to the credit of their account.

How would you rectify the errors assuming that?

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

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

(c) They were detected after preparing Final Accounts.

Ans: (i)

Purchase of Rs. 1,620 is wrongly recorded through sales day book as Rs. 1,260.

Correct Entry	Entry Made Wrongly
Purchase A/c ....Dr. 1,620 To Anupam & Co. 1,620	Anupam & Co. ....Dr. 1,260 To Sales 1,260

Rectification Entry

Before Trial Balance	After Trial Balance	After Final Accounts
Sales A/c … Dr. 1,260 Purchase A/c …Dr. 1,620 To Anupam & Co. 2,880	Sales A/c ….. Dr. 1,260 Purchase A/c ….Dr. 1,620 To Anupam & Co. 2,880	Profit & Loss Adj. A/c Dr. 2,880 To Anupam & Co. 2,880

(ii)

This is one sided error. Soni & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (Rs. 3200) will be taken.

Before Trial Balance	After Trial Balance	After Final Accounts
No Entry Debit Soni A/c with Rs. 3200	Soni & Co. A/c …….Dr. 3200 To Suspense A/c 3200	Soni & Co. A/c …...Dr. 3200 To Suspense A/c 3200

3. The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by Ram.
(ii) Cash received from Manan was debited to Tapan ₹ 7,500.
(iii) General expenses ₹ 2600 was posted in the General Ledger as ₹ 6200.
(iv) Sales Day Book was overcast by ₹ 5,000.
(v) Legal Expenses ₹ 7,670 paid to Mr. Gupta was debited to her personal account.
(vi) A sale of ₹ 25,000 to Tina was wrongly debited to the Account of Hina.
(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,690 was written as ₹ 1,960.
(viii) ₹ 7,000 due to Mr. Somdev was omitted to be taken to trial balance.

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

Ans:

SN	Particulars	Dr.	Cr.
1	Bills Receivables A/c Dr. Bills Payable A/c Dr. To Ram A/c (Correction of error by which Bills Receivable Ac of ₹ 1,550 was wrongly posted through Bills Payable book)	1,550 1,550	 3,100
2	Suspense A/c Dr. To Manan To Tapan (Removal of wrong debit to Tapan and giving credit to Manan from whom cash was received)	15,000	 7,500 7,500
3	Suspense A/c Dr. To P & L Adjustment A/c (Correct of error by which general expenses of Rs. 2,600 was wrongly posted as Rs. 6,200)	3,600	 3,600
4	P&L Adjustment A/c Dr. To Suspense (Correction of error by which Sales account was overcast last year)	5,000	 5,000
5	P & L Adjustment A/c Dr. To Mr. Gupta (Correction of error by which legal expenses paid to Mr. Gupta was wrongly debited to her personal A/c)	7,670	 7,670
6	Tina Dr. To Hina (Correction of error by which sale of Rs. 25,000 to Tina was wrongly debited to Hina's account)	25,000	 25,000

7	Suspense A/c Dr. To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.270 i.e. Rs.1,960 –Rs.1,690)	270	270
8	Trade Receivable A/c Dr. To Suspense A/c (Rs. 7,000 due by Mr. Somdev not taken into trial balance now rectified)	7,000	7,000

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	3,600	By P & L Adjustment A/c	5,000
To Manan	7,500	By Trade Receivable (Mr. Somdev)	7,000
To Tapan	7,500	By Difference in Trial Balance (Balancing figure)	6,870
To P&L Adjustment A/c	270		
	18,870		**18,870**

4. Pass a journal entry in each of the following cases:

(i) A running business was purchased by Mohan with following assets and liabilities: Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

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

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

Ans:

Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000
(Being commencement of business by Mohan by taking over a running business).			
Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000
Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	600
To Rahim			

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

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

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

How would you rectify the errors assuming that?

(a) They are detected before preparation of Trial Balance.

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

(c) They are detected after preparing Final Accounts.

Ans: (i)

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

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

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

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

Rectification Entry

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

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

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

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

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

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

Ans: **Journal Entries**

No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Subham A/c Dr. Furniture A/c Dr. To Nigam A/c		300 2,700	 3,000
2	Sales Returns A/c Dr. To Jyothy A/c 5,000		5,000	 5,000
3	Sales A/c Dr. To P & L A/c (Gain on sale of invest.) To Investments A/c		75,000	 15,000 60,000
4	Drawings A/c Dr. To Trade Expenses A/c		10,000	 10,000

7. Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2019			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private Expenses	600
	24	Received cheque from Parul	1,430
	26	Allowed him discount	20
	28	Deposited Parul's cheque into Bank	2,000
	30	Withdrew cash from Bank for Office use	800
		Paid rent by cheque	

Ans: Triple Column Cash Book

Date	Particulars	Disc.	Cash	Bank	Date	Particulars	Disc.	Cash	Bank
2019 Nov. 1	To Balance b/d	–	3,000	12,000	2019 Nov. 2	By Bank (C)		1,000	
Nov. 2	To Cash (C)		–	1,000	Nov. 5	By Furniture A/c			1,500
Nov. 12	To Mohan	20	980		Nov. 8	By Purchase A/c		500	
Nov. 14	To Sales A/c		5,000		Nov. 16	By Amar	50		1,450
Nov. 19	To Cash (C)			500	Nov. 19	By Bank (C)		500	
Nov. 24	To Parul (Note 2)	20	1,430		Nov 23	By Drawings A/c			600
Nov. 26	Cash (C)			1,430	Nov. 26	By Bank (C)		1,430	
Nov. 28	To Bank (C)		2,000		Nov. 28	By Cash (C)			2,000
					Nov. 30	By Rent A/c			800
					Nov. 30	By Balance c/d		8,980	8,580
		40	12,410	14,930			50	12,410	14,930
Dec. 1	To Balance b/d		8,980	8,580					

Note:

(i) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

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

8. The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(ii) Sales Day Book was overcast by ₹ 1,000.

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

(iv) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.

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

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

(vii) Cash received from Ram was debited to Shyam ₹ 1,500.

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

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

Ans:

P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	1,000
X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.	5,000	5,000
Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)	Dr.	630	630
Bills Receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)	Dr. Dr.	1,550 1,550	3,100
P & L Adjustment A/c To Mrs. Neetu	Dr.	1,190	1,190

(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)		
Suspense A/c Dr. To Ram To Shyam (Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)	3,000	 1,500 1,500
Suspense A/c Dr. To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, i.e.: ₹1,325 – ₹1,235)	90	 90

Suspense A/c

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

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

Date	D N No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2020		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Ans.: **Purchase Returns Book**

Date	Debit Note No.	Name of supplier	L.F.	Amount
2020 Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

10. Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2020		₹
Sep. 1	Cash in hand	6,000
1	Cash at bank	24,000
2	Paid into bank	2,000
5	Bought furniture and issued cheque	3,000
8	Purchased goods for cash	1,000
12	Received cash from Mohan	1,960
	Discount allowed to him	40
14	Cash sales	10,000
16	Paid to Amar by cheque	2,900
	Discount received	100
19	Paid into Bank	1,000
23	Withdrawn from Bank for Private expenses	1,200
24	Received cheque from Parul	2,860

	Allowed him discount	40
26	Deposited Parul's cheque into Bank	
28	Withdrew cash from Bank for Office use	4,000
30	Paid rent by cheque	1,600

Ans: **Triple Column Cash Book**

Date	Particulars	Disc.	Cash	Bank	Date	Particulars	Disc.	Cash	Bank
2020 Sep.1	To Balance b/d		6,000	24,000	2020 Sep.2	By Bank (C)		2,000	
Sep. 2	To Cash (C)			2,000	Sep.5	By Furniture A/c			3,000
Sep. 12	To Sapna	40	1,960		Sep. 8	By Purchase A/c		1,000	
Sep. 14	To Sales A/c		10,000		Sep. 16	By Amar	100		2,900
Sep. 19	To Cash (C)			1000	Sep. 19	By Bank (C)		1,000	
Sep. 24	To Parul (N. 2)	40	2,860		Sep.23	By Drawings A/c			1,200
Sep. 26	To Cash (C)			2,860	Sep.26	By Bank (C)		2,860	
Sep. 28	To Bank (C)		4,000		Sep.28	By Cash (C)			4,000
					Sep.30	By Rent A/c			1,600
					Sep.30	By Balance c/d		17,960	17,160
		80	24,820	29,860				24,820	29,860
Oct. 1	To Balance b/d		17,960	17,160					

Note:

(1) Discount allowed and discount received ₹ 80 and ₹ 100 respectively should be posted in respective Accounts in the ledger.

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

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

1. Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2. An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;
3. A sale of ₹20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 2,000;
4. Bad Debts aggregating ₹15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and
5. The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹12,500 was not posted.

Ans:

	Particulars		L.F.	Dr.	Cr.
(1)	Sales Account Sales Returns Account To Suspense Account (The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)	Dr. Dr.		5,000 5,000	 10,000
(2)	Suspense Account To Mr. Hari (Wrong debit to Mr Hari for goods returned by him, now rectified)	Dr.		15,000	 15,000
(3)	Mr. Amit To Mr. Sumit To Suspense Account (Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹20,000, now rectified)	Dr.		20,000	 2,000 18,000

(4)	Bad Debts Account To Suspense Account (The amount of Bad Debts written off not adjusted in General Ledger, now rectified)	Dr.		15,000	 15,000
(5)	Discount Account To Suspense Account (The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)	Dr.		12,500	 12,500

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

(i) A purchase of ₹ 4,700 from M/s Timber & Co. was recorded in the accounts of M/s Ginger & Co. as ₹ 7,400. Day Book entry has also been passed incorrectly.

(ii) A sale of ₹ 9,500 to M/s Aman Bros. was recorded in M/s Manan Bros account as ₹ 5,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹ 230 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 320, because discount allowed of ₹ 90 to M/s Aman Bros. has been omitted.

(iv) A cheque of ₹ 6,400 drawn by M/s Aman Bros. has been dishonoured, but wrongly debited to M/s Manan Bros.

Ans:

Journal Proper of Shyam Textiles & Co. Rectification Entries

	Particulars	Dr.	Cr.
(i)	M/s Ginger & Co. A/c To M/s Timber & Co. A/c To Purchases A/c (Rectification of purchase entry for ₹ 4,700 dated as ₹ 7,400 in M/s Ginger & Co A/c in place of M/s. Timber & Co.'s A/c).	7,400	 4,700 2,700
(ii)	M/s Aman Bros. A/c To Sales A/c To M/s Manan Bros. A/c (Rectification of sale entry for ₹ 9,500 dated as ₹ 5,900 in M/s Manan Bros A/c in place of M/s Aman Bros. A/c).	9,500	 5,900 3,600
(iii)	Discount Allowed A/c To Commission A/c To M/s Aman Bros. A/c (Rectification of wrong posting of discount in commission account and omission of discount transaction dated)	320	 230 90
(iv)	M/s Aman Bros. A/c To Manan Bros A/c (Wrong posting for the dishonoured cheque dated is being rectified)	6,400	 6,400

Since all the errors are 2-sided in nature, Trial Balance will tally even if the rectifications are not done.

13. Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:

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

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

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

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

Ans:

SN	Particular	Debit	Credit
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	4,500	4,500
2	M/s Sobhag Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)	90	90
3	Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	35,000	35,000
4	Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)	5,000	5,000

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

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

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

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

Sales A/c

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

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

Returns Inward Account Dr. ₹1,800
To Gaurav & Co. ₹1,800
(Goods returned by the firm, previously omitted from the Returns Inward Book)

(c) Sen Brothers have been debited ₹2,250 instead of being credited. This account should now be credited by ₹4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

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

(d) By this error Purchases Account has to be debited by ₹15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account Dr. ₹15,000
To Purchases Account ₹15,000

(Correction of the mistake by which
Purchases Account was debited instead
Of the Furniture Account)

(e) The discount of ₹1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made:

Black & White Dr. ₹1,200
To Discount Account ₹1,200
(Rectification of the error by which the discount
Allowed by the firm was not entered in Cash Book)

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

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

(ii) If a Suspense Account is opened:

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

15. The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.

a. Sold to M/s. Ashok & Mukesh on Credit:
40 shirts @ ₹ 900 per shirt
30 rousers @ ₹ 1,000 per trouser
Less: Trade discount @ 10%

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

Ans.

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

Note:

1. Cash sale entered in cash book and sale of furniture are entered in journal not in Sales Book.
2. It has been assumed that M/s Kamal & Sons is in business of selling shirts and trousers.

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

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500. (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.

(ii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.

(iii) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.

(iv) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as dishonored and had been credited to the bank and debited to bills receivable account.

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

Ans. **Rectification entries in the books of M/s Applied Laboratories**

	Particulars	L.F.	Dr.	Cr.
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		1500	1500
3	Suspense Account Dr. To Rani & Co. (Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)		2,100	2,100
4	Profit and Loss Adjustment Account Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000
5	Raja & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		20,000	20,000

17. Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

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

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

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

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

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

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

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

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

Ans.: **Journal Entries**

	Particulars		**L.F.**	**Dr.**	**Cr.**
(i)	Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)	Dr.		936	 936
(ii)	Profit & Loss Adjustment A/c Customer's Account To Suspense Account (Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)	Dr. Dr.		540 1,102	 1,642
(iii)	Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)	Dr.		590	 590
(iv)	Suspense Account To Senu To Sethu (Removal or wrong debit to Sethu and giving Credit to Senu from whom cash was received)	Dr.		1,790	 895 895
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)	Dr.		1400	 1400
(vi)	Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)	Dr.		1600	 1600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	 1280
(viii)	Trade receivable/ Q's Account To Suspense Account (₹600 due by Q not taken into trial balance, now rectified)	Dr.		600	 600
(ix)	R's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3000	 3000

(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		5066	5066

TOPIC 3: BRS

A. State with reasons, whether the following statements are true or false:

1. **Bank reconciliation statement is prepared to arrive at the bank balance.**

   Ans.: **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

B. Solve following questions

1. **State the causes of difference between the balance shown by the pass book and the cash book.**

   Ans:

   The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

   - Cheques issued but not yet presented for payment.
   - Cheques deposited into the bank but not yet cleared.
   - Interest allowed by the bank.
   - Interest and expenses charged by the bank.
   - Interest and dividends collected by the bank.
   - Direct payments by the bank.
   - Direct deposits into the bank by a customer.
   - Dishonor of a bill discounted with the bank.
   - Bills collected by the bank on behalf of the customer.
   - An error committed by the bank etc.

2. **Importance of bank reconciliation to an industrial unit.**

   Ans:

   Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

C. Solve Following Questions

1. **On 31st March 2020, the bank account of Chandan, according to the bank column of the Cash Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a debit balance of ₹ 20,758 in favour of Chandan. An examination of the Cash Book and Bank statement reveals the following:**
   1. **A cheque for ₹ 13,14,000 deposited on 29th March,2020 was credited by the bank only on 4th April, 2020**
   2. **A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.**
   3. **On 29th March, 2020, the bank credited an amount of ₹ 1,17,400 received from a customer of Chandan, but the advice was not received by Chandan until 1st April, 2020.**
   4. **Bank charges amounting to ₹ 580 had not been entered in the Cash Book.**
   5. **On 6th March, 2020, the bank credited ₹ 20,000 to Chandan in error.**
   6. **A bill of exchange for ₹ 1,40,000 was discounted by Chandan with his bank. This bill was dishonoured on 28th March, 2020 but no entry had been made in the books of Chandan.**
   7. **Cheques issued up to 31st March, 2020 but not presented for payment up to that date totalled ₹**

13,26,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Chandan, to arrive at the correct balance on 31st March,2020 and

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

Ans.:

(i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2020 March 31	To Party A/c To Customer A/c (Direct deposit) To Balance c/d	16,000 1,17,400 11,242	**2020** March 31	By Balance b/d By Bank charges By Customer A/c (B/R dishonoured)	4,062 580 1,40,000
		1,44,642			1,44,642

(ii) Bank Reconciliation Statement as on 31st March,2020

Particulars	Amount
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected up to 31st March,2020	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment up to 31st March,2020	13,26,000
Credit by Bank erroneously on 6th March,2020	20,000
Overdraft as per bank statement	20,758

Note: Bank has credited Chandan by 20,000 in error on 6th March, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 13,26,000 resulting in debit balance of ₹ 758 as per pass-book.

2. Prepare a Petty Cash Book on the Imprest System from the following:

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

Ans.:

PETTY CASH BOOK

Receipt	Date 2019	V. No.	Particulars	Total	Con.	Cartage	Stationery	Post. & T.gram	Wages	Sundries
20,000	Apr. 1	1	To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2500		2500				
	4	3	By Postage and Telegrams	500				500		

	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1500						1500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3000		3000				
	9	11	By Stationery	2000			2000			
	10	12	By Sundry Expenses	5000						
				17200	600	5900	2400	1200	600	6500
			By Balance c/d	2800						
20,000				20000						
2800			To Balance b/d							
17,200	11		To Cash							

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

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

Ans:

Bank Reconciliation Statement as on 31st March, 2018

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

4. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:

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

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

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

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

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

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

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

Ans.:

Bank Reconciliation Statement as at 31.03.2020

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

5. From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

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

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

Ans.: **Cash Book as on 31.3.2020**

(After making necessary adjustments)

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

Bank Reconciliation Statement as on 31.3.2020

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

The bank balance of ₹ 29,61,600 will appear in the trial balance as on 31st March, 2020.

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

Cash A/c Dr 2,55,000

To Sales A/c 2,55,000

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

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

6. On 31st March, 2021 the pass-book of a trader showed a credit balance of ₹ 15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

1. Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹ 3,84,000 were not yet presented for payment.
2. Bank charged ₹ 350 for bank charges and 'Z' directly deposited ₹ 1,816 into the bank account, which was not entered in the cash book.
3. Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.
4. Interest allowed by bank ₹ 4,500.

Prepare a bank reconciliation statement as on 31st March, 2021.

Ans.:

(i) **Bank Reconciliation Statement as on 31st March, 2021**

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book			15,65,000
Add: Cheques deposited into bank but not yet collected	A: 5,15,000		
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
			20,92,850
Less: Cheques issued but not presented for payment	X: 60,000 Y:3,84,000	4,44,000	
Direct deposit of cash in bank by Z		1,816	
Interest allowed by the bank		4,500	(4,50,316)
Debit balance as per the cash book			16,42,534

7. Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2018.
(ii) A cheque worth ₹ 400 directly deposited into Bank by customer but no entry was made in the Cash Book.
(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2018.
(iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.
(v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
  1. Cheques collected before 30th June, 2018, ₹ 14,000
  2. Cheques collected on 10th July, 2018, ₹ 4,000
  3. Cheques collected on 12th July, 2018, ₹ 2,000.
(vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.
(vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.
(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.
(ix) The credit side of bank column of Cash Book was under cast by ₹ 2,000.

Ans.:

Bank Reconciliation Statement as on 30th June 2018

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented (34,000- 20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480

			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		25,210

8. On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following:

1. Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.
2. Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.
3. Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.
4. A cheque deposited in another account of ₹ 1,550 wrongly credited to this account by the bank.
5. A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.
6. A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.
7. The bank allowed interest on deposit ₹ 1,000
8. A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

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

Ans.:

(i) Adjusted Cash Book as on 31-03-2020

Particulars	₹	Particulars	₹
To Interest on deposit	1,000	By balance b/d	98,700
To Customer a/c Cheque returned	1,500	By bank charges & interest (35 + 2,860)	2,895
To Balance c/d	1,03,595	By customer a/c cheque dishonoured	500
		By Discount allowed (1,00,000 -96,000)	4,000
	1,06,095		1,06,095

(ii) Bank Reconciliation Statement as on 31st March, 2020

Particulars	₹	₹
Overdraft as per Adjusted Cash book		1,03,595
Add:		
Cheque deposited but not credited in the bank	2,600	
Cheque returned 'out of date' by the bank	3,500	6,100
		1,09,695
Less:		
Cheques issued but not presented in the bank	(7,400)	
Cheque deposited in another account wrongly credited to this account by bank	(1,550)	
Cheque drawn in this a/c wrongly debited to another A/c	(800)	(9,750)
Overdraft balance as per Bank Statement		99,945

9. Prepare a Bank Reconciliation Statement from the following particulars as on 31st Dec, 2020:

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

Ans.

Adjusted Cash Book as on 31st December, 2020

Particulars	₹	Particulars	₹
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		2,98,000

Bank Reconciliation Statement as on 31st December, 2020

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented Payment not effected by bank	45,000 4,000	 49,000
		3,08,000
LESS: Cheque deposited but not cleared Balance as per Bank pass book	25,000	25,000 2,83,000

10. According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2021 On investigation you find that(Nov 21)

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

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

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

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

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

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

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

You are required: (1) To make the appropriate adjustments in the cash book, and (2) To prepare a statement reconciling it with the bank pass book

Ans:

In the Books of G

Cash Book (Bank Column)

Receipts	Amount	Payments	Amount
To balance b/d	445000	By insurance premium	2700
To dividend a/c	4000	By correction of errors	500
To rent a/c	60000	By bank charges	150
To bill receivables a/c	5900	By bill payable	20000

		By balance b/d	491550
	514900		**514900**

Bank Reconciliation Statement as on 30th June, 2021

Adjusted balance as per cash book	491550
Add: Cheques issued but not presented for payment till 30th June, 2021	60000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55500)
Balance as per pass book	496050

11. From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021

	(₹)
Bank balance as per Pass Book	2500000
Bills discounted dishonoured not recorded in Cash Book	1250000
Cheque received entered twice in Cash Book	25000
Bank charges entered twice in Cash Book	5000
Insurance premium paid directly by Bank under-standing instruction	150000
Cheque issued but not presented to Bank for payment	1250000
Cheque received, but not sent to Bank	2800000
Cheque deposited in Bank, but no entry passed in the Cash Book	1250000
Credit side of the Bank column cast short	5000

Ans: Bank Reconciliation Statement as on 31st March,2021

Bank balance as per Pass book		2500000
Add: Bills dishonoured not recorded in the cash book	1250000	
Cheque received entered twice in the cash book	25000	
Insurance premium paid directly not recorded in the cash book	150000	
Cheque received but not sent to the bank	2800000	
Credit side of the bank column cast short	5000	4230000
		6730000
Less: Cheque deposited into the bank but no entry was passed in the cash book	125000	
Bank charges recorded twice in the cash book	5000	
Cheque issued but not presented to the bank	1250000	(2505000)
Bank balance as per Cash book		4225000

TOPIC 4: INVENTORY

A. State with reasons, whether the following statements are true or false

1. **When closing inventory is overstated, net income for the accounting period will be understated.**
   Ans.:
   False, when closing inventory is overstated, net income for the accounting period will be overstated

2. **Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.**
   Ans:
   True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

B. Distinguish between

1. **Periodic Inventory System and Perpetual Inventory System**

No.	Periodic Inventory System	Perpetual Inventory System
1	This system is based on physical verification.	It is based on book records.
2	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 & 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 with-out affecting operations of the business.

C. Solve the following Questions

1. **Physical verification of stock in a business was done on 14th June, 2020. The value of the stock was ₹ 96,00,000. The following transactions took place between 14th June to 30th June, 2020:**
   (i) Out of the goods sent on consignment, goods at cost worth ₹ 4,80,000 were unsold.
   (ii) Purchases of ₹ 8,00,000 were made out of which goods worth ₹ 3,20,000 were delivered on 5th July, 2020.
   (iii) Sales were ₹27,20,000, which include goods worth ₹ 6,40,000 sent on approval. Half of these goods were returned before 30th June, 2020, but no information is available regarding the remaining goods.
   (iv) Goods are sold at cost plus 25%. However goods costing ₹ 4,80,000 had been sold for ₹ 2,40,000.
   You are required to determine the value of stock on 30th June, 2020.

Ans.: **Statement of Valuation of Stock on 30th June, 2020**

	₹	₹
Value of stock as on 14th June, 2020		96,00,000
Add: Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14th June, 2020 to 30th June, 2020	4,80,000	
Goods in transit on 30th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ₹ 3,20,000)	2,56,000	15,36,000
		1,11,36,000
Less: Cost of sales during the period from 14th June, 2020 to 30th June, 2020	24,00,000	

Sales (₹ 27,20,000-₹ 3,20,000) Less: Gross profit Value of stock as on 30th June, 2020	1,92,000	22,08,000 89,28,000

Working Notes:

1.	Calculation of normal sales:	₹	₹
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	3,20,000	5,60,000
			21,60,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x ₹ 21,60,000		4,32,000
	Less: Loss on sale of particular (abnormal) goods (4,80,000 less 2,40,000)		2,40,000
	Gross profit		1,92,000

2. Universe Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 31st December, 2020 and some other information is available to you:

(i) The cost of stock on 31st December, 2020 as shown by the inventory sheet was Rs.2,40,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

  (a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 18,000

  (b) The total of a page had been under cast by Rs. 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2021 totalled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 31st December, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totalled Rs. 12,000.

(iv) Sales invoiced to customers totalled Rs. 2,70,000 from January to March, 2021. Of this Rs. 15,000 related to goods dispatched before 31st December, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totalled Rs. 12,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

Ans.:

Valuation of Physical Stock as at March 31, 2021

		Rs.
Stock at cost on 31.12.2020		2,40,000
Add: (1) Under casting of a page total	600	
(2) Goods purchased and delivered during January – March, 2021 Rs. (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return Rs. (3,000 – 600)	2,400	2,16,000
		4,56,000
Less:(1) Overcasting of a page total Rs. (18,000 – 15,000)	3,000	
(2) Goods sold and dispatched during January – March, 2021 Rs. (2,70,000 – 15,000 + 12,000) = 2,67,000 Less: Profit margin 2,67,000x25/125 = 53,400	2,13,600	
		(2,16,600)
Value of stock as on 31st March, 2021		2,39,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 12,000 goods delivered in March 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

3. Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33% on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2019.
You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles.
Ans.:

Statement showing the valuation of stock
As on 31st March, 2019

		₹
A	of Stock as on 10th April, 2019	1,67,500
B	Add: Cost of sales after 31st March, till stock taking (₹6,875–1,719)	5,156
C	Less: Purchases for the next period (net)	8,100
D	Less: Cost of Sales Returns	225
E	Less: Loss on revaluation of slow moving inventories	600
F	Less: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2019	1,63,431

Note: Profit margin of 33.33% on cost means 25% on sale price.

4. **A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.**
(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)
(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)
(iii) Sales Return ₹ 1,000.
(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.
(vi) Goods are sold by the trader at a profit of 20% on sales.
You are required to ascertain the value of Inventory as on 31st March, 2020.
Ans.:

		₹
Value of Stock as on 15th April, 2020		50,000
Add: Cost of sales during the period from 31/3/2020 to 15/4/2020 Sales (₹ 41,000 – ₹ 1,000) Less: Gross Profit (20% of ₹ 40,000)	40,000 8,000	32,000

Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
		86,800
Less: Purchases during the period from 31/3/2020 to 15/4/2020	5,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
		79,366

5. From the following particulars ascertain the value of inventories as on 31st March, 2020:

Inventory as on 1st April, 2019	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Ans.

Statement of Inventory in trade as on 31st March, 2020

	₹	₹
Inventory as on 31st March, 2019	3,50,000	
Less: Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2020		1,75,00

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2021 on which date the total cost of goods in his godown came to ₹ 1,50,000. The following facts were established between 31st March and 15th April, 2021.

(a) Sales ₹ 1,23,000 (including cash sales ₹ 30,000)

(b) Purchases ₹ 15,102 (including cash purchases ₹ 5970)

(c) Sales Return ₹ 3,000.

(d) On 15th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(e) The trader had also received goods costing ₹ 24,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales. Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2021.

Ans:

	Rs	**Rs.**
Value of stock as on 15th April, 2021		1,50,000
Add: (1) Cost of Sales during the period from 31st Mar, 2021 to 15th Apr, 2021 Sales (1,23,000-3,000)	1,20,000	
Less: Gross Profit (20% of 1,20,000)	24,000	96,000

Cost of goods sent on approval basis (80% of 18,000)		14,400
		260400
Less: (1) Purchases during the period from 31st Mar, 2021 to 15th Apr, 2021	15,102	
(2) Unsold stock out of goods received on consignment basis (30% of 24,000)	7,200	22,302
		2,38,098

7. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April,2022 on which date the total cost of goods in his godown came to ₹ 2,50,000. The following facts were established between 31st March and 15th April,2022.

(a) Sales ₹ 2,05,000 (including cash sales ₹ 50,000)

(b) Purchases ₹ 25,170 (including cash purchases ₹ 9,950)

(c) Sales Return ₹ 5,000

(d) On 15th March, goods of the sale value of ₹ 50,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April

(e) The trader had also received goods costing ₹ 40,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March,2022

Ans:

	Rs	**Rs.**
Value of stock as on 15th April, 2022		2,50,000
Add: (1) Cost of Sales during the period from 31st March, 2022 to 15th april, 2022 Sales (2,05,000-5,000)	2,00,000	
Less: Gross Profit (20% of 200,000)	40,000	1,60,000
Cost of goods sent on approval basis (80% of 30,000)		24,000
		434000
Less: (1) Purchases during the period from 31st March. 2022 to 15th April, 2022	25,170	
(2) Unsold stock out of goods received on consignment basis (30% of 40,000)	12,000	37,170
		3,96,830

8. Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at ₹ 5,00,000. It has been found that;

(a) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back

(b) Purchases are entered in the Purchase Book on the day the Invoices are received.

(c) Sales between 1st April 2022 to 9th April 2022 amounting to ₹ 80,000 as per Sales Day Book.

(d) Free samples for business promotion issued during 1st April 2022 to 9th April 2022 amounting to ₹ 16,000 at cost.

(e) Purchases during 1st April 2022 to 9th April 2022 amounting to ₹ 40,000 but goods amounts to ₹ 8,000 not received till the date of stock taking.

(f) Invoices for goods purchased amounting to ₹ 80,000 were entered on 28th March 2022 but the goods were not included in stock

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March, 2022

Ans:

	Rs	Rs.

Value of stock as on 10th April, 2022		500000
Add: (1) Cost of Sales during the period from 1st April, 2022 to 9th april, 2022 Sales (2,05,000-5,000)	80000	
Less: Gross Profit (20% on sales)	(16000)	64000
Free sample		16000
		58000
Less: (1) Purchase actually received during the intervening period		
Purchases from 1.4.2022 to 9.4.2022	40000	
Less: Goods not received upto 9.4.2022	(8000)	(32000)
		548000
Add: Purchases during March, 2022 but not recorded in stock		80000
Value of physical stock as on 31.3.2022		628000

9. Stock taking of ABC Stores for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 3,35,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 13,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 18,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 600 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 2,250 which should be taken at ₹ 1,050 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 3,100 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 2,500 on 31st March, 2023.
You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2023. Closing stock is valued by ABC Stores on generally accepted accounting principles.

Ans: **Statement showing the valuation of stock as on 31st March, 2023**

	Rs
Value of Stock as on 10th April, 2023	335000
Add: Cost of sales after 31st March, till stock taking (₹ 13,750 – ₹ 3,438)	10312
Less: Purchases for the next period (net)	16200
Less: Cost of Sales Returns	450
Less: Loss on revaluation of slow moving inventories	12000
Less: Loss on revaluation of slow moving inventories	600
Value of Stock on 31st March, 2023	326862

10. The following are the details of the spare parts of an Oil Mill:

1-1-2021	**Opening Inventory**	**Nil**
1-1-2021,	**Purchases**	**10 units @ ₹ 300 per unit**
15-1-2021	**Issued for consumption**	**5 unit**
1-2-2021	**Purchases**	**20 units @ ₹ 400 per unit**
15-2-2021	**Issued for consumption**	**10 units**
20-2-2021	**Issued for consumption**	**10 units**

Find out the value of Inventory as on 31.3.2021,if the company follows Weighted Average Method.

Ans:

Oil Mill

Calculation of the value of Inventory as on 31-3-2021

	Receipts			Issues			Balance		
Date	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**

1-1-2021	Balance							Nil	
1-1-2021	10	300	3000				10	300	3000
15-1-2021				5	300	1500	5	300	1500
1-2-2021	20	400	8000				25	380	9500
15-2-2021				10	380	3800	15	380	5700
20-2-2021				10	380	3800	5	380	1900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹380 = ₹1,90

11. Zed Enterprises furnishes the following information for the year ended 31st March,2021.

Value of Stock as on 1st April,2020	2800000
Purchases during the year	13840000
Manufacturing Expenses during the year	2800000
Sales during the year	20820000

The following further information is also provided: (i) At the time of valuing stock on 31 st March,2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March,2021 for ₹ 6,40,000. (ii) Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March,2021.

Ans:

Statement of Valuation of Stock as on 31st March, 2021

	Rs	**Rs.**
Value of stock as on 1st April, 2020		2800000
Add: Purchases during the year		13840000
Add: Manufacturing expenses during the above period		2800000
		19440000
Less: Cost of sales during the period:		
Sales	20880000	
Less: Gross profit	5140000	15740000
Value of stock as on 31.3.2021		3700000

Working Note:

	Rs.
Calculation of gross profit:	
Gross profit on normal sales 25/100 x (2,08,80,000 -6,40,000)	50,60,000
Gross profit on the particular (abnormal) item 6,40,000 - (8,00,000 – 2,40,000)	80000
	5140000

The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2021.

TOPIC 5: DEPRECIATION

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

1. **Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.**

   Ans:

   True: In the early periods of useful life of fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

B. Solve Following Questions

1. **Write short notes on the following: Machine Hour Rate method of calculating depreciation.**

   Ans.:

   Machine Hour Rate method of calculating depreciation:

   Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

   $$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

   $$\frac{₹10,00,000}{50,000 \text{ hours}}$$

   $$= ₹\ 20 \text{ per hour}$$

   If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

2. **A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year.**

   Ans.:

   In the books of Firm

   Calculation of depreciation for 5th year

   (a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000
   (b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4) = ₹ 6,00,000.
   (c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000
   (d) Remaining useful life as per previous estimate = 6 years
   (e) Remaining useful life as per revised estimate = 8 years
   (f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

C. Solve Following Questions

1. **M/s Surya Transport purchased 10 Innova cars at ₹ 4,50,000 each on 1st April 2017. On October 1st 2019, one of the car is involved in an accident and is completely destroyed and ₹ 2,70,000 is received from the insurance in full settlement. On the same date, another car is purchased by the company for the sum of ₹ 5,00,000. The company writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.**

You are required to prepare the Innova cars account for years ended 31st Dec, 2019 and 31st Dec. 2020.

Ans.

Innova Cars A/c

Date	Particulars	Amount		Date Particulars	Amount
2019 Jan-01	To balance b/d	29,25,000	2019 Oct-01	By bank A/c	2,70,000
Oct-01	To Profit & Loss A/c (Profit on settlement of car)	45,000	Oct-01	By Depreciation on lost assets	67,500
Oct-01	To Bank A/c	5,00,000	Dec-31	By Depreciation A/c	8,35,000
			Dec-31	By balance c/d	22,97,500
		34,70,000			34,70,000
2020 Jan-01	To balance b/d		2020 Dec-31	By Depreciation A/c By balance c/d	9,10,000 13,87,500
		22,97,500			22,97,500

Working Note:

1. To find out loss on Profit on settlement of Innova Car

	₹
Original cost as on 1.4.2017	4,50,000
Less: Depreciation for 2017	67,500
	3,82,500
Less: Depreciation for 2018	90,000
	2,92,500
Less: Depreciation for 2019 (9 months)	67,500
	2,25,000
Less: Amount received from Insurance company	2,70,000
	45,000

2. M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000. Another machine was purchased for Rs. 1,60,000 on 1st July, 2017. On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019. Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Ans.:

In the books of M/s. JP Wires Co.

Machinery Account

Date	Particulars	Amount	Date	Particulars	Amount
1.1.2017	To Bank A/c To Bank A/c (Erection charges)	3,20,000 80,000	31.12.2017	By Depreciation A/c (Rs.80,000+ Rs. 16,000)	96,000
1.7.2017	To Bank A/c	1,60,000	31.12.2017	By Balance c/d (Rs.3,20,000+ Rs.1,44,000)	4,64,000
		5,60,000			5,60,000
01.01.18	To Balance b/d	4,64,000	31.12.2018	By Depreciation A/c (Rs.80,000+ Rs. 32,000)	1,12,000
			31.12.2018	By Balance c/d (Rs.2,40,000+Rs.1,12,000)	3,52,000
		4,64,000			4,64,000
01.01.19	To Balance b/d	3,52,000	01.07.2019	By Bank A/c	1,60,000
30.9.19	To Bank A/c	60,000		By Profit and Loss A/c (Loss on Sale – W.N.)	40,000

			31.12.2019	By Depreciation A/c (Rs.40,000+32,000+3,000)	75,000
				By Balance c/d (Rs. 80,000 + Rs. 57,000)	1,37,000
		4,12,000			4,12,000
01.01.20	Balance b/d	1,37,000	31.12.2020	By Depreciation A/c (Rs. 12,000 + Rs. 8,550)	20,550
				By Balance c/d (Rs. 68,000 + Rs. 48,450)	1,16,450
		1,37,000			1,37,000

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
Cost	4,00,000	1,60,000	60,000
Depreciation for 2017	80,000	16,000	
Written down value as on 31.12.2017	3,20,000	1,44,000	
Depreciation for 2018	80,000	32,000	
Written down value as on 31.12.2018	2,40,000	1,12,000	
Depreciation for 2019	40,000	32,000	3,000
Written down value as on 31.12.2019	2,00,000	80,000	57,000
Sale proceeds	1,60,000		
Loss on sale	40,000		

3. **M/s Roxy purchased a brand new machinery on 1st January 2017 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2017 for ₹ 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for ₹ 2,50,000. Machinery was purchased and installed on 30th September 2019 for ₹ 60,000.**
Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year.
Ans.:

In the books of M/s Roxy
Machinery A/c

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.19	To Balance b/d	4,56,000	01.07.19	By Bank A/c	2,50,000
30.09.19	To Bank A/c	60,000		By P&L A/c – Loss on Sale	50,000
			31.12.19	By Depreciation	37,500
				By Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.20	To Balance b/d	1,78,500	31.12.20	By Depreciation	26,775
			31.12.20	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
Date of Purchase	01.01.2017	01.07.2017	30.09.2019
Original Cost Depreciation for 2017 (SLM)	4,00,000 (40,000)	1,60,000 (8,000)	60,000
WDV on 31.12.2017 Depreciation for 2018 (SLM)	3,60,000 (40,000)	1,52,000 (16,000)	
WDV on 31.12.2018	3,20,000	1,36,000	

Depreciation for 2019 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2019 (30th June for Machine 1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2020 (WDV @ 15%)		(18,000)	(8,775)
WDV on 31.12.2020		**1,02,000**	**49,725**

4. **X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p .a. On written down value. Prepare Machinery account for the years 2017 and 2018.**

Ans:

Machinery Account

2017		**Dr. ₹**	**2017**		**Cr. ₹**
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000
Jan. 1	To Bank A/c – erection charges	20,000		By Balance c/d	6,40,000
July 1	To Bank A/c	2,00,000			
		7,00,000			**7,00,000**
2018			2018		
Jan. 1	To Balance b/d	6,40,000	July 1	By Depreciation on sold machine	22,500
July 1	To Bank A/c	5,00,000		By Bank A/c	2,90,000
				By Profit and Loss A/c	1,37,500
			Dec. 31	By Depreciation A/c	44,000
				By Balance c/d	6,46,000
		11,40,000			**11,40,000**

Working Note:

Book Value of Machines

	Machine I	**Machine II**	**Machine III**
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000
Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

5. **M/s. Seven Seas purchased a second-hand machine on 1st April, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1st Oct, 2017. On 1st Oct, 2019, the machine installed on 1st April, 2017 was sold for ₹ 1,00,000. Another machine for ₹30,000 was purchased and was installed on 31st December, 2019. Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2021.**

Ans: **Machinery Account in the books of M/s. Seven Seas**

Date	**Particulars**	**Dr. ₹**	**Date**	**Particulars**	**Cr. ₹**
1.4.2017	To Bank A/c	1,60,000	31.03.2018	By Depreciation A/c (20,000+4,000)	24,000
1.4.2017	To Bank A/c –	40,000			

1.10.2017	erection charges To Bank A/c	80,000	31.03.2018	By Balance c/d (1,80,000+76,000)	2,56,000
		2,80,000			**2,80,000**
1.4.2018	To Balance b/d	2,56,000	31.03.2019 31.03.2019	By Depreciation A/c (20,000+8,000) By Balance c/d (1,60,000+68,000)	28,000 2,28,000
		2,56,000			**2,56,000**
1.4.2019 31.12.2019	To Balance b/d To Bank A/c	2,28,000 30,000	1.10.2019 1.10.2019 31.03.2020 31.03.2020	By Bank A/c By Profit & Loss A/c (Loss on Sale – W.N. 1) By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750) By Balance c/d (60,000+29,250)	1,00,000 50,000 18,750 89,250
		2,58,000			**2,58,000**
1.4.2020	To balance b/d	89,250	31.3.2021 31.3.2021	By Depreciation A/c (9,000+4,387.5) By Balance c/d (51,000+24,862.5)	13,387.5 75,862.5
		89,250			89,250

Working Notes: Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
Cost Depreciation for 2017-18	2,00,000 20,000	80,000 4,000	30,000
Written down value as on 31.03.2018 Depreciation for 2018-19	1,80,000 20,000	76,000 8,000	
Written down value as on 31.03.2019 Depreciation for 2019-20	1,60,000 10,000	68,000 8,000	 750
Written down value as on 01.10.2019 Written down value as on 31.03.2020 Sale proceeds	1,50,000 1,00,000	 60,000	 29,250
Loss on sale	50,000		

6. A Firm purchased an old Machinery for ₹37,000 on 1st January,2019 and spent ₹3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹28,000 and the same day a new machinery costing ₹25,000 was purchased. On 1 st July,2022, the machine which was purchased on 1st July,2020 was sold for ₹ 2,000.
Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January,2020 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January,2019.

Ans: **In the books of Firm**

Machinery Account

Date	Particulars	Dr. ₹	Date	Particulars	Cr. ₹
1.1.2019	To bank A/c To Bank A/c (overhauling charges)	37,000 3,000	31.12.2019 31.12.2019	By Depreciation A/c By Balance c/d	4,000 36,000
		40,000			**40,000**

1.1.2020	To balance b/d	36,000	31.12.2020	By Depreciation A/c (5,400+750)	6,150
1.7.2020	To bank A/c	10,000	31.12.2020	By balance c/d (30,600+9,250)	39,850
		46,000			**46,000**
1.1.2021	To Balance b/d	39,850	1.7.2021	By bank A/c(sales)	28,000
1.7.2021	To bank A/c	25,000	1.7.2021	By Profit and loss A/c (loss on sale – WN1)	305
			31.12.2021	By Depreciation A/c (2,295+1,388+1,875)	5,558
				By Balance c/d (7,862+23,125)	30,987
		64,850			**64,850**
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c(sales)	2000
			1.7.2022	By Profit and loss A/c (Loss on sale – WN1)	5,272
			31.12.2022	By Depreciation A/c (590+3,469)	4,509
			31.12.2022	By Balance c/d	19,656
		30,987			30,987

Working Notes: Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
Cost	40,000	10,000	25,000
Depreciation for 2019	4,000		
Written down value as on 31.03.2019	36,000		
Purchase 1.7.2020		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.03.2020	30,600	9,250	
Depreciation for 6 months	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

7. **A Plant & Machinery costing ₹10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year**

Ans: In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹10,00,000 / 10 = ₹1,00,000

(b) WDV of the machine at the end of fourth year = ₹10,00,000 – (₹1,00,000 × 4) = ₹6,00,000.

(c) Depreciable amount after revaluation = ₹6,00,000 + ₹40,000 = ₹6,40,000
(d) Remaining useful life as per previous estimate = 6 years
(e) Remaining useful life as per revised estimate = 8 years
(f) Depreciation for the fifth year and onwards = ₹6,40,000 / 8 = ₹80,000.

8. A Plant & Machinery costing ₹10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

Ans: In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹10,00,000 / 10 = ₹1,00,000
(b) WDV of the machine at the end of fourth year = ₹10,00,000 – (₹ 1,00,000 × 4) = ₹6,00,000.
(c) Depreciable amount after revaluation = ₹6,00,000 + ₹40,000 = ₹6,40,000
(d) Remaining useful life as per previous estimate = 6 years
(e) Remaining useful life as per revised estimate = 8 years
(f) Depreciation for the fifth year and onwards = ₹6,40,000 / 8 = ₹80,000.

9. A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2019 and spent ₹ 3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹ 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2022, the machine which was purchased on 1st July, 2020 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2020 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2019.

Ans:

Date	Particulars	Dr. ₹	Date	Particulars	Cr. ₹
1.1.2019	To bank A/c	37,000	31.12.2019	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2019	By Balance c/d	36,000
		40,000			**40,000**
1.1.2020	To balance b/d	36,000	31.12.2020	By Depreciation A/c (5,400+750)	6,150
1.7.2020	To bank A/c	10,000	31.12.2020	By balance c/d (30,600+9,250)	39,850
		46,000			**46,000**
1.1.2021	To Balance b/d	39,850	1.7.2021	By bank A/c(sales)	28,000
1.7.2021	To bank A/c	25,000	1.7.2021	By Profit and loss A/c (loss on sale – WN1)	305
			31.12.2021	By Depreciation A/c (2,295+1,388+1,875)	5,558
				By Balance c/d (7,862+23,125)	30,987
		64,850			**64,850**
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c(sales)	2000
			1.7.2022	By Profit and loss A/c (Loss on sale – WN1)	5,272
			31.12.2022	By Depreciation A/c	4,509

			31.12.2022	(590+3,469) By Balance c/d	19,656
		30,987			30,987

Working Notes: Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
Cost Depreciation for 2019	40,000 4,000	10,000	25,000
Written down value as on 31.03.2019 Purchase 1.7.2020 Depreciation for 2020	36,000 5,400	 10,000 750	
Written down value as on 31.03.2020 Depreciation for 6 months	30,600 2,295	9,250	
Written down value as on 1.7.2021 Sale proceeds	28,305 28,000		
Loss on sale Purchase 1.7.2021 Depreciation for 2021 (6 months)	305	 1,388	 25,000
Written down value as on 31.12.2021 Depreciation for 6 months in 2022		7,862 590	23,125
Written down value as on 1.7.2022 Sale proceeds		7,272 2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

10. On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.
The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus.
Ans:

Calculation of Gain/Loss on Bus damaged by Fire

Particulars	Amount
Original cost as on 1.1.2019	800000
Less depreciation for 2018-19	(40000)
WDV as on 31st march. 2019	760000
Less depreciation for 2019-20	152000
WDV as on 31st march, 2020	608000
Less depreciation for 2020-21	30400
WDV as on 1st July 2020	577600
Less amount received from insurance company	600000
Gain on bus damaged by fire	22400

Calculation of depreciation for the year ended 31st March,2021

	Machine I damaged on 1st July, 2020(800000)	Machine II purchased on 1st July, 2020(1000000)
Book value as on 1st April, 2020	608000	
Purchased on 1st July 2020		1000000

Depreciation @20% machines	30400 for 3 months	1500000 for 9 months

Total depreciation ₹ 1,80,400

11. **The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1 st 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 1 st 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 1 st 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
Ans:

Plant and Machinery Account for the year ended 31st March,2021

Date	Particulars	Amount	Date	Particulars	Amount
1-4-20	To balance b/d	9500000	1-9-20	By bank	375000
1-9-20	To bank	1444600		By depreciation on sold machine	73811
	(1400000+44600)			By loss on sale	1322659
				By loss on scrapping the machine	1884562
				By dep. on scrapped machinery	81938
				By depreciation	660471
				By balance c/d	6546159
		10944600			**10944600**

Working Note:

1. Calculation of loss on sale of machine on 01-09-2020		
Cost on 1-4-2018		2187000
Less: Depreciation @ 10% on ₹ 21,87,00		(218700)
W.D.V. on 31-03-2019		1968300
Less: Depreciation @ 10% on ₹ 19,68,300		(196830)
W.D.V. on 31-03-2020		1771470
Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73811)
		1697659
Less: Sale proceeds on 01-09-2020		(375000)
Loss		1322659
2. Calculation of loss on scrapped machine		
Cost on 1-4-2019		2185000
Less: Depreciation @ 10% on ₹ 21,85,000		(218500)
W.D.V. on 31-3-2020		1966500
Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81938)
Loss		1884562
3. Depreciation		
Balance of machinery account on 1-4-2020		9500000
Less: W.D.V of machinery sold	1771470	
W.D.V. of machinery scrapped	1966500	(3737970)
Balance of other machinery after sale and scrap on 1-4-2020		5762030

Depreciation @ 10% on ₹ 57,62,030 for 12 months		576203
Depreciation @ 10% on ₹ 14,44,600 for 7 months		84268
		660471

TOPIC 6: BILLS OF EXCHANGE

A. State with reasons, whether the following statements are true or false:

1. **Discount at the time of retirement of a bill is a gain for the drawee.**

   Ans.:

   True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer

2. **Bills receivable and bills payable books are type of subsidiary books.**

   Ans.:

   True - Yes they are types of subsidiary books which is alternate to the journals.

3. **In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.**

   Ans.:

   True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

4. **In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.**

   Ans:

   False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

B. Solve the following Questions

1. **Write short notes on any two of the following:**

   A. Bill of exchange and the various parties to it.

   Ans.:

   A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

   There are three parties to a bill of exchange:

   (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

   (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

   (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

   B. Retirement of bills of exchange:

   Ans.:

   Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

   C. Noting Charges.

   Ans.:

   It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

C. Solve the following Questions

1. **Mr. Z accepted a bill for Rs. 50,000 drawn on him by Mr. Y on 1st August, 2020 for 3 months. This was for the amount which Z owed to Y. On the same date Mr. Y got the bill discounted at his bank for Rs. 49,000. On the due date, Z approached Y for renewal of the bill. Mr. Y agreed on condition that Rs. 10,000 is paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Z should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Z became insolvent and his estate paid 40%.**

   Prepare Journal Entries in the books of Mr. Y.

   Ans.:

Journal Entries in the Books of Mr. Y

Date	Particulars	Dr.	Cr.
2020 Aug. 1	Bills Receivable A/c …………………... Dr. To Z A/c (Being the acceptance received from Z to settle his account)	50,000	 50,000
Aug. 1	Bank A/c …………………Dr. Discount A/c ……………Dr. To Bills Receivable (Being the bill discounted for Rs. 49,000 from bank)	49,000 1,000	 50,000
Nov. 4	Z A/c …………Dr To Bank Account (Being the Z's acceptance is to be renewed)	50,000	 50,000
Nov. 4	Z A/c …………Dr To Interest Account (Being the interest due from Z for 3 months i.e., 40,000x3/12× 12%=12,000)	1,200	 1,200
Nov. 4	Cash A/c …………Dr. Bills Receivable A/c …. Dr. To Z A/c (Being amount and acceptance of new bill received from Z)	11,200 40,000	 51,200
Dec. 31	Z A/c ………Dr. To Bills Receivable A/c (Being Z became insolvent)	40,000	 40,000
Dec. 31	Cash A/c ………………….. Dr. Bad debts A/c ………. Dr. To Z A/c (Being the amount received and written off on Z's insolvency)	16,000 24,000	 40,000

2. **Hari accepted the following bills drawn by Vinny:**

   On 8th March, 2020 Rs. 12,000 for 4 months.
   On 16th March, 2020 Rs. 15,000 for 3 months.
   On 7th April, 2020 Rs. 18,000 for 5 months.
   On 17th May, 2020 Rs. 15,000 for 3 months.
   He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Hari wants to save Rs. 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 471.

   Ans.:

   Taking 19.6.2020 as a Base date

Transaction Date	Due Date	Amount	Days	Amount
8.3.2020	11.7.2020	12,000	22	2,64,000
16.3.2020	19.6.2020	15,000	0	0
7.4.2020	10.9.2020	18,000	83	14,94,000

17.5.2020	20.8.2020	15,000	62	9,30,000
		60,000		26,88,000

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 19.6.2020 + Rs. 26,88,000/Rs.60,000

= 19.6.2020 + 44.8 days (or 45 days approximately)

= 3.8.2020

Hari wants to save interest of Rs. 471. The yearly interest is Rs. 60,000 × 9% = Rs. 5,400. Assume that days corresponding to interest of Rs. 471 are Y.

Then, 5,400 × Y/365 = Rs. 471 or Y = 471 × 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Hari wants to save Rs. 471 by way of interest, he should prepone the payment of amount involved by 32 days from the Average Due Date. Hence, he should make the payment on 2.7.2020 (3.8.2020 – 32 days).

3. On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

Ans.:

Journal Entries in the books of Akshay

2018			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c Bills receivable (No. 2) A/c To Vishal A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)	Dr. Dr.	16,000 25,000	 41,000
Mar 4	Vishal's A/c To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	16,000	 16,000
Mar 4	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	16,400	 400 16,000
Mar 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	Dr. Dr.	24,750 250	 25,000
May 7	Vishal's A/c To Bills receivable (No. 3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	16,400	 16,400
May 7	Bank A/c To Vishal's A/c (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	8,200	 8,200

May 7	Bad debts A/c To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	8,200	8,200

4. Write short notes on the: Trade bill vs. Accommodation bill.

Ans.:

Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

5. Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman

Ans.:

In the books of Siriman

Journal Entries

Particulars		L.F.	Dr. ₹	Cr. ₹
Bills Receivable A/c To Rita (Being a 3 month's bill drawn on Rita for the amount due)	Dr.		1,00,000	1,00,000
Bank A/c Discount A/c To Bills Receivable A/c (Being the bill discounted)	Dr. Dr.		99,000 1,000	1,00,000
Rita To Bank A/c (Being the bill cancelled up due to Rita's inability to pay it)	Dr.		1,00,000	1,00,000
Rita To Interest A/c (Being the interest due on ₹ 50,000 @ 12% for 3 months)	Dr.		1,500	1,500
Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)			51,500	51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)			50,000	50,000

Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)		50,000	 50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)		20,000 30,000	 50,000

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

(i) **Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.**

(ii) **G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.**

(iii) **Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.**

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

Ans:

Books of S. Samarth

Journal Entries

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account Interest Account To Cash A/c To Bills Payable Account (Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 as interest)	Dr. Dr.	1,250 25	 500 775
(ii)	(a) G. Gupta To Sahni (G. Gupta's acceptance for ₹ 4,000 endorsed to Sahni dishonoured, ₹ 20 paid by Sahni as noting charges)	Dr.	4,020	 4,020
	(b) Sahni To Bank Account (Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)	Dr.	4,020	 4,020
(iii)	Bank Account Discount Account To Bills Receivable Account (Payment received from Harshad against his acceptance for ₹ 5,000. Allowed him a discount of ₹ 20)	Dr. Dr.	4,980 20	 5,000
(iv)	Bills Payable Account To Bills Receivable Account (Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier)	Dr.	19,000	 19,000

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

Ans:

Date	Particulars		Debit	Credit
2020 April 15	Bills receivable account To Anup's account (Being acceptance received from Anup for mutual accommodation)	Dr.	15,000	 15,000
April 18	Bank account Discount account To Bills receivable account (Being bill discounted with bank)	Dr. Dr.	14,700 300	 15,000
April 18	Anup's account To Bank account To Discount account (Being one-third proceeds of the bill sent to Anup)	Dr.	5,000	 4,900 100
July 18	Anup's account To Bills payable account (Being Acceptance given)	Dr.	17,500	 17,500
July 18	Bank account Discount account (400x/3/4) To Anup's account (Being proceeds of second bill received from Anup)	Dr. Dr.	2,825 300	 3,125
Oct 21	Bills payable account To Anup's account (Being bill dishonoured due to insolvency)	Dr.	17,500	 17,500
Oct 31	Anup's account (10,000+3,125) To Bank account To Deficiency account (Being insolvent, only 50% amount paid to Anup)	Dr.	13,125	 6,562.50 6,562.50

8. On 1st January 2021, Swapnil draws two bills of exchange for ₹ 32,000 and ₹ 50,000. The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Swapnil.

Ans: **Journal Entries in the books of Swapnil**

Date	Particulars		Debit	Credit
2021 Jan 1.	Bills receivable account A/c Bills receivable account A/c To Vishal A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)	Dr.	32,000 50,000	 82,000
March 4	Vishal's account To Bills receivable account (Being the reversal entry for bill No.1 on renewal)	Dr.	32,000	 32,000
March 4	Bills receivable account To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	32,800	 800 32,000

March 25	Bank account Discount account To Bills Receivable (Being the amount received on retirement of bills No.2 before the due date)	Dr.	49,500 500	 50,000
May 7	Vishal's account To Bills Receivable A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	32,800	 32,800
May 7	Bank account To vishal's account ((Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	16,400	 16,400
May 7	Bad Debts A/s To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	16,400	 16,400

9. Mr. Tanu accepted a bill for ₹ 1,00,000 drawn on him by Mr. Manu on 1st August,2021 for 3 months. This was for the amount which Tanu owed to Manu. On the same date Mr. Manu got the bill discounted at his bank for ₹ 98,000.

On the due date, Tanu approached Manu for renewal of the bill. Mr. Manu agreed on condition that ₹ 20,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Tanu should accept a new bill for 3 months. These arrangements were carried through. On 31st December,2021, Tanu became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. Manu.

Ans:

Date	Particulars		Debit	Credit
2021 Aug 1	Bills receivable account To Tanu's account (Being acceptance received from Tanu for mutual accommodation)	Dr.	1,00,000	 1,00,000
Aug 1	Bank account Discount account To Bills receivable account (Being the bill discounted for ₹ 98,000 from bank)	Dr. Dr.	95,000 200	 1,00,000
Nov 4	Tanu's account To Bank account (Being the Tanu's acceptance is to be renewed)	Dr.	100000	 100000
Nov 4	Tanu's account To Interest account (Being the interest due from Tanu for 3 months i.e., 80,000x3/12× 12%=240)	Dr.	2400	 2400
Nov 4	Bank account Bills Receivable account To Tanu's account (Being amount & acceptance of new bill received from Tanu)	Dr. Dr.	22,400 80,000	 1,02,400
Dec 31	Tanu account To Bills Receivable account (Being Tanu became insolvent)	Dr.	80,000	 80,000

Dec 31	Bank account Dr. Bad Debts A/c Dr. To Tanu A/c (Being the amount received and written off on Tanu's insolvency)	32,000 48,000	 80,000

10. Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹ 2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Pratika.

Ans:

Date	Particulars	Debit	Credit
2021 Aug 1	Bills receivable account Dr. To Tanu's account (Being acceptance received from Tanu for mutual accommodation)	1,00,000	 1,00,000
Aug 1	Bank account Dr. Discount account Dr. To Bills receivable account (Being the bill discounted for ₹ 98,000 from bank)	95,000 200	 1,00,000
Nov 4	Tanu's account Dr. To Bank account (Being the Tanu's acceptance is to be renewed)	100000	 100000
Nov 4	Tanu's account Dr. To Interest account (Being the interest due from Tanu for 3 months i.e., 80,000x3/12× 12%=240)	2400	 2400
Nov 4	Bank account Dr. Bills Receivable account Dr. To Tanu's account (Being amount and acceptance of new bill received from Tanu)	22,400 80,000	 1,02,400
Dec 31	Tanu account Dr. To Bills Receivable account (Being Tanu became insolvent)	80,000	 80,000
Dec 31	Bank account Dr. Bad Debts A/c Dr. To Tanu A/c (Being the amount received & written off on Tanu's insolvency)	32,000 48,000	 80,000

11. Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹ 2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate. Pass journal entries (with narration) in the books of Pratika.

Ans:

Date	Particulars	Debit	Credit

2022 Oct 1	Bills receivable account To Tanu's account (Being a 3 month's bill drawn on Priya for the amount due)	Dr.	5,00,000	5,00,000
Oct 3	Bank account Discount account To Bills receivable account (Being the bill discounted)	Dr. Dr.	495000 5000	5,00,000
Jan 4	Priya's account To Bank account (Being the Priya's acceptance is to be renewed)	Dr.	500000	500000
Jan 4	Priya's account To Interest account (Being the interest due on ₹ 2,50,000 @ 10% for 3 months)	Dr.	6250	6250
Jan 4	Bank account To Tanu's account (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	256250	256250
Jan 4	Bills Receivables A/c To Priya a /c (Being the new bill drawn for the balance)	Dr.	250000	250000
March 7	Priya A/c To Bills Receivables A/c (Being the amount received and written off on Tanu's insolvency)	Dr.	250000	250000
March 7	Bank A/c Bad Debts A/c To Bills Receivables A/c (Being the receipt of 60% of the amount due on the bill from Priya's estate)	Dr. Dr.	150000 100000	250000

12. Mr. Y accepted a bill for ₹ 40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. A got the bill discounted at his bank for ₹ 39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%

You are required to prepare Journal Entries in the books of Mr. X

Ans:

Date	Particulars		Debit	Credit
2022 Aug 1	Bills receivable account To Y's account (Being the acceptance received from Y to settle his account))	Dr.	40,000	40,000
Aug 1	Bank account Discount account To Bills receivable account (Being the bill discounted for ₹ 39,200 from bank)	Dr. Dr.	39200 800	40000
Nov 4	Y's account To Bank account (Being the Y's acceptance is to be renewed)	Dr.	40000	40000
Nov 4	Y's account To Interest account (Being the interest due from Y for 3 months i.e., 32,000x3/12× 12% = 960)	Dr.	960	960

Nov 4	Cash account Dr. Bills Receivables To Y's account (Being amount & acceptance of new bill received from Y)	8960 32000	 40960
Dec 31	Y's A/c Dr. To Bills Receivables A/c (Being Y became insolvent)	32000	 32000
Dec 31	Cash A/c Dr. Bad Debts A/c Dr. To Y A/c (Being the amount received and written off on Y's insolvency)	12800 19200	 32000

13. On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

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

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

Ans:

Date	Particulars	Debit	Credit
May,12	B's account Dr. To Sales account (Being goods sold to B on credit)	36470	 36470
May,12	Bills receivable (No. 1) A/c Dr. Bills receivable (No. 2) A/c Dr. To B's account (Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)	16470 20000	 36470
June 5	Bills for Collection A/c To Bills receivable (No.1) A/c To Bills receivable (No.2) A/c (Being both the bills sent to bank for collection)	36470	 16470 20000
June 15	Bank A/c To Bills for Collection A/c (Being amount received on retirement of Bills receivable No. 1)	16470	 16470
Aug 14	B's To Bills for Collection a/c To Noting Charges or Bank Charges (Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)	20020	 20000 20
Aug 16	B's A/c To Interest a/c (Being interest due)	480	 480

Aug 16	Bank/Cash A/c To B's A/c (Being cash received) Bills receivable (No. 3) A/c To B's A/c (Being Bills receivable (No. 3) drawn accepted by B)	8020 12480	 8020 12480
Aug,16	Bills for Collection A/c To Bills receivable (No.3) A/c (Being Bills receivable (No.3) sent to bank for collection)	12480	 12480
Oct, 1	Bank A/c Rebate A/c To Bills for Collection (Being amount received on retirement of Bills receivable (No.3))	12240 240	 12480

TOPIC 7: FINAL ACCOUNTS

A. State with reasons, whether the following statements are true or false:

1. **Finished goods are normally valued at cost or market price whichever is higher.**
Ans.:
False – Finished goods are normally valued at cost or net realizable value whichever is lower.

2. **The results and position disclosed by final accounts are not exact.**
Ans.:
True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

3. **Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.**
Ans: True; Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation

B. Solve the Following Questions

1. **Discuss the limitations which must be kept in mind while evaluating the Financial Statements.**
Ans.:
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 add to the probability of manipulations.

2. **Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.**
On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.
You are required to calculate:
(i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2019.
(ii) Amount actually paid as salaries during 2019.
(iii) Outstanding salaries as on 31st December, 2019.
Ans:
(i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2019

Employees	= 9 x ₹ 44,000 x 12	=	₹ 47,52,000
Trainees	= 2 x ₹ 21,000 x 6	=	₹ 2,52,000
Salaries charged to P & L A/c			₹ 50,04,000

(ii) Amount actually paid as salaries during 2019

Employees	= 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000	=	₹ 47,16,000
Trainees	= 2 x ₹ 21,000 x 5	=	₹ 2,10,000
Amount paid as salaries			₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees	= 9 x ₹ 44,000	=	₹ 3,96,000
Trainees	= 2 x ₹ 21,000	=	₹ 42,000
Outstanding salaries			₹ 4,38,000

C. Solve the Following Questions

1. **The following are the balances as at 31st March, 2020 extracted from the books of Mr. Sanjeev.**

Particulars	₹	Particulars	₹
Plant and Machinery	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	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

1) Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.

2) Goods withdrawn by Mr Sanjeev 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 was included in wages account.

6) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

7) Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date.

Ans.:

Trading and Profit and Loss Account of Mr. Sanjeev for the year ended 31st March, 2020

Dr. **Cr.**

Particulars		Amount	Particulars		Amount
To Opening stock		64,500	By Sales	4,27,150	
To Purchases	3,062,00		Less: Sales return	5,150	4,22,000
Less: Purchases return	3,450	3,02,750	By Closing stock		2,50,000
To Carriage inward		2,250			
To Wages		23,430			
To Gross profit c/d		2,79,070			
		6,72,000			6,72,000
To Salaries		45,100	By Gross profit b/d		2,79,070
To Rent		8,600	By Bad debts recovered		900
To Advertisement expenses		8,350			

To Printing and stationery		2,500			
To Bad debts		2,200			
To Carriage outward		2,700			
To Provision for doubtful debt 5% of 2,40,000 Less: Existing provision	12,000 6,400	5,600			
To Provision for discount on debtors 2.5% of 2,28,000 Less: Existing provision	5,700 2,750	2,950			
To Depreciation: Plant and machinery Furniture and fittings	6,000 2,050	8,050			
To Office expenses		20,320			
To Interest on loan		6,000			
To Net profit (Transferred to capital account)		1,67,600			
		2,79,970			2,79,970

Balance Sheet of Mr. Sanjeev as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital account Add: Net profit	1,30,000 1,67,600		Plant and machinery Less: Depreciation	40,000 6,000	34,000
	2,97,600				
Less: Drawings	23,000	2,74,600	Furniture and fittings Less: Depreciation	20,500 2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for d. debts Provision for bad debts	12,000 5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

Working Note:

Rectification Entries

	Particulars	Dr.	Cr.
(i)	Returns inward account .... Dr Sales account .... Dr To Purchases account To Returns outward account (Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)	5,150 3,450	5,150 3,450
(ii)	Drawings account .... Dr To Purchases account (Being goods withdrawn for own consumption included in purchases, now rectified)	7,000	7,000
(iii)	Plant and machinery account To Wages account (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)	900	900
(iv)	Advertisement expenses account	1,650	

	To Purchases account (Being free samples distributed for publicity out of purchases, now rectified)		1,650

2. Following information is provided for M/s. Ritu Manufacturers for the year ended 31st Dec, 2020:

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

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

Ans.:

Journal Proper in the Books of M/s. Ritu Manufacturers

Date	Particulars	Amount	Amount
2020 Dec.31	Returns outward A/c Dr. To Purchases A/c (Being the transfer of returns to purchases account)	2,16,000	2,16,000
	Sales A/c Dr. To Returns Inward A/c (Being the transfer of returns to sales account)	3,00,000	3,00,000
	Sales A/c Dr. To Trading A/c (Being the transfer of balance of sales account to trading account)	30,00,000	30,00,000
	Trading A/c Dr. To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases, carriage inwards and wages accounts)	23,40,000	 3,00,000 18,00,000 1,50,000 90,000
	Closing Inventory A/c Dr. To Trading A/c (Being the incorporation of value of closing Inventory)	6,00,000	6,00,000
	Trading A/c Dr. To Gross Profit (Being the amount of gross profit)	12,60,000	12,60,000
	Gross profit Dr. To Profit and Loss A/c Being the transfer of gross profit to Profit and Loss A/c)	12,60,000	12,60,000

3. Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2021.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000

Hire charges of Machinery @ Rs. 0.70 per unit manufactured
Hire charges of factory 7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured
and @ Rs. 0.40 per unit of closing W.I.P.
Repairs and maintenance 5,40,000
Units produced - 15,00,000 units

You are required to prepare a Manufacturing Account of Mr. Surya for the year ended 31-03-2021.

Ans.:

In the Books of Mr. Surya
Manufacturing Account for the Year ended 31.03.2021

Particulars		Amount	Particulars	Units	Amount
To Opening Work- in-Process (Units- 27,000)		78,000	By Closing Work in-Process	42,000	15,00,000
To Raw Materials Consumed: Opening Inventory Add: Purchases	7,80,000 24,60,000		By Trading A/c – Cost of finished goods transferred	1,44,000	58,00,800
	32,40,000				
Closing Inventory	(9,60,000)	22,80,000			
To Direct Wages –W.N.1		12,16,800			
To Direct expenses: Hire charges on Machinery – W.N.2		10,50,000			
To Indirect expenses: Hire charges of Factory		7,80,000			
Repairs & Maintenance		5,40,000			
		59,44,800			59,44,800

Working Notes:

(1) Direct Wages – 1,500,000 units @ Rs.0.80 = Rs.12,00,000
42,000 units @ Rs.0.40 = Rs. 16,800
Rs. 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ Rs.0.70 = Rs.10,50,000

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

Particulars	₹	₹
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12000
Drawings	20000	
Printing and Stationery	6000	
Insurance premium	48000	

Electricity charges	14000	
General expenses	11000	
Bank charges	3800	
Bad debts	12200	
Repairs the Motor vehicle	13000	
Interest on loan	4400	
Provision for Bad-debts		10000
Loan from Mr. Rajan		60000
Sundry creditors		62000
Motor vehicles	100000	
Land and Building	500000	
Office equipment	200000	
Furniture and Fixtures	50000	
Stock as on 31.03.2017	320000	
Sundry debtors	280000	
Cash at Bank	22000	
Cash in Hand	16000	
	30,73,400	**30,73,400**

Ans.:

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

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

M/s Raghuram & Associates

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

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

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

Liabilities	Details	Amount	Assets	Details	Amount
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60000		Office equipment	2,00,000	
Add: O/s Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	5,000	45000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	14,000	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance		1200
		14,85,200			14,85,200

5. The following is the Trial Balance of T on 31st March, 2019:

Particulars	Dr. ₹	Cr. ₹
Capital		6,00,000
Drawings	70,000	
Fixed Assets (Opening)	1,40,000	
Fixed Assets (Additions 01.10.2019)	2,00,000	
Opening Stock	60,000	
Purchases	16,00,000	
Purchases Returns		69,000
Sales		22,00,000
Sales Returns	99,000	
Debtors	2,50,000	
Creditors		2,20,000
Expenses	50,000	
Fixed Deposit with Bank	2,00,000	
Interest on Fixed Deposit		20,000
Cash		8,000
Suspense A/c		2,000
Depreciation	14,000	
Rent (17 months up to 31.8.2019)	17,000	
Investments 12% (01.8.2018)	2,50,000	
Bank Balance	1,69,000	
	31,19,000	31,19,000

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

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

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.19, but the goods were included in stock.
(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.
(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Ans.:

Journal Entries

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

Trading, Profit and Loss Account of T
for the year ending 31st March, 2019

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		60,000	By Sales Less: Sales Return (99,000– 1,000)	22,00,000 98,000	21,02,000
To Purchases Add: Amount not recorded	16,00,000 16,000		By Closing Stock		1,00,000
	16,16,00				
Less: Purchases Returns (69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation Add: Further Depreciation (200000x10/100x6/12)	14,000 10,000	24,000	By Interest on Investments 250000x12/100x8/12		20,000
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹₹
Capital account	6,00,000		Fixed Assets	1,40,000	

Add: Net profit	5,44,000		Additions	2,00,000	
Less: Drawings	58000	10,86,000		3,40,000	
Creditors	2,20,000		Less: Depreciation	10,000	3,30,000
Add: Purchases not recorded	16,000	2,36,000	Stock		1,00,000
Overdraft		8,000	Debtors		2,50,000
			Investments		2,50,000
			Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

6. Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st Dec, 2018.

Particulars	Amount	Particulars	Amount
Cash in hand	1,500	Capital	16000
Purchase	12,000	Bank overdraft	2000
Sales return	1,000	Sales	9000
Salaries	2,500	Purchase return	2000
Tax and Insurance	500	Provision for Bad debts	1000
Bad debts	500	Creditors	2000
Debtors	5000	Commission	500
Investments	4000	Bills payable	2500
Opening stock	1400		
Drawings	2000		
Furniture	1600		
Bills receivables	3000		
	35000		35000

Other information:

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

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

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

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

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

You are required to prepare the final accounts after making above adjustments.

Ans.:

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

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		Less: Sales return	1,000	8,000
Less: Purchase return	2,000	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	

To Tax & Insurance	500		Less : Advance	100	400
Add: Outstanding Less: Prepaid Insurance	200 50	650	By Accrued interest		210
To Bad debt	500		By Net Loss		2,500
Opening provision	1000				
Closing provision	1000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4210			4210

Balance Sheet of Mr. Sandeep as on 31.3.2018

Liabilities	₹	₹	Assets	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	2,000		Less: Depreciation	160	1440
Less: Net loss	2,500	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors			Debtors	5,000	
Bills payable			Less: Provision on bad debts	1000	4,000
Outstanding expenses : Salary	100		Closing stock		4,500
Tax	200		Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

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

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

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

Ans:

In the Books of Mr. Shyamal
Manufacturing Account for the Year ended 31.03.2019

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

Working Notes:

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

8. Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c To Creditors A/c	1,27,000 -	By Raw Materials Consumed By Closing Stock	-

Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c To Balance c/d	23,50,000 6,60,000	By Balance b/d	15,70,000 -

Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material A/c To Wages To Depreciation to Direct Expenses	- 3,65,000 2,15,000 2,49,000	By Trading A/c	17,44,000

Additional Information:

(i) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

(ii) Wages include the following:
Paid to factory workers - ₹ 3,15,000
Paid to labour at office - ₹ 50,000

(iii) Direct expenses included the following :

Electricity charges - ₹ 80,000 of which 25% pertained to office

Fuel charges - ₹ 25,000

Freight inwards - ₹ 32,000

Delivery charges to customers - ₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c.

Ans:

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	15,67,000		15,67,000

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.

So, depreciation omitted from being charged = 12,00,000 X 15% = ₹ 1,80,000

Correct total depreciation expense = ₹ (2,15,000 + 1,80,000) = 3,95,000

(2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000) = ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(42,000)
Revised balance to be transferred	**18,32,000**

(5) **Creditors A/c**

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c	14,40,000
	30,10,000		30,10,000

9. Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given

below:

On 1st April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute:

(i) Total income for the year 2019-20.

(ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.

Ans:

(i) Computation of Income for the year 2019-20:

	₹
Money received during the year related to 2019-20	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

(ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.20	To Sales A/c (Advance related to Current year Transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000
	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

10. Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:3

Particulars	₹	₹
Capital	-	16000
Opening stock	17500	-
Closing stock	-	18790
Drawings	3305	-
Returns Inward	-	550
Carriage Inward	1240	-
Deposit with X	-	1400
Returns Outward	840	-
Carriage Outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13000	-
Sundary debtors	5000	-
Creditors	-	2200
Furniture	1500	-
Sales	-	29000
Wages	850	-
Cash	1370	-

Advertisement	950	-

Adjustments:

(1) **Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.**

(2) **Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.**

(3) **Depreciation to be provided on furniture at 10% per annum.**

Ans:

Redrafted Trial Balance of Mr. Bansal as on 31st March,2021

Particulars	₹	₹
Capital	-	16000
Opening stock	17500	-
Drawings	3305	-
Returns Inward	550	-
Carriage Inward	1240	-
Deposit with X	1400	-
Returns Outward	-	840
Carriage Outward	725	
Rent paid	800	-
Rent outstanding		150
Purchases	13000	-
Sundary debtors	5000	-
Creditors	-	2200
Furniture	1500	-
Sales	-	29000
Wages	850	-
Cash	1370	-
Advertisement	950	-
	48190	48190

Trading and Profit and Loss Account of Mr. Bansal
for the year ended 31st March,2021

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		17500	By Sales	29000	
To Purchase	13000		Less: Sales return	(550)	28450
Less: Purchase return	(840)	12160	By Stock destroyed by fire		2000
To wages		850	By closing stock		18790
To Carriage Inward		1240			
To Gross Profit		17490			
		49240			49240
To Carriage outward		725			
To Rent		800	By Gross Profit		17490
To Advertisement		950			
To Bad debt		600			
To Provision for doubtful debts(5% of 4400)		220			
To Loss of stock by fire		500			
To depreciation on furniture (10% of 1500)		150			

To Net profit		13545			
		17490			17490

Balance Sheet of Mr. Sandeep as on 31.3.2018

Liabilities	₹	₹	Assets	₹	₹
Capital	16000		By Furniture	1500	
Add Net profit	13545		Less: Depreciation	150	1350
	29545		Deposit with X		1400
Less Drawings	3305	26240	Closing Stock		18790
Sundry creditors		2200	Sundry debtors	5000	
Outstanding rent		150	Less Bad debts	600	
				4400	
			Less Provision for doubtful debts	220	4180
			Insurance claim receivable		1500
			Cash		1370
		28590			28590

11. The following is the Trial Balance of Mr. T on 31st March,2022

Particulars	₹	₹
Capital	-	1800000
Drawings	210000	-
Fixed Assets	420000	-
Fixed assets additional 1.10.2022	600000	-
Opening stock	180000	-
Purchases	4800000	-
Purchase returns	-	207000
Sales	-	6600000
Sales returns	297000	-
Debtors	750000	-
Creditors	-	660000
Expenses	150000	-
Fixed deposit with bank	600000	-
Interest on fixed deposit	-	60000
Cash	-	24000
Suspense a/c	-	6000
Depreciation	42000	-
Rent (17 months upto 31.8.2022)	51000	-
Investment 12% 01.08.2021	750000	-
Bank balance	507000	-
	9357000	9357000

Stock on 31st March,2022 was valued at ₹ 3,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) ₹ 60,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 36,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 48,000 was not recorded in the books of account upto 31.03.2022, but the goods were included in stock.

(iii) Purchase returns of ₹ 3,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 18,000 in respect of the period after 31st March,2022.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March,2022

Ans:

	Particulars		Dr.	Cr.
(i)	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	36,000	 36,000
(ii)	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	48,000	 48,000
(iii)	Suspense A/c To Purchase Returns To Sales Returns (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	6,000	 3,000 3,000
(iv)	Prepaid Expenses A/c To Expenses (Prepaid expenses adjusted)	Dr.	18,000	 18,000

Trading, Profit and Loss Account of Mr. T
for the year ending 31st March, 2022

Dr.					Cr.
		₹			₹
To Opening Stock		1,80,000	By Sales	66,00,000	
To Purchases	48,00,000		Less: Sales Return		
Add: Amount not recorded	48,000		(2,97,000– 3,000)	2,94,000	63,06,000
	48,48,000		By Closing Stock		3,00,000
Less: Purchases Returns					
(2,07,000+3,000)	210,000	46,38,000			
To Gross Profit c/f		17,88,000			
		66,06,000			66,06,000
To Expenses (1,50,000 – 18,000 + 36,000)		1,68,000	By Gross Profit		17,88,000
To Rent (51,000 – 15,000)		36,000	By Interest on Fixed Deposit		60,000
To Depreciation	42,000		By Interest on Investments		60,000
Add: Further Depreciation	30,000	72,000	$(7,50,000\times\frac{12}{100}\times\frac{8}{12})$		
$(6,00,000\times\frac{10}{100}\times\frac{6}{12})$					
To Net Profit		16,32,000			
		19,08,000			19,08,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital	1800000		By Furniture	420000	
Add Net profit	1632000		Add additions	600000	
Less Drawings	174000		Less depreciation	30000	990000

Sundry creditors	660000		Stock		300000
Add Purchase not recorded	48000	708000	Debtors		750000
Overdraft		24000	Investments		750000
			Interest accrued		60000
			Bank fixed deposit		600000
			Prepaid expenses(18000+15000)		33000
		3990000	Bank		507000
		3990000			3990000

12. The following is the trial balance of Prakesh as at 31st December, 2022

Particulars	₹	₹
Capital	-	383450
Stock 1st January 2022	234000	-
Sales	-	1948000
Returns inward	43000	-
Purchase	1608500	-
Returns outward	-	29000
Carriage inwards	98000	-
Rent and taxes	23500	-
Salaries and wages	46500	-
Debtors	120000	-
Creditors	-	74000
Bank loan 14%pa	-	100000
Bank interest	5500	-
Printing and stationary expenses	72000	-
Bank balance	40000	-
Discount earned	-	22200
Furniture and fittings	25000	-
Discount allowed	9000	-
General expenses	57250	-
Insurance	6500	-
Postage and telegram expenses	11650	-
Cash balance	1900	-
Travelling expenses	4350	-
Drawings	150000	-
	2556650	2556650

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 15,000 due from Ravi and included among the creditors ₹ 5,000 due to him. (2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors. (3) Depreciation on furniture & fittings @ 10% shall be written off. (4) Personal purchases of Prakash amounting to ₹ 3,000 had been recorded in the purchases day book. (5) Interest on bank loan shall be provided for the whole year. (6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year. (7) Credit purchase invoice amounting to ₹ 2,000 had been omitted from the books. (8) Stock on 31.12.2022 was ₹ 3,93,000.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2022 and (ii) Balance sheet as on 31st December, 2022

Ans:

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**

To Opening Stock		234000	By Sales	1948000	
To Purchase	1608500		Less: Sales return	43000	1905000
Add omitted invoice	2000		By closing stock		393000
	1610500				
Less: Purchase return	29000				
	1581500				
Less Drawings	3000	1578500			
To Carriage Inward		98000			
To Gross Profit		387500			
		2298000			
To rent and taxes		23500	By gross profit b/d		387500
To salaries and wages		46500	By discount		22200
To bank interest	5500				
Add due	8500	14000			
To printing and stationary	72000				
Less prepaid	18000	54000			
To discount allowed		9000			
To general expenses		57250			
To insurance		6500			
To postage and telegram expenses		11650			
To travelling expenses		4350			
To provision for bad debts		5750			
To provision for discount on debtors		2185			
To depreciation on furniture and fittings		2500			
To net profit		172515			
		409700			409700

Balance Sheet of Prakash as at 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital	1800000		Furniture and fittings	25000	
Add Net profit	1632000		Less depreciation	2500	22500
	555965		Debtors	115000	
Less drawings			Less provision for bad and doubtful debts	5750	
Cash 150000				109250	
Goods 3000	153000	402965	Less provision for Discount	2185	107065
Bank loan		100000	Stock		393000
Bank interest due		8500	Prepaid expenses Printing and stationary		18000
Sundry creditors		71000	Bank balance		40000
			Cash balance		1900
		582465			582465

13. The following are the balances extracted from the books of Shri Shrinivas as on 31.03.2023, who carries on business under the name and style of M/s Shrinivas and Associates at Chennai:

Particulars	₹	₹
Capital	-	1411400

Purchase	1200000	
Purchase return		18000
Sales		1500000
Sales returns	24000	
Freight inwards	62000	
Carriage outwards	8500	
Rent of godown	5500	
Rates and taxes	24000	
Salaries	72000	
Discount allowed	7500	
Discount received		12000
Drawings	20000	
Printing and stationary	6000	
Insurance premium	48000	
Electricity charges	14000	
General expesnes	11000	
Bank charges	3800	
Bad debts	12200	
Repairs the motor vehicle	13000	
Interest on loan	4400	
Provision for bad debts		10000
Loan from Mr. Rajan		60000
Creditors		62000
Motor vehicles	100000	
Land and buildings	500000	
Office equipment	200000	
Furniture and fixtures	50000	
Stock as on 31.03.2022	320000	
Debtors	280000	
Cash at bank	22000	
Cash in hand	16000	
	3073400	3073400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%. (b) Value of stock at the close of the year was ₹ 4,10,000. (c) One month rent for godown is outstanding. (d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022 (e) Reserve for bad debts is to be maintained at 5% of Sundry debtors. (f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Ans:

M/s Shrinivas & Associates Trading Account for the year ended 31st March 2023

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

M/s Raghuram & Associates
Profit and Loss Account for the year ended 31st March 2018

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

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

Liabilities	Details	Amount	Assets	Details	Amount
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Insurance Premium			Office equipment	2,00,000	
Loan from Rajan	60000		Less: Depreciation	(30,000)	1,70,000
Add: O/s Interest	100	60,100	Furniture & Fixture	50,000	
Sundry Creditors		62,000	Less: Depreciation	5,000	45000
Outstanding rent		5,000	Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	14,000	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance		1200
		14,85,200			14,85,200

Working Notes:

1. Insurance premium

Insurance premium as given in trial balance	48000
Less: Personal premium	(42000)
Less: Prepaid for 3 months	(1200)
Transfer to Profit and Loss A/c	4800

2. Depreciation

Building @ 5% on 5,00,000	25000
Motor Vehicles @ 20% on 1,00,000	20000
Furniture & Fittings @ 10% on 50,000	5000

Office Equipment @ 15% on 2,00,000	30000
Total	80000

3. interest on loan

Interest on loan 60000x10%x9/12	4500
Less: interest as per trial balance	(4400)
Amount (outstanding)	100

4. Provision for bad debts A/c

Particulars	Amount	Particulars	Amount
To bad debts	12200	By balance b/d	10000
To balance c/d	14000	By P&L a/c	16200
	26200		26200

14. From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2021:

Particulars	Amount	Particulars	Amount
Capital	140000	Purchase	36000
Discount allowed	1200	Carriage inward	8700
Carriage outwards	2300	sales	60000
Return inward	300	Return outwards	700
Rent and taxes	1200	Plant and machinery	80700
Stock on 1/4/2020	15500	Debtors	20200
Creditors	12000	Investment	3600
Commission received	1800	Cash in hand	100
Cash at bank	10100	Motor cycle	34600
Stock on 31st march 2021	20500		

Ans:

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

Particulars	Amount	Amount
Capital		14000
Purchase	36000	
Discount allowed	1200	
Carriage inward	8700	
Carriage outwards	2300	
Sales		60000
Return inward	300	
Return outward		700
Rent and taxes	1200	
Plant and machinery	80700	
Stock on 1/4/2020	15500	
Debtors	20200	
Creditors		12000
Investment	3600	
Commission received		1800
Cash at hand	100	
Cash at bank	10100	
Motor cycle	34600	

	214500	214500

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

15. On 31st March, 2021 the Trial Balance of Mr. Black was as follows:

Particulars	Amount	Particulars	Amount
Stock on 1/4/2020		Creditors	150000
Raw material	210000	Bills payable	75000
Work in progress	95000	sale of scrap	25000
Finished goods	155000	Commission received	4500
Debtors	240000	Provision for doubtful debts	16500
Carriage on purchase	15000	Capital account	1000000
Bills receivables	150000	Sales	1672000
Wages	130000	Bank overdraft	85000
Salaries	100000		
Telephone and postage	10000		
Repairs to office furniture	35000		
Cash at bank	170000		
Office furniture	100000		
Cash at bank	11000		
Office furniture	850000		
Repairs to plant	700000		
Purchase	60000		
Plant and machinery	13500		
Rent	60000		
Lighting	13500		
General expenses	15000		
	3028000		3028000

The following additional information is available

Stocks on 31st March,2021 were:

Raw material	**162000**
Finished goods	**181000**
Work in progress	**78000**

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.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2021.

Ans:

In the books of Mr. Black

Manufacturing Account for the year ended 31st March, 2021

Particulars		Amount	Particulars	Amount
Raw material consumed			By closing stock in work in progress	78000
To opening stock of raw materials	210000		By sale of scrap	25000
Add purchase	850000		by cost of goods manufactured (transferred to trading account)	1190000
Less closing stock	162000	898000		
To opening stock of WIP		95000		
To wages	130000			

Add outstanding wages	20000	150000		
To carriage on purchase		15000		
To repairs to plant		11000		
To rent		45000		
To lighting		9000		
To depreciation of plant		70000		
		1293000		**1293000**

Trading Account for the year ended 31st March, 2021

Particulars	Amount	Particulars	Amount
To Opening Stock of finished goods	155000	By Sales	1672000
To Cost of goods transferred from Manufacturing A/c	1190000	By Closing Stock	181000
To Gross Profit c/d	508000		
	1853000		1853000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		Amount	Particulars	Amount
To salaries	100000		By gross profit b/d	508000
Add outstanding	9000	109000	By commission	4500
To telephone and postage		10000		
To repairs to furniture		3500		
To depreciation of furniture		7500		
To rent		15000		
To lighting		4500		
To general expenses		15000		
To provision of doubtful debts required 1% of 167200	16750			
Less existing provision	16500	220		
To net profit		347780		
		512500		512500

16. The following is the trial balance of Mr. B for the year ended 31st March,2021:

Particulars	Amount	Particulars	Amount
Opening stock		Creditros	175000
Raw material	525000	Purchase return	17500
Finished goods	262500	Capital	350000
Purchase of raw material	1750000	Bills payable	84000
Land and building	35000	Long term loan	700000
Loos tools	105000	Provision for bad and doubtful debts	7000
Plant and machinery	105000	Sales	2975000
Investment	87500	Bank overdraft	80500
Cash in hand	70000		
Cash at bank	17500		
Furniture and fixture	52500		
Bills receivables	52500		
Debtors	140000		
Drawings	70000		
Salaries	70000		
Coal and fuel	52500		
Factory rent and rates	70000		

General expenses	14000		
Advertisement	17500		
Sales return	35000		
Bad debts	14000		
Direct wages	280000		
Power	105000		
Interest paid	24500		
Discount allowed	10500		
Carriage inward	52500		
Carriage outward	24500		
Commission paid	17500		
Dividend paid	14000		
	4389000		4389000

Additional Information:

(i) Stock of finished goods at the end of the year was ₹ 3,50,000.

(ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.

(iii) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.

(iv) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March,2021 and Balance Sheet as at that date

Ans:

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

Particulars		Amount	Particulars	Amount
To opening stock of raw material		525000	By cost of manufactured goods transferred to trading a/c	2828000
To purchase	1750000			
Less purchase return	17500	1732500		
To carriage inwards		52500		
To direct wages		280000		
To power		105000		
To coal and fuel		52500		
To factory rent and rates		70000		
To depreciation on machinery		10500		
		2828000		2828000

Trading Account for the year ended 31st March, 2021

Particulars	Amount	Particulars		Amount
To opening stock of finished goods	262500	By sales	2975000	
To cost of goods transferred from manufacturing	2828000	Less sales return	35000	2940000
To gross profit c/d	199500	By Closing stock		350000
	3290000			**3290000**

Profit and Loss Account for the year ended 31st March, 2021

Particulars		Amount	Particulars	Amount
To carriage outward		24500	By gross profit b/d	199500
To discount allowed		10500	By accrued commission	43750
To commission paid		17500	By accrued interest	52500
To dividend paid		14000		
To general expenses		14000		

To advertisement		17500		
To salaries	70000			
Add outstanding	7000	77000		
To interest paid	24500			
Less prepaid	5250	19250		
To provision for bad & doubtful debts	7000			
Add bad debts	14000			
Less old provision for doubtful debts	7000	14000		
To depreciation on building		3500		
To net profit c/d		84000		
		295750		**295750**

Balance Sheet as on 31st March, 2021

Liabilities	Details	Amount	Assets	Details	Amount
Capital	350000		Plant and machinery	105000	
Add: Net Profit	84000		Less depreciation	10500	94500
	434000		Land and building	350000	
Less drawings	70000	364000	Less depreciation	3500	346500
Bills payable		84000	Furniture and fixtures		52500
Creditors		175000	Investment		87500
Outstanding salary		7000	Closing stock		350000
Long term loan		100000	Loose tools		105000
Bank overdraft		80500	Debtors	140000	
			Less provision for bad and doubtful debts	7000	133000
			Bills receivables		52500
			Accrued commission		43750
			Accrued interest		52500
			Prepaid interest		5250
			Cash in hand		70000
			Cash at bank		17500
		1410500			**1410500**

TOPIC 8: NPO

A. State with reasons, whether the following statements are true or false:

1. **Receipts and Payments Account highlights total income and expenditure.**

   Ans.:

   False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

2. **Subscriptions received for the current year shall be shown in the balance sheet as a current asset.**

   Ans.:

   False - Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item

3. **Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.**

   Ans:

   True; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

B. Solve the Following Questions

1. **The following information of M/s. Rose Club is related for the year ended 31st March, 2020:**

   1.

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

   2. Subscription received during the year ₹ 11,25,000
   3. Payments for Sports Material during the year ₹ 6,75,000

   You are required to ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020.

   Ans.:

Subscription for the year ended 31.3.2020

		₹
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019 Less: Subscription received in advance on 31.3.2020	33,750 15,750	 (49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020 *Add:* Subscription received in advance on 1.4.2019	49,500 27,000	 76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material Less: Amounts due for sports material on 1.4.2019	6,75000 2,02,500
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed: Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000

	9,90,000
Less: Stock of sports material on 31.3.2020	3,37,500
Amount of Sports Material appearing in Income & Expenditure Account	6z,52,500

2. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the New Max Hospital:

Receipts and Payments Account
For the year ended 31 December, 2020

RECEIPTS	Rs.	PAYMENTS	Rs.
To Balance b/d Cash 400 Bank 2,600	3,000	By Salaries: (Rs. 3,600 for 2019)	15,600
To Subscriptions: For 2019 For 2020 For 2021	 2,550 12,250 1,200	By Hospital Equipment	8,500
To Government Grant:		By Furniture purchased	3,000
For building	40,000	By Additions to Building	25,000
For maintenance	10,000	By Printing and Stationery	1,200
Fees from sundry Patients	2,400	By Diet expenses	7,800
To Donations (not to be capitalized)	4,000	By Rent and rates (Rs. 150 for 2021)	1,000
Net collections from Benefit shows	3,000	By Electricity and water charges	1,200
		By Office expenses	1,000
		By Investments	10,000
		By Balances: Cash 700 Bank 3,400	4,100
	78,400		78,400

Additional information :	Rs.
Value of building under construction as on 31.12.2020	70,000
Value of hospital equipment on 31.12.2020	25,500
Building Fund as on 1.1. 2020	40,000
Subscriptions in arrears as on 31.12.2019	3,250
Investments in 8% Govt. securities were made on 1st July, 2020.	

Ans.:

New Max Hospital
Income & Expenditure Account
For the year ended 31 December, 2020

Expenditure	(Rs.)	Income	(Rs.)
To Salaries	12,000	By Subscriptions	12,250
To Diet expenses	7,800	By Govt. Grants-Maintenance	10,000
To Rent & Rates	850	By Fees Sundry Patients	2,400
To Printing & Stationery	1,200	By Donations	4,000
To Electricity & Water-charges	1,200	By Benefit shows (net collections)	3,000
To Office expenses	1,000	By Interest on Investments	400
To Excess of Income over expenditure transferred to Capital Fund	8,000		
	32,050		32,050

Balance Sheet as at 31st Dec., 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Building:		

Opening bal. Excess of Income Over Expenditure	24,650 8,000	32,650	Opening balance Addition	45,000 25,000	70,000
Building Fund: Opening balance Add : Govt. Grant	 40,000 40,000	80,000	Hospital Equipment: Opening balance Addition	 17,000 8,500	25,500
Subscriptions received in		1,200	Furniture		3,000
advance			Investments 8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses - Rent		150
			Cash at Bank		3,400
			Cash in hand		700
		1,13,850			1,13,850

Working Notes:

(1) Balance sheet as at 31st Dec., 2019

Liabilities	Rs.	Assets	Rs.
Capital Fund (Balancing Figure)	24,650	Building	45,000
		Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	3,600	Cash in hand	400
	68,250		68,250

	Rs.
(2) Value of Building	
Balance on 31st Dec. 2020	70,000
Paid during the year	(25,000)
Balance on 31st Dec. 2019	45,000
(3) Value of Equipment	
Balance on 31st Dec. 2020	25,500
Paid during the year	(8,500)
Balance on 31st Dec. 2019	17,000
(4) Subscription due for 2019	
Receivable on 31st Dec. 2019	3,250
Received in 2020	2,550
Still Receivable for 2019	700

3. From the following information supplied by New Punjabi Bagh Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2021.

	01.04.2020 Rs.	31.03.2021 Rs.
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to Rs. 1,50,000/-. Salaries paid Rs. 30,000. Face value of the Investment was Rs. 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs. 7,000. Furniture was sold for Rs. 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: Rs. 25,000

Rent: Rs. 12,000 out of which Rs. 1,000 outstanding

Misc. Expenses: Rs. 2,500

Ans.:

Receipts and Payments Account for the year ended 31-03-2021

Receipts	Rs.	Payments	Rs.
To balance b/d Cash and bank	55,000	By Salaries	30,000
To Subscription received (W.N.1)	1,22,500	By Purchase of sports goods Rs. (12,500-7,500)	5,000
To Sale of investments (W.N.2)	35,000	By Purchase of machinery Rs. (10,000-5,000)	5,000
To Interest received on investment	7,000	By Sports expenses	25,000
To Sale of furniture	4,000	By Rent paid Rs. (12,000 -1,000)	11,000
		By Miscellaneous expenses	2,500
		By Balance c/d Cash and bank	1,45,000
	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2021

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2021	9,000 39,000		By Interest on Invest. Received	7,000	
Less: Outstanding for 2020	(7,500)	31,500	Accrued (W.N.5)	1,750	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4) Furniture Machinery Sports goods	 700 750 1,125	2,575			
To Surplus		82,175			
		1,58,750			1,58,750

Working Notes:

1. Calculation of Subscription received during the year 2020-21

	Rs.
Subscription due for 2020-21	1,50,000
Add: Outstanding of 2020	70,000
Less: Outstanding of 2021	(1,00,000)
Add: Subscription of 2021 received in advance	15,000
Less: Subscription of 2020 received in advance	(12,500)
	1,22,500

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: Rs. 87,500 × 50% = Rs. 43,750

Sales price: Rs. 43,750 × 80% = Rs. 35,000
Cost price of investment sold: Rs. 70,000 × 50% = Rs. 35,000
Profit/loss on sale of investment: Rs. 35,000 - Rs. 35,000 = NIL

3. Loss on sale of furniture

	Rs.
Value of furniture as on 01-04-2020	14,000
Value of furniture as on 31-03-2021	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. Depreciation

Furniture - Rs.7,000 × 10% =	700
Machinery - Rs.5,000 × 15% =	750
Sports goods - Rs.7,500 × 15% =	1,125

5. Interest accrued on investment

Face value of investment on 01-04-2020	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

4. **From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:**

Receipts and Payments Account for the year ended 31 December, 2019

RECEIPTS	₹	PAYMENTS	₹
To Balance b/d Cash 800		By Salaries: (₹ 7,200 for 2018)	31,200
Bank 5,200	6,000	By Hospital Equipment	17,000
To Subscriptions:		By Furniture purchased	6,000
For 2018	5,100	By Additions to Building	50,000
For 2019	50,000	By Printing and Stationery	2,400
For 2020	2,400	By Diet expenses	15,600
To Government Grant		By Rent and rates (₹ 300 for 2020)	2,000
For building	80,000	By Electricity and water	2,400
For maintenance	20,000	By office expenses	2000
To Fees from sundry Patients	4,800	By investment	20000
To Donations (not to be capitalized)	8000	By balance	
To net collections from benefit shows	6000	Cash 1400	
		Bank 6800	8200
	156800		156800

Additional information:	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500
Investments in 8% Govt. securities were made on 1st July, 2019.	

Ans.:

Jeevan Hospital

Income & Expenditure Account
for the year ended 31 December, 2019

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	16,000		
	64,100		**64,100**

Balance Sheet as at 31st Dec., 2019

Liabilities		₹	Assets		₹
Capital Fund:			Building:		
Opening balance	49,300		Opening balance	90,000	
Excess of Income Over Expenditure	16,000	65,300	Addition	50,000	1,40,000
Building Fund:			Hospital Equipment:		
Opening balance	80000		Opening balance	34,000	
Add : Govt. Grant	80,000	1,60,000	Addition	17000	51,000
Subscriptions received in advance		2,400	Furniture		6000
			Investments 8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

5. Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipment's	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Ans.:

Income and Expenditure Account
for the year ended 31st March, 2019

	₹		₹
To Medicines consumed Purchases 1,22,500 Less: Closing Stock (47,500)	75,000	By Prescription fees	3,30,000
To Motor car expense (60,000 x 2/3)	40,000	By Visiting fees	1,25,000
To Salaries (₹ 52,500 – ₹ 15,000)	37,500	By Fees from lectures	12,000
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account
for the year ended 31st March, 2019

	₹		₹
To Drawings: Motor car expenses Household expenses Marriage expenses	 20,000 90,000 1,07,500	By Cash/bank By Cash/bank (pension)	1,00,000 1,50,000
To Salary of domestic servants	15,000	By Net income from practice	2,42,000
To Household furniture	12,500	(derived from income and expenditure a/c)	
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	**₹**	**Assets**	**₹**
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

6. **The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020**

Dr **Receipts and payments A/c for the year ended on 31st march 2020** **Cr**

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500

		By balance c/d	1,100
	84,000		84,000

Additional information:

1. **Following are the assets and liabilities on 31st March, 2019:**
   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹12480
   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250
2. **Following are the assets and liabilities on 31st March, 2020- Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹11,180**
   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850
3. **50% of the entrance fees to be capitalized.**
4. **Interest on the investments is being received in full, and the investments have been made on 1.4.2019**

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club.

Ans.:

In the books of Rotary Club

Dr Income and expenditure Account for the year ended on 31st March, 2020 Cr

Expenditure	Amount	Income	Amount
To Salaries and wages	12,250	By Subscriptions	22,000
To Depreciation	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		**45,850**

Balance sheet as on 31st March, 2020

Liabilities		Amount	Assets	Amount
Opening capital fund Less: Deficit	1,13,880 (2,550)	1,11,330	Sports Equipment	50,500
Entrance fees		13,000	Furniture	11,180
Outstanding electricity charges		3,800	7% Investments	65,000
Subscription in advance		4,850	Subscription in arrears	5,200
			Cash	1,100
		1,32,980		1,32,980

Working notes

1. Investments made- $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. **Balance sheet as on 31st March, 2019**

Liabilities	Amount	Assets	Amount
Opening capital fund (B/f) Accrued electricity charges Subscription in advance	1,13,880 5,400 6,250	Sports Equipment Furniture 7% Investments Subscription Outstanding Cash	32,000 12,480 65,000 7,600 8,450
Total	1,25,530		1,25,530

3. **Computation of depreciation**

Sports equipment

Particulars	Amt
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year Less: Closing balance of equipment as on 31st, March 2020	27,500 (50,500)

Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2020

Dr Subscription A/c (year ended on 31st March, 2020) Cr

Particulars	Amount	Particulars	Amount
To O/s at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure, A/c	22,000	By Receipts and payments, A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

7. The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	Amount	Amount	Payments	Amount
To Balance b/d		900	By Expenses	12,600
To Annual Income from Sub. Add: O/s of last year received this year	9,180 360		(including Payment for sports material ₹ 5,400)	
	9,540		By Loss on Sale of Furniture	360
Less: Prepaid of last year	180	9,360	(cost price ₹ 900)	
To Other fees		3,600	By Balance c/d	1,80,900
To Donation for Building		1,80,000		
		1,93,860		1,93,860

Additional information:

Peppapig club had balances as on 1.4.2020: -

Furniture **₹ 3,600;**

Investment at 5% **₹ 54,000;**

Sports material **₹ 13,320;**

Balance as on 31.3.2021: Subscription Receivable **₹ 540;**

Subscription received in advance **₹ 180;**

Stock of sports material **₹ 3,600.**

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Ans.:

Receipts		Amt	Payments	Amt
To Balance b/d		900	By Expenses (₹ 12,600 – ₹ 5,400)	7,200

To Subscription Annual Income *Less*: Receivable as on 31.3.20	9180 540		By Sports Material	5,400
Add: Advance received for the year 2020-2021	180		By Balance c/d (Cash in Hand and at Bank)	1,81,440
Add: Receivable as on 31.3.20	360			
Less: Advanced received as on 31.3.20	180	9000		
To Other Fees		3,600		
To Donation for Building		1,80,000		
To Sale of Furniture		360		
		1,94,040		1,94,040

Income and Expenditure Account of Peppapig club
For the year ended 31st March, 2021

Expenditure		Amount	Income	Amount
To Sundry Expenses		7,200	Bu Subscription	9,180
To Sports Material Balance as on 1.4.2020	13,320		By Interest on investment (5% on ₹ 54,000)	2,700
Add: Purchases	5,400		By Other fees	3,600
Less: Balance as on 1.3.2021	3,600	15,120	By Deficit: Excess of	7,200
To Loss on sale of Furniture		360	Expenditure over Income	
		22,680		22,680

Balance Sheet of Peppapig club
as on 31st March, 2021

Liabilities		Amt	Assets		Amt
Capital Fund	72,000		Furniture	3600	
Less: deficiency	7,200	64,800	*Less*: Sold	900	2700
Building Fund		1,80,000	5% Investment		54,000
Subscription Received in Advance		180	Interest Accrued on Invest.		2,700
			Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at bank		1,81,440
		2,44,980			2,44,980

Working Note:

Balance Sheet of Peppapig Club
as on 1st April, 2020

Liabilities	Amount	Assets	Amount
Subscription Received in Advance	180	Furniture	3,600
Capital Fund (Balancing Figure)	72,000 72,180	Subscription Receivable	360
		Investment	54,000
		Sports Material	13,320
		Cash in Hand and at Bank	900
	72,180		72,180

8. From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018	31.03.2019
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000

Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 50,000

Rent: ₹ 24,000 out of which ₹ 2,000 outstanding

Misc. Expenses: ₹ 5,000

Ans.:

Receipts and Payments Account for the year ended 31-03-2019

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods ₹ (25,000-15,000)	10,000
To Subscription received (W.N.1)	2,45,000	By Purchase of machinery ₹ (20,000-10,000)	10,000
To Sale of investments (W.N.2)	70,000	By Sports expenses	50,000
To Interest received on investment	14,000	By Rent paid ₹ (24,000 -2,000)	22,000
To Sale of furniture	8,000	By Miscellaneous expenses	5,000
		By Balance c/d Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment Received	14,000	
	78,000		Accrued (W.N.5)	3,500	17,500
Less: Outstanding for 2018	15,000	63,000			
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture		6,000			
To Depreciation					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. **Calculation of Subscription received during the year 2018-19**

Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	2,00,000
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	25,000
	2,45,000

2. **Calculation of Sale price and profit on sale of investment**

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500

Sales price: ₹ 87,500 × 80% = ₹ 70,000

Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000

Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

3. **Loss on sale of furniture**

Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	8,000
Loss on sale of furniture	6,000

4. **Depreciation**

Furniture - ₹14,000 × 10% = 1,400

Machinery - ₹10,000 × 15% = 1,500

Sports goods – ₹15,000 × 15% = 2,250

5. **Interest accrued on investment**

Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	14,000
Interest accrued during the year	3,500

Note: It is assumed that the sale of investment has taken place at the end of the year.

9. **From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:**

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2019

Liabilities	₹	₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	

General Fund: Opening balance Less: Deficit Add: Entrance Fee	 62,062 2,387 59,675 715	 60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018- 19.

(ii) One fourth of entrance fee has been capitalized by transfer to General Fund.

(iii) Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.

(iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110

(v) Furniture was purchased during the year.

Ans:

Receipts and Payments Account
For the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	 16,126	By Upkeep of Ground (11,000+660)	 11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund	1,100	By Salaries	11,100
Investments	1,650	By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	2,860	By Rent	1,660
To Entrance Fee	286	By Prizes	2,200
To Sale of Newspapers (old)	440	By Balance c/d	2,530
To Misc. Income			
	41,514		41,514

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

Date	Particular	₹	Date	Particular	₹
2018 April	To Subscription O/S (2017-2018)	880	2018 April 1	By Subscription In advance (2017-18)	220
	To Subscription In advance (2018-2019)	110		By subscription O/S (2018-19)	770
2019 March	To Income & expenditure A/c	19,052		By cash (balancing figure)	19,052
		20,042			20,042

10. From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the

Particular	Amount	Amount
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund	-	19,10,000
Tuition Fee Received	-	8,10,000
Government Grants	-	5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)	-	2,05,000
College Stores - Sales	-	7,60,000

Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000
Cash at Bank	3,16,000	-
Library	3,20,000	
	75,45,000	**75,45,000**

Adjustments:

(a) Materials & Supplies consumed (From college stores):

Teaching - ₹ 52,000.

Research - ₹ 1,45,000

Students Welfare - ₹ 78,000

Games or Sports - ₹ 24,000

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building 5%

Plant & Equipment 10%

Furniture & Fixtures 10%

Motor Vehicle 20%

Ans:

AS College
Income and Expenditure Account
for the year ending 31st March, 2020

Expenditure	**₹**	**₹**	**Income**	**₹**
To Salaries:			By Tuitions & other fee	8,92,000
Teaching		8,75,000	By Govt. Grants	5,01,000
Research		1,25,000		
To Material &			By Income from Investments	
Supplies Consumed			By Hostel room Rent	1,75,000
Teaching		52,000	By Mess Receipts	1,65,000
Research		1,45,000	By Profit-stores sales	2,05,000
To Sports & Games				1,14,000
Expenses				
Cash	52,000			
Materials	24,000	76,000		
To Students				
Welfare Expenses				

Cash	37,000			
Materials	78,000	1,15,000		
To Scholarships		85,000		
To Depreciation:				
Building		77,500		
Plant & Equipment		85,000		
Furniture		54,000		
Motor Vehicle		48,000		
To Excess of Income over Expenditure		3,14,500		
		20,52,000		20,52,000

AS College Balance sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of			Building cost	15,50,000	
income over	3,14,5000	16,22,500	Less: Dep.	(5,67,500)	9,28,500
expenditure		19,10,000	Plant & machinery cost	8,50,000	
Building fund			Less: Dep.	(5,90,000)	2,60,000
Current Liabilities:		2,35,000	Furniture & fittings Cost	5,40,000	
O/S Expenses		1,55,000	Less: Dep.	(3,80,000)	1,60,000
Security Deposit			Motor Vehicle Cost	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investment		12,75,000
			Stock – Material & supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & Bank		3,16,000
		39,22,500			39,22,500

Working Note:

1.

Particular	₹	₹	₹
Material & supplies closing stock			
Opening stock			3,10,000
Purchases			8,20,000
			11,30,000
Less: Cost of goods sold		6,46,000	
Material Consumed		2,99,000	(9,45,000)
Balance			1,85,000

2.

Particular	₹	₹	₹
	Building	**Plant & equipment**	**Furniture & Fitting**
Provision for Depreciation	4,90,000	5,05,000	3,26,000
Opening Balance	77,500	85,000	54,000
Addition	5,67,500	5,90,000	3,80,000

11. **Dr. Deku started private practice on 1st April, 2019 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account**

Receipts	₹	Payments	₹

Own Capital Medicines Purchased Prescription fees Visiting fees Lecture fees Pension Received	2,00,000 2,45,000 6,60,000 2,50,000 24,000 3,00,000	Medicines purchased Surgical Equipment Motor car Moto car Expenses Wages & Salaries Rent of clinic General Charges Household Exp. Household Furniture Expenses on daughter Marriage Interest on Loan Balance at Bank Cash in hand	2,45,000 2,50,000 3,20,000 1,20,000 1,05,000 60,000 49,000 1,80,000 25,000 2,15,000 36,000 1,10,000 19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2020 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

Ans:

Particular		₹	Particular	₹
To Medicines Consumed			By Prescription fees	6,60,00
Purchases	2,45,000		By visiting fees	2,50,000
Less: Stock On 31.3.2.	(95,000)	1,50,000	By fees from lectures	24,000
To Motor car expenses		80,000		
To Wages & Salaries				
(1,05,000 – 30,000)		75,000		
To rent for clinic		60,000		
To general charges		49,000		
To interest on loan		36,000		
To Net Income		4,84,000		
		9,34,000		**9,34,000**

Capital Account
for the year ended 31st March, 2020

Particular	₹	Particular	₹
To Drawings: Motor car expenses (one-third of ₹ 1,20,000) Household expenses Daughter's marriage exp. Wages of domestic servants Household furniture To Balance c/d	 40,000 1,80,000 2,15,000 30,000 25,000 4,94,000 9,84,000	By Cash/bank By Cash/ bank (pension) By Net income from practice (derived from income and expenditure A/c)	2,00,000 3,00,000 4,84,000 9,84,000

12. From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	Income	₹
To Salaries To Printing and Stationery To Postage To Telephone To Office expenses To Bank Interest To Audit Fees To Annual General Meeting Exp. To Depreciation (Sports Equipment) To Surplus	4,80,000 24,000 2,000 6,000 48,000 22,000 10,000 1,00,000 28,000 1,20,000	By Subscription By Entrance Fees By Misc. Income	6,80,000 16,000 1,44,000
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600

Ans:

ATK
Receipts & Payments A/c
For the year ended 31st march, 2020

Receipts	₹	₹	Payments	₹	₹
To Balance b/d To Subscription received (WN 1) To entrance Fees To Misc. Income		54,400 6,53,600 16,000 1,44,000	By salaries paid (WN2) By Audit fee (WN 3) By telephone By stationery & Printing By Postage By office Expense By bank Interest By annual general Meeting expenses By Sports equipment (WN4) By Balance		4,72,000 8,000 6,000 24,000 2,000 48,000 22,000 1,00,000 72,000 1,14,000
		8,68,000			8,68,000

Balance Sheet of ATK Club as at March31, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund : Balance as per previous Balance Sheet Add: Surplus for 2020	8,82,400 1,20,000	10,02,400	Club Premises		7,60,000
Bank Loan		1,20,000	Sport Equipment		2,52,000
Subscription received in advance		33,600	Subscription Outstanding		72,000
Audit Fee Outstanding		10,000	Cash in hand		1,14,000
Salaries Outstanding		32,000			
		11,98,000			11,98,000

Balance Sheet of ATK Club as at 31st March, 2019

Liabilities	₹	Assets	₹
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000

Audit fees payable Bank Loan Capital Fund (balancing figure)	8,000 1,20,000 8,82,400	Subscriptions Outstanding Cash in hand	64,000 54,400
	10,86,400		10,86,400

Working Notes:

1. Subscription received in 2019-20

Add: Subscription for 2019-20 on accrual basis	6,80,000
Add: Amount received in advance on 31.03.2020	33,600
Outstanding as on 01.04.2019 received in 2019-20	64,000
	7,77,600
Less: Outstanding to be received on 31.03.2020	72,000
Amount of 2019-20 received in 2018-19	52,000
	₹ 6,53,600

2. Salary paid in 2019-20

Salary for 2019-20 on accrual basis	4,80,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
Less: Outstanding to be paid on 31.03.2020	32,000
	₹ 4,72,000

3. Audit Fees paid in 2019-20

Audit Fees for 2019-20 on accrual basis	10,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
Less: Outstanding to be paid on 31.03.2020	10,000
	₹ 8,000

4. Sports Equipment purchased during 2019-20

WDV as on 31.03.2020	2,52,000
Add: Depreciation	28,000
Less: WDV as on 31.03.2019	2,08,000
	₹ 72,00

13. From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	Amount	Payments	Amount
Cash in hand	4000	Salary	2000
Sale of drama tickets	1050	Repair expenses	500
Cash at bank	10000	Purchase of furniture	6000
Donations	5000	Misc. expenses	500
Subscriptions	12000	Purchase of investments	6000
Entrance fees	1000	Insurance premium	200
Interest received from bank	500	Snooker table	8000
Sale of old newspaper	150	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2650
		Cash at bank (closing)	7200
	33700		33700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.

2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.

3. 50% of donation is to be capitalized.

4. Entrance fees are to be treated as revenue income.

5. 8% interest has accrued on investment for five months.

6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 & ₹22,000 were paid for it

Ans:

Income and Expenditure Account of Pune Club
for the year ended 31st March,2021

Expenditure		Amount	Income		Amount
To Salary		2000	By Donation	5000	
To Repair expenses		500	Less: Capitalised (50%)	2500	2500
To Misc expenses	500		By Subscriptions (WN-2)		12550
Less: Prepaid	90	410	By Entrance fees		1000
To Insurance premium	200		By Interest on investment		200
Add: Outstanding	40	240	[8/100x6,000x5/12]		
To Stationary		150	By Interest received from bank		500
To Drama expenses		500	By Sale of old newspapers		150
To Surplus-excess of income over expenditure		14150	By Sale of drama tickets		1050
		17950			17950

Balance Sheet of Pune Club

Liabilities		₹	Assets	₹
Capital fund (WN-1)			Snooker table	30000
Opening balance	36000		Furniture	6000
Add: Surplus	14150		Investments	6000
Donations	2500	52650	Interest accrued	200
Outstanding insurance premium		40	Prepaid Misc. expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2650
			Cash at bank	7200
		53040		53040

Working Note:

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	36000	Snooker table	30000
Creditors for Snooker table	8000	Cash in hand	4000
		Cash at bank	10000
	44000		44000

Subscriptions

Subscription as per Receipt and Payment A/c	12000
Add: Outstanding for year 2020-21	900
	12900
Less: Advance for year 2021-22	(350)
	12550

14. From the following information supplied by ABC. Club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2022.

Liabilities	1/4/21	31/3/22
Outstanding subscription	840000	1200000
Advance subscription	15000	180000
Outstanding salaries	90000	108000
Cash in Hand and at Bank	660000	-
10% Investment	840000	420000
Furniture	168000	84000
Machinery	60000	120000
Sports goods	90000	150000

Subscription for the year amount to ₹ 18,00,000/-. Salaries paid ₹ 3,60,000. Face value of the Investment was ₹ 10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 84,000. Furniture was sold for ₹ 48,000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 3,00,000

Rent: ₹ 1,44,000 out of which ₹ 12,000 outstanding

Misc. Expenses: ₹ 30,000

Ans:

Receipts	₹	payments	₹
To balance b/d		By Salaries	360000
Cash and bank	660000	By Purchase of sports goods(1,50,000-90,000)	60000
To Subscription received (W.N.1)	1470000	By Purchase of machinery(1,20,000-60,000)	60000
To Sale of investments (W.N.2)	420000	By Sports expenses	300000
To Interest received on investment	84000	By Rent paid(1,44,000-12,000)	132000
To Sale of furniture	48000	By Miscellaneous expenses	30000
		By Balance c/d	
		Cash and bank	1740000
	2682000		2682000

Income and Expenditure account for the year ended 31-03-2022

Expenditure		Amount	Income		Amount
To Salary	360000		By subscription		1800000
Add outstanding for 2022	**1080000**		By interest on investment		
	468000		Received	84000	
Less outstanding for 2022	90000	3780000	Accrued	21000	105000
To sports expenses		300000			
To rent		144000			
To misc expenses		30000			
To loss on sale of furniture		36000			
To depreciation					
Furniture	8400				
Machinery	9000				
Sports goods	13500	30900			
To surplus		986100			
		1905000			1905000

Working Notes:

Calculation of Subscription received during the year 2021-22

Subscription due for 2021-22	1800000
Add: Outstanding of 2021	840000
Less: Outstanding of 2022	1200000
Add: Subscription of 2022 received in advance	180000
Less: Subscription of 2021 received in advance	150000
	1470000

Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 10,50,000 × 50% = ₹ 5,25,000

Sales price: ₹ 5,25,000 × 80% = ₹ 4,20,000

Cost price of investment sold: ₹ 8,40,000 × 50% = ₹4,20,000
Profit/loss on sale of investment: ₹ 4,20,000 - ₹ 4,20,000 = NIL

Loss on sale of furniture	
Value of furniture as on 01-04-2021	168000
Value of furniture as on 31-03-2022	84000
Value of furniture sold at the beginning of the year	84000
Less: Sales price of furniture	48000
Loss on sale of furniture	36000

Depreciation	
Furniture - ₹ 84,000 × 10% =	8400
Machinery - ₹ 60,000 × 15% =	9000
Sports goods – ₹ 90,000 × 15% =	13500

Interest accrued on investment	
Face value of investment on 01-04-2021	105000
Interest @ 10%	105000
Less: Interest received during the year	84000
Interest accrued during the year	13500
	21000

15. A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with ₹ 1,50,000 of his own and ₹ 2,25,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	payments	₹
Own capital	150000	Medicines purchase	183750
Loan	225000	Surgical equipment	187500
Prescription fees	495000	Motor car	240000
Visiting fees	187500	Motor car expneses	90000
Fees from lectures	18000	Wages and salaries	78750
Pension received	225000	Rent of clinic	45000
		General charges	36750
		Household expense	135000
		Household furniture	18750
		Expenses on daughter's marriage	161250
		Interest on loan	27000
		Balance at bank	82500
		Cash in hand	14250

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 22,500 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2022 was valued at ₹ 71,250.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

Ans:

Income and Expenditure Account
for the year ended 31st March, 2022

To Medicines consumed		By Prescription fees	495000
Purchases 183750		By Visiting fees	187500

Less closing stock	112500	By Fees from lectures	18000
To Motor car expense (90,000 x 2/3)	60000		
To Salaries (₹ 78,750 – ₹ 22,500)	56250		
To Rent for clinic	45000		
To General charges	36750		
To Interest on loan	27000		
To Excess of Income over expenditure	363000		
	700500		700500

Capital Account for the year ended 31st March, 2022

To drawings		By Cash/bank	150000
Motor car expenses	30000	By Cash/bank (pension	225000
Household expenses	135000	By Net income from practice	363000
Marriage expenses	161250		
To Salary of domestic servants	22500		
To Household furniture	18750		
To Balance c/d	370500		
	738000		738000

Balance Sheet as on 31st March, 2022

Liabilities	Amount	Assets	Amount
Capital	370000	Motor car	240000
loan	225000	Surgical equipment	187500
		Stock of medicines	71250
		Cash at bank	82500
		Cash in hand	14250
	595500		595500

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Amar Leela Hospital

Expenditure		Amount	Income	Amount
To bal b/d			By salaries	93600
Cash	2400		By hospital equipment	51000
Bank	15600	18000	By furniture	18000
To subscriptions			By additions to building	150000
2021		15300	By printing & stationary	7200
2022		73500	By diet expenses	46800
2023		7200	By rent and taxes	6000
To govt grants			By electricity	7200
Building		240000	By office expenses	6000
Maintenance		60000	By investment	60000
Fees for sundry			By cash	4200
patients		14400	By bank	20400
To donations		24000		
To net collections from benefits shows		18000		
		470400		470400

Additional information:

Value of building under construction as on 31.12.2022 **420000**

Value of hospital equipment on 31.12.2022 **153000**

Building Fund as on 1.1. 2022 **240000**
Subscriptions in arrears as on 31.12.2021 **19500**
Investments in 8% Govt. securities were made on 1st July, 2022.

Ans:

Income and Expenditure Account
for the year ended 31st March, 2022

To salaries	72000	By subscription	73500
To diet expense e	46800	By gove. grants	60000
To rent and rates	5100	By Fees from Sundry Patients	14400
To printing and stationery	7200	By Donations	24000
To electricity	7200	By Benefit shows (net collections)	18000
To office expense	6000	By Interest on Investments	2400
To excess of income over expenditure transferred to Capital Fun	48000		
	192300		192300

Balance Sheet as at 31st Dec., 2022

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital fund			Building		
Opening balance	**147900**		Opening balance	270000	
Excess of income			Additions	150000	420000
Over expenditure	48000	195900	Hospital equipment		
Building fund			Opening balance	102000	
Opening balance	240000		Additions	51000	153000
Add govt grant	240000	480000	Furniture		18000
Subscriptions Received in advance			Investment		
		7200	8% govt grants		60000
			Subscriptions		4200
			Accrued interest		2400
			Prepaid rent		900
			Bank		20400
			cash		4300
		683100			683100

17. The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.

Receipts	₹	payments	₹
To salaries	47500	By subscription	75000
To general expenses	5000	By entrance fee	2500
To audit fee	2500	By contribution for annual dineer	10000
To secretary's honorarium	10000	By annual sports meet receipts	7500
To stationary and printing	4500		
To annual dinner expenses	15000		
To interest and bank charges	1500		
To depreciation	3000		
To surplus	6000		
	95000		95000

This account had been prepared after the following adjustments:

	₹

Subscription outstanding at the end of 2020	6000
Subscription received in advance on 31st December,2020	4500
Subscription received in advance on 31st December, 2021	2700
Subscription outstanding on 31st December,2021	7500

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On 31st December, 2021 in hand was ₹ 16,000.

You are required to: Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date

Ans:

Expenditure	(₹)	Income	(₹)	(₹)
To balance b/d	13900	By salaries		47000
To subscription	71700	By general expenses	5000	
To entrance fees	2500	Add paid for 2022	600	5600
To contribution for annual dinner	10000	By audit fee		2000
To annual sport meet receipt	7500	By secy. honorarium		10000
		By stationery and printing		4500
		By annual dinner expenses		15000
		By interest & bank charges		1500
		By sports equipment's		4000
		By balance c/d		16000
	105600			**105600**
To balance b/d	16000			16000

Balance Sheet of Women Club as on December 31, 2021

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Subscription received In advance		2700	Freehold ground		100000
Audit Fee Outstanding		2500	Sports equipment as per last balance sheet	26000	
Salaries Outstanding		4500	Additions	4000	
Bank loan		20000		30000	
Capital fund			Less depreciation	(3000)	27000
Balance as per previous Balance Sheet	115400		Subscription outstanding		7500
Add: Surplus for 2021	6000	121400	Insurance prepaid		600
			Cash in hand		16000
		151100			**151100**

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	Amount	Assets	Amount
Subscriptions received in advance	4500	Freehold ground	100000
Salaries outstanding	4000	Sports equipment	26000
Audit fees unpaid	2000	Subscription outstanding	6000
Bank loan	20000	Cash in hand	13900
Capital fund	115400		

	145900		145900

Working Note 1:

Calculation of Subscription received during the year ended 31st December, 2021

Subscription as per Income & Expenditure account	75000
Add: Subscription outstanding at the end of 2020	6000
Add: Subscription received in advance on 31.12.2021	2700
	83700
Less: Subscription received in advance on 31.12.2020	(4500)
Less: Subscription outstanding on 31.12.2021	(7500)
	71700

Working Note 2:

Salaries as per income & expenditure	47500
Add: Opening outstanding	4000
Less: Closing outstanding	(4500)
Total Salary paid	47000

Working Note 3

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

18. The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:

Receipt and Payment Account of Mumbai Club

Receipts	Amount	Payments	Amount
Cash in hand	20000	Ground man's fee	75000
Balance at bank as per pass book:		Purchase of equipment's	155000
Saving account	193000	Rent of ground	25000
Current account	60000	Club night expenses	38000
Bank interest	5000	Printing and office expenses	30000
Donations and subscriptions	250000	Repairs to equipment	50000
Entrance fees	18000	Honorarium to secretary	4000
Contribution to club night	10000	Balance at bank as per pass book:	
Sale of equipment	8000	Saving account	204000
Bar room receipts	20000	Current account	20000
Proceeds from club night	78000	Cash in hand	25000
	662000		**662000**

You are given the following additional information (All figures are in ₹)

	1.4.20	31.03.21
Subscription due	15000	10000
Amount due for printing etc.	10000	8000
Interest not yet entered in the Pass book		2000
Cheques unpresented being payment for repairs	30000	25000
Estimated value of machinery and equipment	80000	175000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March,2021 and the Balance Sheet as at that date

Ans:

Income and Expenditure Account of Mumbai Club
for the year ending 31st March, 2021

Expenditure		Amount	Income	Amount
To groundman's fee		75000	By donations & subscription	245000

To rent of ground		25000	By receipts from bar room	20000
To club night expenses	38000		By Proceeds of club night	78000
Less contribution	(10000)	28000	By Interest (5,000+2,000)	7000
To Printing & Office Expenses (W.N. 3)		28000		
To Repairs to Equipment (W.N.4)		45000		
To Depreciation on Machinery (W.N. 5)		52000		
To Honorarium to Secretary		60000		
To Bonus to Groundsman		20000		
To Excess of Income over Expenditure		17000		
		350000		**350000**

Balance Sheet of Mumbai Club as on 31st March,2021

Liabilities		Amount	Assets	Amount
Outstanding Expenses:			Cash in hand	25000
Groundsman Bonus		20000	Cash in saving	204000
Printing		8000	Subscription receivables	10000
Honorarium(40000+20000)		60000	Interest due	2000
Bank over draft(25000-20000)		5000	Machinery and equipment	175000
Capital fund opening	288000			
Add surplus for the year	17000			
Add entrance fees	18000	323000		
		416000		**416000**

Balance Sheet as on 1st April,2020

Liabilities	Amount	Assets	Amount
Outstanding Expenses:		Cash in hand	20000
Printing	10000	Cash in saving	193000
Honorarium to secretary	40000	Subscription receivables	15000
Capital fund	288000	Cash in current	30000
		Machinery and equipment	80000
	338000		**338000**

Calculation of Donations and Subscriptions

Donations and Subscriptions as per Receipt and Payments A/c	250000
Add: Outstanding as on 31.03.21	10000
Less: Outstanding as on 01.04.20	15000
	245000

Printing and Office Expenses

Printing and Office Expenses as per Receipt and Payments A/c	3000
Add: Outstanding as on 31.03.21	8000
Less: Outstanding as on 01.04.20	10000
	28000

Repairs to Equipment

Repairs as per Receipt and Payments A/c	50000
Add: Outstanding as on 31.03.21	25000
Less: Outstanding as on 01.04.20	30000
	45000

Depreciation on Machinery and equipment

Balance as on 01.04.20	80000
Add: Purchases during the year	155000
Less: Sale of Equipment	8000

Less: Balance as on 31.03.21	175000
	52000

TOPIC 9: ACCOUNTS FROM INCOMPLETE RECORDS

QUESTIONS

QUESTION 1:

Raju does not maintain proper records of his business. However, he provides the following information:

Opening capital	₹ 10,000
Closing capital	₹ 12,500
Drawings during the year	₹ 3,000
Capital added during the year	₹ 3,750

You are required to calculate the profit or loss for the year.

Ans:

Computation of Profit or Loss during the year

Closing Capital	₹ 12,500
Add: Drawings during the year	₹ 3,000
	₹ 15,500
Less: Additional capital during the year	(₹ 3,750)
Less: opening capital	(₹ 10,000)
Net Profit for the year	₹ 1,750

ALTERNATIVELY

Profit/Loss can also be ascertained as balancing figure by preparing capital account as follows:

Particulars	₹	Particulars	₹
To drawings	3,000	By Balance b/d	10,000
To Balance c/d	12,500	By additional capital	3,750
		By Net Profit (Bal Fig)	1,750
	15,500		**15,500**

It is clear from the above discussion that to follow the capital comparison method, one should know the opening capital and closing capital. This should be determined by preparing statement of affairs at the two respective points of time.

Capital = Assets (-) liabilities.

Thus, the preparation of statement of affairs will require listing of assets and liabilities and their amount. The accountant utilizes the following sources for the purpose of finding out the assets and liabilities of a business enterprise:

(i) Cash book for cash balance

(ii) Bank pass book for bank balance

(iii) Personal ledger for debtors and creditors

(iv) Inventory by actual counting and valuation.

(v) As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down value would be included in the Statement of Affairs.

After obtaining all necessary information about assets and liabilities, the next task of the accountant is to prepare statement of affairs at two different points in time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on...........

Liabilities	₹	Assets	₹
Capital (Bal. Fig.)	xx	Building	xx
Loans, Bank overdraft	xx	Machinery	xx
Sundry creditors	xx	Furniture	xx
Bills payable	xx	Inventory	xx
Outstanding expenses		Sundry debtors	xx
		Bills receivable	xx
		Loans and advances	xx
		Cash and bank	xx
		Prepaid expenses	xx
	xx		**xx**

Now from the statement of affairs prepared at two different dates, the opening and closing capital balances can be obtained.

QUESTION 2:

Rakesh started his business on 1st of April 2021. He invested a capital of Rs 1,00,000. On 31st March 2022, he has the following information *available as per the Single-entry system* maintained by him.

	₹
Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2022.

Ans:

Statement of Affairs as on 31st March, 2022

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	12,000	Cash balance	3,200
Loan from bank	10,000	Inventory	34,800
Capital (Bal fig)	1,32,000	Sundry Debtors	31,000
		Machine	85,000
	1,54,000		**1,54,000**

Statement of profit or loss for the year ended 31st March, 2022

Capital as at 31st March 2022	1,32,000
Add: Drawings made during the year	24,000
Total	**1,56,000**
Less: Opening Capital as at 1st April 2021	(1,00,000)
Profit for the year ended 31st March 2022	56,000

QUESTION 3

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021 (₹)	31-03-2022 (₹)
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022.

Ans:

Mr. X

Statement of Affairs

as on 31-03-20X1 & 31-03-20X2

Liabilities	31-03-20X1 (₹)	31-03-20X2 (₹)	Assets	31-03-20X1 (₹)	31-03-20X2 (₹)
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
Loans	1,00,000	80,000	Furniture	50,000	45,000
Sundry creditors	40,000	70,000	Inventory	1,20,000	2,70,000
			Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	**5,90,700**		**3,81,200**	**5,90,700**

QUESTION 4:

Take figures given in **Question** 3. Find out profit of Mr. X for the year ended 31-03-2022.

Ans:

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-03-20X2	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (₹ 2000 × 12)	24,000
	4,24,700
Less: Capital Balance as on 31-03-20X1	(2,41,200)
Profit	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.

- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

ALTERNATIVELY

Capital account can be prepared as follows:

Particulars	₹	Particulars	₹
		By Balance b/d	2,41,200
To drawings	24,000	By additional capital	40,000
		By Net Profit (Bal Fig)	1,83,500
To Balance c/d	4,40,700		
	4,64,700		**4,64,700**

QUESTION 5:

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022.

				₹
1-4-2020	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
	Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2022	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Wife's Jewellery	1,25,000
			Loan to Moti's Brother	20,000
	Liabilities	:	Sundry creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2020-2021 & ₹ 1,23,000 for 2021-2022 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Ans:

Capital Account of Shri Moti

	1-4-20X0 (₹)		1-4-20X2 (₹)
Assets			
Cash in hand	25,500		16,000
Inventory	56,000		91,500
Sundry debtors	41,500		52,500
Land & Building	1,90,000		1,90,000
Wife's Jewellery	75,000		1,25,000
Motor Car	—		1,25,000
Loan to Moti's Brother	—		20,000

		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-20X2				5,65,000
Add: Drawings – Domestic Exp. for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-20X0				(3,13,000)
Income earned in 20X0-20X1 and 20X1-20X2				3,48,000
Income declared (₹ 1,05,000 + ₹ 1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000.

QUESTION 6:

Calculate the bad debts from the below information:

Opening balance of Debtors	₹ 5,00,000
Closing balance of Debtors	₹ 7,00,000
Amount received in Cash	₹ 6,00,000
Discount allowed	₹ 10,000
Credit Sales	₹ 11,40,000
Bills Receivable	₹ 3,00,000
Bad Debts	???

Ans:

Debtors Account

Particulars	Amount	Particulars	Amount
Balance b/f	5,00,000	Cash A/c	6,00,000
Credit Sales	11,40,000	Discount allowed	10,000
		Bills Receivable	3,00,000
		Bad Debts (Bal fig)	30,000
		Balance c/f	7,00,000
	16,40,000		**16,40,000**

QUESTION 7:

Calculate the credit purchases from the below information:

Opening balance of creditors ₹ 4,00,000

Closing balance of creditors ₹ 5,00,000

Payments made in Cash ₹ 8,50,000

Discount received ₹ 20,000

Ans:

Total Creditors Account

Particulars	Amount	Particulars	Amount

Cash paid Discount received Balance c/d	8,50,000 20,000 5,00,000	Balance b/d Credit Purchases (Bal. fig)	4,00,000 9,70,000
	13,70,000		**13,70,000**

QUESTION 8:

Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2022 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Bal. at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	68,000		**68,000**

Particulars of other assets and liabilities are as follows:

	1st April, 2021	31st March, 2022
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2022 after providing depreciation at 10 per cent on machinery and furniture and ₹ 800 against doubtful debts.

Ans:

A. Adamjee

Trading and Profit & Loss Account for the year ended 31st March 20X2

	₹	₹		₹
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		**67,800**
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Dep:				
Machinery@ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		

To Net profit carried to Capital A/c (b.f.)	2,830		
	15,000		**15,000**

Balance Sheet as on 31st March 20X2

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital			Machinery	7,500	
on 1st April, 20X1	29,100		Less : Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the year	2,830		Less : Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	Less : Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bank		6,400
			Cash in hand		500
		42,230			**42,230**

Working Notes:

1. **Balance sheet of A. Adamjee as on 1st April 20X1**

Liabilities	₹	Assets	₹
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		**34,900**

2. **Ledger Accounts**

A. Adamjee's Capital Account

		₹			₹
March 31	To Drawings	3,600	April 1	By Balance b/d	29,100
March 31	To Balance c/d (b.f.)	34,330	March 31	By Net Profit	2,830
			March 31	By Cash	6,000
		37,930			**37,930**

B. Sales Account

		₹			₹
March 31	To Trading A/c (b.f.)	62,100	March 31	By Cash	11,000
			March 31	Total Debtors Account (Credit Sales)	51,100
		62,100			**62,100**

C. Total Debtors Account

		₹			₹
April 1 March 31	To Balance b/d To Credit sales (Bal. fig.)	14,500 51,100	March 31 March 31	By Cash By Balance c/d	48,000 17,600
		65,600			**65,600**

D. Purchases Account

		₹			₹
March 31	To Cash A/c To total Creditors A/c (credit Purchases)	12,000 37,100	March 31	By Trading A/c (b.f.)	49,100
		49,100			**49,100**

E. Total Creditors Account

		₹			₹
March 31	To Cash	35,000	April 1	By Balance b/d	5,800
March 31	To Balance b/d	7,900	March 31	By Credit Purchases (Bal. fig.)	37,100
		42,900			**42,900**

QUESTION 9:

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	**As on 1st April 2021 (₹)**	**As on 31st March 2022 (₹)**
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000

Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200
Cheques issued to trade creditors		60,270

Ans:

In the books of Mr. Manoj

Trading and Profit & Loss Account for the year ending 31st March, 20X2

	₹	₹		₹	₹
To Opening Inventory		8,040	By Sales		
			Cash	4,600	
To Purchases (58,000 + 1,030)	59,030		Credit	67,210	
Less: Returns	(400)	58,630		71,810	
To Gross profit c/d		14,810	Less: Returns	(1,450)	70,360
			By Closing inventory		11,120
		81,480			**81,480**
To Sundry expenses (W.N.(v))		9,300	By Gross profit b/d		14,810
To Discount		1,500	By Discount		700
To Bad Debts		420			
To Net Profit transfer to Capital		4,290			
		15,510			**15,510**

Balance Sheet of Mr. Manoj

as on 31st March, 20X2

Liabilities	₹	₹	**Assets**	₹
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		**49,110**

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	₹		₹
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales- Bal. Fig.)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080

	96,800		96,800

(ii) Total Debtors Account

	₹		₹
To Balance b/d	16,530	By Bank	62,500
To Sales (71,810–4,6003)	67,210	By Discount(64,000 - 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		**83,740**

(iii) Total Creditors Account

	₹		₹
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		**73,770**

(iv) Balance Sheet as on 1st April, 20X1

Liabilities	₹	Assets	₹
Capital	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		**43,140**

(v)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-20X2	330
	9,900
Less: Outstanding on 1-4-20X1	(600)
	9,300

(vi) Due to lack of information, depreciation has not been provided on fixed assets.

QUESTION 10:

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31st March 2021	31st March 2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021- 2022:

(i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.

(ii) Cash Withdrawn from bank ₹ 1,21,000.

(iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.

(iv) Cheques collected from customers but dishonoured ₹ 5,700.

(v) Bills accepted by customers ₹ 40,000.

(vi) Bills endorsed ₹ 10,000.

(vii) Bills discounted ₹ 20,000, discount ₹ 750.

(viii) Bills matured and duly collected ₹ 16,000.

(ix) Bills accepted ₹ 24,000.

(x) Paid suppliers by cheque ₹ 3,20,000.

(xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.

(xiii) A building was purchased on 30-11-2021 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.

Other transactions:

(i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses

(ii) ₹ 17,000. The firm anticipates defeat in the suit.

(iii) Goods returned to suppliers ₹ 4,200.

(iv) Goods returned by customers ₹ 1,200.

(v) Discount offered by suppliers ₹ 2,700.

(vi) Discount offered to the customers ₹ 2,400.

(vii) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

Ans:

Trading and Profit & Loss Account of Mr. Anup
for the year ended 31st March 20X2

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return	(4,200)	4,49,900	By Closing Inventory		1,90,000
To Gross Profit (b.f.)		5,88,650			
		11,48,550			**11,48,550**
To salary (9,200 x 12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges			By Discount		2,700
(18,700 + 2,200)		20,900			
To Legal expenses		17,000			
To Discount (2,400 + 750)		3,150			
To Shop exp. (600 x 12)		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent		20,000			

To Net Profit (b.f.)	2,57,700		
	5,91,350		**5,91,350**

Balance-Sheet as on 31st March 20X2

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital introduced				
Maturity value from LIC	20,000			
Rent	14,000		Furniture	25,000
Add : Net Profit	2,57,700		Inventory	1,90,000
	5,29,900		Sundry debtors	92,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Bills receivable	6,000
Rent outstanding		20,000	Cash at Bank	87,000
Sundry creditors		56,000	Cash in Hand	5,300
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity & Tel. charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		**7,77,300**

Working Notes :

(i) Sundry Debtors Account

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
		By Bank A/c - Cheque received	5,700
To Bank A/c Cheque ishonoured	5,700	By Cash (from summary cash and bank account)	8,97,150
To Credit sales (Bal. Fig.)	9,59,750	By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		**10,38,450**

(ii) Bills Receivable Account

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c (Bills discounted)	750
		By Bank	
		Bills collected on maturity	16,000
		By Sundry debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000

	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Bal. Fig.)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		**4,94,100**

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Bal. fig.)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(v) **Summary Cash and Bank A/c**

	Cash (₹)	Bank (₹)		Cash (₹)	Bank (₹)
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp. (600 x 12)	7,200	
To Bank	1,21,000		By Salary (9,200 x 12)	1,10,400	
To Sundry Debtors		5,700	By Drawing A/c (1,400 x 12)	16,800	
To Bills receivable		19,250	By Bills Payable		22,000
To Bills receivable		16,000	By Sundry creditors	77,200	3,20,000
To Capital (maturity value of LIC policy)		20,000	By Furniture	25,000	
To Capital (Rent received)		14,000	By Sundry Debtors		5,700
			By Electricity & Tel. Charges	18,700	
			By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) **Statement of Affairs as on 31st March 20X1**

Liabilities	₹	**Assets**	₹

Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		**2,90,200**

A. PRACTICAL QUESTIONS

Question 11

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is ₹ 1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2022.

Ans:

Calculation of Credit Sales and Total sales

Credit Sales for the year ended 2021-22 $= \text{Debtors} \times \frac{12 \text{ months}}{1.5 \text{ months}}$

$= ₹\ 1,25,000 \times \frac{12 \text{ months}}{1.5 \text{ months}} = ₹\ 10,00,000$

Total sales for the year ended 2021-22 $= \text{Credit sales} \times \frac{100\%}{80\%}$

$= ₹\ 10,00,000 \times \frac{100\%}{80\%} = ₹\ 12,50,000$

Question 12

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		**4,86,000**

You are furnished with the following information:

(i) His sales, for the year ended 31st March, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

(ii) Total sales during the year 2020-21 were ₹ 5,00,000.

(iii) Payments for all the purchases were made by cheques only.

(iv) Goods were sold for cash and credit both. Credit customers pay be cheques only.

(v) Deprecation on furniture is to be charged 10% p.a.

(vi) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	₹
Payment to creditors	3,00,000

Payment of rent up to 31st March, 2022	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2022:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2022, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

Ans:

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 20X2

Particulars	₹	Particulars		₹
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			**7,60,000**
To Salary (2,000 x 12)	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses (1,200 x 12)	14,400			
To Loss of cash (W.N. 6)	23,600			
To Depreciation on furniture	4,000			
To Net Profit (b.f.)	34,000			
	1,16,000			**1,16,000**

Balance Sheet as on 31st March, 20X2

Liabilities		₹	Assets		₹
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	(4,000)	36,000
Less: Drawings (500 x 12)	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			**5,78,000**

Working Notes:

(i) Calculation of purchases

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		**4,46,000**

(ii) Calculation of total sales

	₹

Sales for the year 20X0-X1	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 20X1-X2	**6,00,000**

(iii) Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(iv) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		**5,80,000**

(v) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		**5,78,000**

(vi) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1st April 20X1		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹ 2,000x12)	24,000	
Office expenses (₹ 1,200 x 12)	14,400	
Drawings of A (₹ 500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 20X2 (defalcated by the cashier)		23,600

Question 13

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2021	As on 31.3.2022
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(i) Payment to creditors ₹ 7,00,000

(ii) Payment for business expenses ₹ 1,20,000

(iii) Receipts from debtors ₹ 7,50,000

(iv) Loan ₹ 1,00,000 taken on 1.10.2021 at 10% per annum

(v) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

Ans:

Trading Account of Ram
for the year ended 31st March, 2022

	₹			₹
To Opening stock	2,80,000	By Sales		
To Purchases	7,70,000	Cash	2,40,000	
To Gross Profit @ 25%	3,10,000	Credit	10,00,000	12,40,000
		By Closing Stock (bal. fig.)		1,20,000
	13,60,000			**13,60,000**

Profit and Loss Account of Ram for the year ended 31st March, 2022

	₹		₹
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000 x 6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		**3,10,000**

Balance Sheet of Ram as at 31st March, 2022

Liabilities		**₹**	**Assets**	**₹**
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes:

1. **Sundry Debtors Account**

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

3. Cash and Bank Account

	Cash (₹)	Bank (₹)		Cash (₹)	Bank (₹)
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

B. EXTRA PRACTICE QUESTIONS

Question 14

A and B are in Partnership having Profit sharing ratio 2:1. The following information is available about their assets and liabilities:

	31-3-20X1 (₹)	31-3-20X2 (₹)
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000
Inventory	60,000	74,750
Loan	80,000	—
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ ₹ 2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	A (₹)	B (₹)
April 30	2,000	—
May 31	—	2000
June 30	4,000	—
Sept. 30	—	6,000
Dec. 31	2,000	—
Feb. 28	—	8,000

On 30th June, they took C as 1/3rd partner who contributed ₹ 75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases ₹ 10,000 may be depreciated for 1/4th of a year.

Current account as on 31-3-20X1: A ₹ 5,000 (Cr.), B ₹ 2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31-3-20X2.

Ans:

Statement of Affairs
As on 31-3-20X1 and 31-3-20X2

Liabilities	31-3-20X1 (₹)	31-3-20X2 (₹)	Assets	31-3-20X1 (₹)	31-3-20X2 (₹)
Capital A/cs:			Furniture	1,20,000	1,17,750
A	1,50,000	75,000	Advances	70,000	50,000
B	75,000	75,000	Inventory	60,000	74,750
C	—	75,000	Debtors	40,000	45,000
Loan	80,000	—	Cash at bank	50,000	1,40,000
Creditors	32,000	30,000	Current A/c B	2,000	—
Current A/c's					
A	5,000	74,036*			
B	—	48,322*			
C		50,142*			
	3,42,000	**4,27,500**		**3,42,000**	**4,27,500**

*See current A/cs.

Notes:

(i)	Depreciation on Furniture	
	10% on ₹ 1,20,000	12,000
	10% on ₹ 10,000 for 1/4 year	250
		12,250
(ii)	Furniture as on 31-3-20X1	
	Balance as on 31-3-20X1	1,20,000
	Add: new purchase	10,000
		1,30,000
	Less: Depreciation	(12,250)
		1,17,750
(iii)	Total of Current Accounts as on 31-3-20X2	
	Total of Assets (1,17,750 + 50,000 + 74,750 + 45,000 + 1,40,000)	4,27,500
	Less: Fixed Capital (75,000 + 75,000 + 75,000) + Liabilities (30,000)	(2,55,000)
		1,72,500

This is after adding salary, interest on capital and deducting drawings and interest on drawings.

(iv)	Interest on Capital :				₹
	A :	on	1,50,000	@ 6% for 3 months	2,250
		on	75,000	@ 6% for 9 months	3,375
					5,625
	B :	on	75,000	@ 6% for 1 year	4,500
	C :	on	75,000	@ 6% for 9 months	3,375
					7,875
(v)	Interest on Drawings :				
	A :	on	2,000	@ 10% for 11 months	183
		on	4,000	@ 10% for 9 months	300

		on	2,000	@ 10% for 3 months	50
					533
	B :	on	2,000	@ 10% for 10 months	167
		on	6,000	@ 10% for 6 months	300
		on	8,000	@ 10% for 1 month	67
					534
Allocation of Profit				₹ 1,15,067	
3 months Profit				₹ 28,767	
9 months Profit				₹ 86,300	
A : 2/3 × ₹ 28,767 + 1/3 ×₹86,300					= ₹ 47,944
B : 1/3 × ₹ 1,15,067					= ₹ 38,356
C: 1/3 × ₹ 86,300					= ₹28,767
					₹ 1,15,067

Current Accounts

	A	B	C		A	B	C
To Balance b/d	—	2,000	—	By Balance b/d	5,000	—	—
To Drawings	8,000	16,000	—	By Salary	24,000	24,000	18,000
To Interest on drawings	533	534	—	By Interest on capital	5,625	4,500	3,375
To Balance c/d (b.f.)	74,036	48,322	50,142	By Share of Profit	47,944	38,356	28,767
	82,569	**66,856**	**50,142**		**82,569**	**66,856**	**50,142**

Statement of Profit

			₹
Current Account Balances as on 31-3-20X2			1,72,500
Less: Salary			
A ₹ 2,000 × 12	=	24,000	
B ₹ 2,000 × 12	=	24,000	
C ₹ 2,000 × 9	=	18,000	(66,000)
Less: Interest on Capital			
	A	5,625	
	B	4,500	
	C	3,375	(13,500)
Add: Drawings			
	A	8,000	
	B	16,000	24,000
Add: Interest on Drawings			
	A	533	
	B	534	1,067
			1,18,067
Less: Current A/c Balances as on 31-3-20X1 (₹ 5,000 – ₹ 2,000)			(3,000)
NET PROFIT FOR THE YEAR			1,15,067

Question 15:

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 20X2 and Balance Sheet as on that date:

(a)

	Balance as on 31st March, 20X1 (₹)	Balance as on 31st March, 20X2 (₹)
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Inventory	?	40,000
Bills payable	28,000	16,000
Cash and bank balances	1,80,000	1,04,000
Sundry debtors	1,60,000	?
Bills receivable	32,000	28,000
Sundry creditors	1,20,000	?

(b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers & miscellaneous income Miscellaneous Trade expenses (including salaries etc.) Collection from debtors	20,000 80,000 2,00,000	Cash purchases Payment to creditors Cash sales	48,000 1,84,000 80,000

(c) Other information:

- Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.
- Some items of old furniture, whose written down value on 31st March, 20X1 was ₹ 20,000 was sold on 30th September, 20X1 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be created @ 2%.
- Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.
- Outstanding salary on 31st March, 20X1 was ₹ 8,000 and on 31st March, 20X2 was ₹ 10,000. On 31st March, 20X1, Profit and Loss Account had a credit balance of ₹ 40,000.
- 20% of total sales and total purchases are to be treated as for cash.
- Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

Ans:

Mr. Shiv Kumar

Trading and Profit and Loss Account for the year ended 31st March, 20X2

	₹		₹
To Opening inventory (balancing figure)	80,000	By Sales (3,20,000x 100/80)	4,00,000
To Purchases (1,92,000 x 100/80)	2,40,000	By Closing inventory	40,000
To Gross profit c/d @ 30% on sales	1,20,000		
	4,40,000		**4,40,000**
To Miscellaneous expenses		By Gross profit b/d	1,20,000

(₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By Miscellaneous receipts	20,000
To Depreciation:		By Net loss transferred to Capital A/c (b.f.)	25,840
Building ₹ 36,000			
Furniture (₹6,800 + ₹ 1,000) ₹ 7,800			
Motor Car ₹ 16,000	59,800		
To Loss on sale of furniture	11,000		
To Bad debts	8,000		
To Provision for doubtful debts	5,040		
	1,65,840		**1,65,840**

Balance Sheet as on 31st March, 20X2

Liabilities	₹	₹	Assets	₹	₹
Capital as on 1st April, 20X1		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit & Loss A/c				3,60,000	
Opening balance	40,000		Less: Provision for		
Less: Loss for the year	(25,840)	14,160	depreciation	(36,000)	3,24,000
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000	Less: Sold during the year	(20,000)	
O/s salary		10,000		40,000	
			Add: Addition during the year	28,000	
				68,000	
			Less: Depreciation	(6,800)	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	(16,000)	64,000
			Inventory in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	(5,040)	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			**8,68,160**

Working Notes:

(i) Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c (credit)	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	2,52,000
	4,80,000		**4,80,000**

(ii) Sundry Creditors Account

	₹		₹

To Cash/Bank A/c To Bills Payable A/c To Balance c/d (bal. fig.)	1,84,000 16,000 1,12,000	By Balance b/d By Purchases A/c	1,20,000 1,92,000
	3,12,000		**3,12,000**

1. Total sales (80,000 x 100/ 20) – cash sales (80,000)
2. Total purchases (48,000 x 100/ 20) – cash purchases (48,000)

(iii) Bills Receivable Account

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c (bal. fig.)	24,000
To Sundry Debtors A/c	20,000	By Balance c/d	28,000
	52,000		**52,000**

(iv) Bills Payable Account

	₹		₹
To Cash/Bank A/c (bal. fig.)	28,000	By Balance b/d	28,000
To Balance c/d	16,000	By Sundry Creditors A/c	16,000
	44,000		**44,000**

(v) Furniture Account

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c (b.f.)	28,000	By Depreciation A/c (on furniture sold)	1,000
		By Profit and loss A/c (loss on sale) (20,000 - 1,000 - 8,000)	11,000
		By Depreciation A/c (68,000 x 10%)	6,800
		By Balance c/d (68,000 - 6,800)	61,200
	88,000		**88,000**

Question 16:

Ms. Rashmi furnishes you with the following information relating to her business:

(a) Assets and liabilities as on

	1.4.20X1 (₹)	31.03.20X2 (₹)
Furniture (w.d.v)	12,000	12,700
Inventory at cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

(b) Receipts and payments during the year:

Collections from debtors, after allowing discount of ₹ 3,000 amounted to ₹ 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of ₹ 250 by the bank, totalled to ₹ 12,250.

Creditors of ₹ 80,000 were paid ₹ 78,400 in full settlement of their dues. Payment for freight inwards ₹ 6,000.

Amount withdrawn for personal use ₹ 14,000. Payment for office furniture ₹ 2,000.

Investment carrying annual interest of 4% were purchased at ₹ 192 (face value ₹ 200) on 1st October, 20X1 and payment made thereof. Expenses including salaries paid ₹ 29,000.

Miscellaneous receipts ₹ 1,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 20,000. Of these, bills of exchange of ₹ 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 800 was dishonoured.

(d) Goods costing ₹ 1,800 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of 33-1/3% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st March, 20X2 and the balance sheet as on that date.

Ans:

Trading and Profit and Loss Account of Ms. Rashmi
for the year ended 31st March , 20X2

		₹		₹
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @ 33-1/3%		48,700		
		1,60,100		**1,60,100**
To Sundry expenses (W.N.6)		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment	4
To Discount allowed			(200x 4/100 x ½)	
Debtors	3,000		By Discount received	1,600
Bills Receivable	250	3,250	By Miscellaneous income	1,000
To Depreciation on furniture		1,300		
(12,000 + 2,000 – 12,700)				
To Provision for doubtful debts		972		
To Net Profit (b.f.)		15,582		
		51,304		**51,304**

Balance Sheet as on 31st March, 20X2

Liabilities		(₹)	Assets		(₹)
Capital as on 1.1.20X1 (W.N.1)	37,600		Furniture (w.d.v.) Additions during the	12,000	
Less: Drawings	(15,808)		Year	2,000	
	21,792		Less: Depreciation (b.f.)	(1,300)	12,700
Add: Net Profit	15,582	37,374	Investment		192
Sundry creditors		30,000	Interest accrued (200 x 4% x 6/12)		4
Outstanding expenses		3,600	Closing Inventory		14,000
			Sundry debtors	38,900	

		Less: Provision for doubtful debts @ 2.5%	972	37,928
		Bills receivable (W.N.7)		3,500
		Cash in hand and at bank		1,250
		Prepaid expenses		1,400
	70,974			**70,974**

Working Notes:

(i) Capital on 1st April, 20X1

Balance Sheet As On 1st April , 20X1

Liabilities	₹	Assets	₹
Capital (Bal. fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		**63,600**

(ii) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 - 78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c	91,200
To Balance c/d	30,000	(Balancing figure)	
	1,14,000		**1,14,000**

(iii) Sales made during the year

		₹
Opening inventory		16,000
	91,200	
Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

(iv) Debtors on 31st March , 20X2

Sundry Debtors Account

	₹		₹
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c		By Bills receivable A/c	20,000
(bill dishonored)	800	By Balance c/d (Bal. fig.)	38,900
	1,78,900		**1,78,900**

(v) Additional drawings by Ms. Rashmi

Cash and Bank Account

	₹		₹
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c	15,808
		[14,000 + 1,808 (b.f.)	
		(Additional drawings)]	
		By Balance c/d	1,250
	1,32,650		**1,32,650**

(vi) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid exp. A/c (on 1.4.20X1)	1,200	By O/s exp. A/c (on 1.4.20X1)	4,000
To Bank A/c	29,000	By Profit & Loss A/c (Bal. fig.)	28,400
To O/s exp. A/c (on 31.03.20X2)	3,600	By Prepaid expenses A/c	1,400
	33,800		**33,800**

(vii) Bills Receivable on 31st March, 20X2

Bills Receivable Account

	₹		₹
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		**20,000**

Question 17:

A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.20X1 is ₹ 1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.20X2.

Ans:

Calculation of Credit Sales and Total sales

Credit Sales for the year ended 20X1-X2 $= \text{Debtors} \times \frac{12 \text{ months}}{1.5 \text{ months}}$

$= ₹\ 1{,}25{,}000 \times \frac{12 \text{ months}}{1.5 \text{ months}} = ₹\ 10{,}00{,}000$

Total sales for the year ended 20X1-X2 $= \text{Credit sales} \times \frac{100\%}{80\%}$

$= ₹\ 10{,}00{,}000 \times \frac{100\%}{80\%} = ₹\ 12{,}50{,}000$

Question 18:

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 20X1:

Liabilities	₹	Assets	₹

Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		**1,21,500**

You are furnished with the following information:

(a) Sri Srinivas sells his goods at a profit of 20% on sales.

(b) Goods are sold for cash and credit. Credit customers pay by cheques only.

(c) Payments for purchases are always made by cheques.

(d) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 20X2 disclosed the following:

	₹
Payments to creditors	75,000
Payments of rent up to 31.3.20X2	4,000
Amounts deposited into the bank	1,25,000
(include ₹ 30,000 received from debtors by cheques)	

The following are the balances on 31st March, 20X2:

Stock	₹ 40,000
Debtors	₹ 30,000
Creditors for goods	₹ 36,500

On the evening of 31st March, 20X2 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 20X2 and a Balance Sheet as on that date.

Ans:

Statement showing the amount of cash defalcated by the Cashier

		₹
Cash balance as on 1.1.20X2	2,000	
Add : Cash sales (W.N.2 and W.N.4)	1,16,250	1,18,250
Less : Salary to clerk (₹ 300 × 13)	3,900	
Sundry expenses (₹ 50 × 13)	650	
Drawings of Sri Srinivas (₹ 100 × 13)	1,300	
Deposit into bank (₹ 1,25,000 – ₹ 30,000)	95,000	(1,00,850)
Cash balance as on 31.3.20X2 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas for the 13 week period ended 31st March, 20X2

	₹			₹
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash (W.N.2 & W.N.4)	1,16,250	
To Gross Profit c/d	30,250	Credit (W.N.3)	35,000	1,51,250
		By Closing stock		40,000

	191,250		1,91,250
To Salaries (300 x 13)	3,900	By Gross profit b/d	30,250
To Rent (₹ 4,000 – ₹ 1,000)	3,000		
To Sundry Expenses (50 x 13)	650		
To Loss of cash by theft	17,400		
To Net Profit (b.f.)	5,300		
	30,250		**30,250**

Balance Sheet of Sri Srinivas
as on 31st March, 20X2

Liabilities		**₹**	**Assets**	**₹**
Capital as on 1.1.20X2	1,00,000		Furniture	10,000
Add : Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less : Drawings	(1,300)	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		**1,40,500**

Working Notes:

(i) Purchases

Creditors A/c

	₹		**₹**
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c (Bal. fig.)	91,000
	1,11,500		**1,11,500**

(ii) Total sales

	₹
Opening stock	70,000
Add : Purchases	91,000
	1,61,000
Less : Closing stock	(40,000)
Cost of goods sold	1,21,000
Add : Gross profit @ 25% on cost	30,250
Total Sales	1,51,250

(iii) Credit Sales

Debtors Account

	₹		**₹**
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		**60,000**

(iv) Cash Sales

	₹
Total sales	1,51,250

Less : Credit Sales	(35,000)
Cash sales	1,16,250

(v) Bank balance as on 31.3.20X2

	₹		₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c (1,25,000 - 30,000)	95,000	By Balance c/d (b.f.)	60,500
	1,39,500		**1,39,500**

Notes:

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 20X2 would amount ₹ 22,700.

Question 19:

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 20X1 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		**4,86,000**

You are furnished with the following information:

1. His sales, for the year ended 31st March, 20X2 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

   Total sales during the year 20X0-X1 were ₹ 5,00,000.
2. Payments for all the purchases were made by cheques only.
3. Goods were sold for cash and credit both. Credit customers pay be cheques only.
4. Deprecation on furniture is to be charged 10% p.a.
5. Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March 20X2 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31st March, 20X2	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 20X2:

	₹
Stock	1,60,000
Debtors	1,20,000

Creditors for goods	1,46,000

On the evening of 31st March 20X2, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 20X2 and Balance Sheet as on that date. All the workings should form part of the answer.

Ans:

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 20X2

Particulars	₹	Particulars		₹
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			**7,60,000**
To Salary (2,000 x 12)	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses (1,200 x 12)	14,400			
To Loss of cash (W.N. 6)	23,600			
To Depreciation on furniture	4,000			
To Net Profit (b.f.)	34,000			
	1,16,000			**1,16,000**

Balance Sheet as on 31st March, 20X2

Liabilities		₹	Assets		₹
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	(4,000)	36,000
Less: Drawings (500 x 12)	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			**5,78,000**

Working Notes:

(i) Calculation of purchases

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		**4,46,000**

(ii) Calculation of total sales

	₹
Sales for the year 20X0-X1	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 20X1-X2	**6,00,000**

(iii) Calculation of credit sales

	₹
Total sales	6,00,000

Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(iv) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		**5,80,000**

(v) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		**5,78,000**

(vi) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1st April 20X1		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹ 2,000x12)	24,000	
Office expenses (₹ 1,200 x 12)	14,400	
Drawings of A (₹ 500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 20X2 (defalcated by the cashier)		23,600

Question 20:

Mr. Anil, a trader keeps his books of account under single entry system. On 31st March, 20X1 his statement of affairs stood as follows :

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		**10,00,000**

The following was the summary of Cash–book for the year ended 31st March, 20X2:

Receipts	₹	Payments	₹
Cash in Hand and at Bank on		Payments to Trade Creditors	75,07,000
1st April, 20X1	80,000	Payments for Bills payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700

Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank	
		on 31st March, 20X2	1,27,300
	93,10,000		**93,10,000**

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balance method.

You are also informed about the following balances as on 31st March, 20 X2:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 20X2 and Balance Sheet as at that date.

Ans:

In the books of Mr. Anil
Trading and Profit and Loss Account
for the year ended 31st March, 20X2

	₹			₹
To Opening Stock	6,10,000	By Sales		
To Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To Gross profit c/d	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
(10% of 93,00,000)		By Closing stock		6,50,000
	99,50,000			**99,50,000**
To Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000
To Discount allowed	36,000	By Discount received		28,000
To Depreciation	15,000			
(15% ₹ 1,00,000)				
To Net Profit (b.f.)	3,26,300			
	9,58,000			
	9,58,000			**9,58,000**

Balance Sheet as at 31st March, 20X2

Liabilities		(₹)	Assets		(₹)
Capital			Furniture & Fittings	1,00,000	
Opening balance	2,50,000		Less : Dep.	(15,000)	85,000
Less: Drawing	(2,40,000)		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
Add: Net profit for the years	3,26,300	3,36,300	Bills receivable		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade creditors		6,10,000	Cash in hand & at bank		1,27,300

Outstanding expenses	5,000		
	10,91,300		**10,91,300**

Working Notes:

1. Bills Receivable Account

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors (b.f.)	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		**4,30,000**

2. Trade Debtors Account

	₹		₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Bal. fig.)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		**20,68,000**

3. Memorandum Trading Account

	₹		₹
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		**99,50,000**

4. Bills Payable Account

	₹		₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		**9,55,000**

5. Trade Creditors Account

	₹		₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases	84,10,000
To Bills receivable	15,000	(as calculated in W.N. 3)	
To Bills payable	8,30,000		
To Balance c/d (Bal. Fig.)	6,10,000		
	89,90,000		**89,90,000**

6. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–20X1	2,000
	6,22,700
Less: Outstanding expenses as on 31–3–20X1	(45,000)
	5,77,700

Add : Outstanding expenses as on 31–3–20X2	5,000
	5,82,700
Less: Prepaid exp. as on 31-3-20X2 (Insurance paid till July, 20X2) (6,000x $\frac{4}{12}$)	(2,000)
	5,80,700

Question 21

The following is the Balance Sheet of a Tony Pharma as on 31st March, 20X1:

	₹		₹
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		**12,00,000**

The management estimates the purchases & sales for the year ended 31st March, 20X2 as under:

	Up to 28.2.20X2 (₹)	March 20X2 (₹)
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 20X2 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

Ans:

In the books of Tony Pharma Projected
Balance Sheet as on 31st March, 20X2

		₹			₹
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account			Additions	1,00,000	
as on 1st April, 20X1	60,000			5,00,000	
Add: Profit for the year	3,74,000	4,34,000	Less: Dep. @10%	(50,000)	4,50,000
Creditors (Trade)		1,10,000	Stock in trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Bank Balances (working note)		5,58,000
		15,44,000			**15,44,000**

Working Notes:

Projected Trading and Profit and Loss Account for the year ended 31st March, 20X2

	₹		₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (bal. fig.)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		**24,56,000**

To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit (b.f.)	3,74,000		
	6,36,000		**6,36,000**

Cash and Bank Account

1st April, 20X1 to 31st March, 20X2

	₹		₹
To Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To Sundry Debtors	20,70,000	(₹ 1,40,000+₹ 14,10,000)	
(₹ 1,50,000+₹ 19,20,000)		By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance c/d (b.f.)	5,58,000
	24,20,000		**24,20,000**

Question 22

From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.20X2 and the Balance Sheet as at 31.03.20X2 of M/s Prasad & Co., a proprietorship firm.

Assets & Liabilities	As on 01.04.20X1	As on 31.03.20X2
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand & at bank	10,000	12,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.20X2	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year.

Ans:

In the books of M/s Prasad & Co.

Trading and Profit and Loss Account for the year ended 31st March, 20X2

Particulars		₹	Particulars		₹
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	56,100		Less: Returns	(1,450)	70,550
	57,100		By Closing stock		12,000
Less: Returns	(400)	56,700			
To Gross Profit c/d		15,850			
		82,550			**82,550**
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	By Net Loss (balancing fig.)		150
To Depreciation (W.N. 4)		3,000			
		16,700			**16,700**

Balance Sheet as at 31st March, 20X2

Liabilities		**₹**	**Assets**		**₹**
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	150		Add: New asset	4,000	
	39,700			16,000	
Less: Drawings	(500)	39,200	Less: Dep.	(3,000)	13,000
Sundry creditors		15,000	Stock in trade		12,000
Expenses O/s		800	Sundry debtors (W.N. 2)		18,000
			Cash in hand		2,000
			Cash in Bank		10,000
		55,000			**55,000**

Working Notes:

(i) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.20X1

Liabilities	**₹**	**Assets**	**₹**
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	2,500
	60,450		**60,450**

(ii) Sundry Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d (bal. fig)	28,450	By Cash	76,000
To Sales (72,000 – 500)	71,500	By Discount	4,000
		By Returns (sales)	1,450
		By Bad debts	500
		By Balance c/d (given)	18,000
	99,950		**99,950**

(iii) Sundry Creditors Account

	₹		
To Bank – Payments	60,000	By Balance b/d	20,000
To Discount	700	By Purchases - credit	56,100
To Returns	400	(Balancing figure)	
To Balance c/d (closing bal.)	15,000		
	76,100		**76,100**

(iv) Depreciation on Fixed Assets

	₹
Opening balance of fixed assets	12,000
Add: Additions	4,000
	16,000
Less: Closing balance of fixed assets	(13,000)
Depreciation	3,000

(v) Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
Add: Outstanding of 20X2	800
	9,800
Less: Outstanding of 20X1	600
	9,200

(vi) Cash and Bank Account

	Cash (₹)	Bank (₹)		Cash (₹)	Bank (₹)
To Balance b/d	7,500	2,500	By Purchases	1,000	
To Debtors	-	76,000	By Expenses	9,000	
To Bank (C)	9,000	-	By Fixed Asset		4,000
To Cash (C)	-	5,000	By Drawings		500
Sales (bal. fig. considered as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d	2,000	10,000
	17,000	**83,500**		**17,000**	**83,500**

C. TEST

True and false

1. A Trial Balance cannot be drawn up from books kept under Single Entry.
2. Nominal Accounts are kept under Single Entry System.
3. Single Entry System can be adopted by small firms.
4. Profit under single entry system is always correct and accurate.
5. Profits computed under single entry system by different business entities are not comparable.

Ans:

1. **True:** Since incomplete records are maintained, trial balance cannot be prepared
2. **False:** Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.

3. **True:** A single entry system is the one where financial transactions are recorded as a single entry in a log and is usually used by new small businesses.
4. **False:** Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.
5. **True:** Since entry system has no fixed set of principles for recording the financial transaction, different organisations maintain records as per their needs. Hence their accounts are not comparable.

Multiple Choice Questions

1. In case of net worth method, profit is determined by
   (a) Preparing a trading and profit and loss account.
   (b) Comparing the capital in the beginning with the capital at the end of the accounting period.
   (c) Comparing the net assets in the beginning with the net assets at the end of the accounting period.

2. Single entry system can be followed by
   (a) Small firms.
   (b) Joint stock companies.
   (c) Co-operative societies.

3. Closing capital is calculated as
   (a) Opening capital +Additional capital -Drawings.
   (b) Opening capital +Additional capital –Drawings + Profit.
   (c) Opening capital +Additional capital +Drawings - Profit.

4. Under single entry system, only personal accounts are kept and, in some cases,
   (a) Cash book is maintained
   (b) Fixed assets' accounts are maintained
   (c) Liabilities' accounts are maintained.

5. The closing capital of Mr. B as on 31.3.2022 was ₹4,00,000. On 1.4.2021 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.2022 was ₹ 1,00,000. He introduced ₹30,000 as additional capital in February, 2022 Find out the amount drawn by Mr. B for his domestic expenses.
   (a) ₹ 1,00,000;
   (b) ₹ 80,000;
   (c) ₹ 1,20,000;

6. Given information:
   Opening capital : 60,000
   Drawings : 5,000
   Capital introduced during the period : 10,000
   Closing capital : 90,000
   Profit earned during the period ?
   (a) ₹ 20,000
   (b) ₹ 25,000
   (c) ₹ 30,000.

Ans:

1.	(b)	2.	(a)	3.	(b)	4.	(a)	5.	(b)	6.	(b)

Theoretical Questions

1. What is meant by Single entry System? What are the types of procedures adopted for this system?
2. Differentiate between Statement of Affairs and Balance Sheet.

Ans:

1. Single entry system is an inaccurate and unsystematic method of recording business transactions. The procedures adopted are: Pure single entry; Simple entry and Queasy single entry. For details, Refer Para 1 and 2 of the chapter.
2. To understand the difference between Statement of Affairs and Balance Sheet, refer para 3.2 of the chapter.

TOPIC 10: PARTNERSHIP ACCOUNTS

A. State with reasons, whether the following statements are true or false:

1. **Partners can share profits or losses in their capital ratio, when there is no agreement**

   Ans.:

   False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

2. **When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.**

   Ans.:

   False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

3. **Discount at the time of retirement of a bill is a gain for the drawee.**

   Ans.:

   True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

4. **Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.**

   Ans:

   False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

5. **Goodwill is intangible asset therefore it cannot be valued.**

   Ans:

   False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

6. **A partnership firm can acquire fixed assets in the name of the firm.**

   Ans.:

   False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

7. **Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932**

   Ans.:

   False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

8. **In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.**

   Ans:

   False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

B. Solve the following questions

1. **J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:**

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Ans:

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{Average\ Profit\ x\ 100}{Normal\ rate\ of\ Return} = \frac{150000\ x\ 100}{20} = ₹\ 7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

= ₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

2. **The profits and losses for the previous years are: 2017 Profit ₹ 5,000, 2018 Loss ₹ 8,500, 2019 Profit ₹ 25,000, 2020 Profit ₹ 37,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.**

Ans:

Total Profit for 4 years = ₹ 5000+ ₹ (8,500) +₹ 25,000+₹ 37,500

= ₹ 59,000.

Average profits $= \frac{\text{Total profit}}{\text{No of years}} = \frac{59{,}000}{4} = ₹\ 14{,}750$

Average Profits for Goodwill = ₹ 14,750 – Proprietor Remuneration

= ₹ 14,750 – ₹ 3,000

= ₹ 11,750

Normal Profit = Interest on Capital employed

= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100)

= ₹ 10,000

Super Profit = Average Profit - Normal Profit

= ₹ 11,750 – ₹ 10,000

= ₹ 1,750

Goodwill = Super Profit x No of years purchases

= ₹ 1,750 x 3

= ₹ 5,250

3. **Discuss the rules if there is no Partnership Agreement.**

Ans:

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

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

C. Solve the following questions

1. P and Q are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of P and Q as on 31.3.2020 was as follow: (Admission)

Liabilities	Amount	Assets		Amount
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Accounts: P 88,000 Q 72,000	1,60,000	Debtors Less: Provision	70,000 400	69,600
		Investment		5,000
		Cash		31,000
	2,12,000			2,12,000

'R' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 50,000.

(ii) The new profit sharing ratio of P, Q and R will be 3 : 2 : 1 respectively.

(iii) 'R' is unable to bring in cash for his share of goodwill; partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'R's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹3,120. The value of Buildings having appreciated is brought up to ₹ 58,400. The value of investment is increased by ₹ 900.

(v) It is found that the creditors included a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'R'.

Ans.:

(i) **Revaluation Account**

	₹		₹
To Furniture	1,740	By Building	6,400
To Stock	2,140	By Sundry creditors	2,800
To Provision of doubtful debts (₹ 3,500 – ₹ 400)	3,100	By Investment	900
To Outstanding wages	3,120		
	10,100		10,100

(ii) **Partners' Capital Accounts**

	P	Q	R		P	Q	R

To Balance c/d	142,000	108,000	50,000	By Balance b/d	88,000	72,000	–
				By Cash A/c	–	–	50,000
				By Goodwill A/c (W.N)	54,000	36,000	
	142,000	108,000	50,000		142,000	108,000	50,000

(iii) **Balance Sheet of New Partnership Firm**

(after admission of R) as on 31.3.2020

Liabilities	**₹**	***Assets***	**₹**
Capital Accounts: P 1,42,000 Q 1,08,000 R 50,000	3,00,000	Goodwill	90,000
Bills Payable	8,200	Building (52,000 + 6,400)	58,400
Bank Overdraft	18,000	Furniture (11,600 – 1,740)	9,860
Sundry creditors (25,800-2,800)	23,000	Stock-in-trade (42,800 – 2,140)	40,660
Outstanding wages	3,120	Debtors 70,000	
		Less: Provision for bad Debts (3,500)	66,500
		Investment (5,000 + 900)	5,900
		Cash (31,000 + 50,000)	81,000
	3,52,320		3,52,320

Working Note:

Calculation of goodwill sd

R's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of P, Q and R amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 – ₹ 2,10,000).

2. The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2021, they share profit and losses equally: (Death)

Balance Sheet as at 31st March, 2021

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital		Machinery	30,000
Amit	24,600	Furniture	16,800
Lalit	24,600	Fixture	12,600
Sumit	27,000	Cash	9,000
Trade payables	9,000	Inventories	5,700
General Reserve	14,100	Trade receivables 27,000 *Less:* Provision for D. d. 1,800	25,200
	99,300		99,300

Sumit died on 1st April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 is to be paid to the executors of the dead partner on 5th April, 2021.

(d) After death of Sumit, Amit and Lalit share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners

Ans.:

(i) Journal Entry in the books of the M/s Krishna

Date	Particulars		Dr.	Cr.
April, 1 2021	Amit's Capital A/c	Dr.	3,000	
	Lalit's Capital A/c	Dr.	3,000	
	To Sumit's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Particulars	Rs.	Particulars	Cr.
To Furniture A/c (Rs. 16,800 – 13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To Inventory A/c (Rs 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Amit - Rs. 300, Lalit - Rs. 300, Sumit - Rs. 300)	900		
	5,100		5,100

Partners' Capital Accounts

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit Goodwill	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c			6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c			30,300	By Revaluation A/c (Profit)	300	300	300
To Balance C/d	24,900	24,900		By Amit (Goodwill)			3,000
				By Lalit (Goodwill)			3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Lalit	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

3. **Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows: (goodwill)**

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		

	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2019 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Ans.:

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	Super Profit :	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

4. **A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2019 before providing for interest on partner capital was ₹ 1,59,000**

You required to prepare the Profit and Loss Appropriation Account. (P&L Appropriation)

Ans:

Profit and Loss Appropriation Account

for the year ended 31st December, 2019

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net Profit	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts: [profit (1,59,000 – ₹ 34,000) transferred]					
	A ($\frac{5}{10}$ of ₹ 1,25,000)	62,500				
	Less: Transferred to C	5,000	57,500			
	B ($\frac{3}{10}$ of ₹ 1,25,000)		37,500			
		25,000				
		5,000	30,000			

	C ($\frac{2}{10}$ of ₹ 1,25,000) Add: Transferred from A					
			1,59,000			1,59,000

5. Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below: (Admission)

Liabilities		(₹)	Assets	(₹)
Trade payables		22,500	Land & Buildings	37,000
Outstanding Liabilities		2,200	Furniture & Fixtures	7,200
General Reserve		7,800	Closing stock	12,600
Capital Accounts:			Trade Receivables	10,700
Dinesh	15,000		Cash in hand	2,800
Ramesh	15,000		Cash at Bank	2,200
Naresh	10,000	40,000		
		72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

1) Suresh shall bring ₹ 8,000 towards his capital.
2) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.
3) Provision for bad and doubtful debts should be provided at 5% of the trade receivables.
4) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.
5) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Ans:

2018	Particular	₹	₹	2018	Particular	₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh	-	-	1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General reserve	3,900	2,600	1,300	-
To Bal c/d	26,972.5	21,015	12,257.5	3,500	By cash	-	-	-	8,000
					By Naresh & Suresh	4,500	1,500	-	-
					By O/s Liabilities	700	-	-	-
					By Rev. a/c	2,872.5	1,915	957.5	-
	26,972.5	21,015	12,257.5	8,000		26,972.5	21,015	12,257.5	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	2/24
Ramesh	¼	2/6	2/24	6/24
Naresh	¼	1/6		
Suresh	¼			

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.	1,500	
Suresh (6/24 of ₹18,000)	Dr.	4,500	
To Dinesh (6/24 od ₹18,000)			4,500
To Ramesh (2/24 of ₹18,000)			1,500

Balance Sheet of Dinesh, Ramesh, Naresh and Sureshas on 1-4-2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
			Inventory of goods		14,000
			Trade receivables	10,700	
			Less: Provisions	(535)	10,165
Capital Accounts of Partners:			Cash in hand		2,800
			Cash at bank		10,200
Mr. Dinesh	26,972.50				
Mr. Ramesh	21,015.00				
Mr. Naresh	10,757.50				
Mr. Suresh	3,500.00	62,245			
		86,245			86,245

6. On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below: (Retirement + JLP)

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000		
Mr. Q	30,000		

Mr. R	20,000		
Sundry Creditors	10,000	Plant and Machinery	20,000
		Stock of goods	12,000
		Sundry debtors	11,000
		Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(ii) Stock of goods to be valued at ₹10,000.

(iii) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(iv) Provisions for bad debts should be provided at 5%.

(v) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vi) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(vii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit-sharing ratio.

(viii) Amount due to Mr. P is to be settled on the following basis:
50% on retirement and the balance 50% within one year. Prepare

(a) Revaluation account,

(b) The Capital accounts of the partners,

(c) Cash account and

(d) Balance Sheet of the new firm M/s Q & R as on 1.04.2020..

Ans.:

(a) Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2020 April	To Plant & Machinery	6,000	2020 April	By Land and building	6,000
	To Stock of goods	2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts	550			
	To Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000		By Cash & Bank - Joint life Policy surrendered	7,550
		15,550			15,550

(b) Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
To P's Capital A/c - goodwill		1,000	3,000	By Balance b/d	20,000	30,000	20,000

To Cash & bank A/c - (50% dues paid)	13,000			By Revaluation A/c	2,000	3,000	2,000
To P's Loan A/c - (50% transfer)	13,000			By Q & R's Capital A/cs - goodwill	4,000		
To Balance c/d		35,000	35,000	By Cash & bank A/c – amount brought in (Balancing figures)		3,000	16,000
	26000	36000	38000		26000	36000	38000

(c) **Cash and Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	7,000	By P's Capital A/c - 50% dues paid	13,000
To Revaluation A/c –	7,550		
surrender value of joint life policy		By Balance b/d	20,550
To Q's Capital A/c	3,000		
To R's Capital A/c	16,000		
	33,550		33,550

(d) **Balance Sheet of M/s Q & R as on 01.04.2020**

Liabilities		₹	Assets		₹
Partners' Capital a/c			Land and Building Add: ppreciation 20%	30,000 6,000	36,000
Mr. Q	35,000		Plant & Machinery	20,000	
Mr. R	35,000	70,000	Less: Depreciation 30%	6,000	14,000
			Stock of goods	12,000	
Mr. P's Loan account		13,000	Less: revalued	2,000	10,000
Sundry Creditors		8,000	Sundry Debtors Less: Provision for bad debts 5%	11,000 550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill: Goodwill of the firm Mr. P's Share (2/7)	 14,000 4,000
Gaining ratio of Q & R; Q = ½ - 3/7 = 1/14 R = ½ - 2/7 = 3/14 Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

7. Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹ 4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed

in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus ₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners. (P&L Appro. & P. Capital A/c)

Ans:

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars		₹	Particulars		₹
To Salary to Lotus		50,000	By Net Profit b/d	3,34,600	
To Interest on capital			Add: Drawings of Lotus		
Rose	24,000		wrongly debited as salaries	10,000	3,44,600
Lilly	36,000				
Lotus	48,000	1,08,000	By Interest on drawings		
To Net Profit transferred to			Rose	2,400	
Rose	50,000		Lilly	1,800	
Lilly	64,000		Lotus	1,200	5,400
Lotus	78,000	1,92,000			
		3,50,000			3,50,000

Partners' Capital Accounts

Particulars	Rose	Lilly		Particulars	Rose	Lilly	Lotus
To Bal c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	3,00,000	4,00,000		2,00,000	3,00,000	4,00,000
				By Bal b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Int. on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To Bal c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By Bal b/d	31,600	68,200	1,44,800

8. **15 Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows: (Admission)**

Liabilities	₹	Assets	₹
Capital:		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200

Trade Payables	21,000	Bank	24,000
	5,06,000		**5,06,000**

Damu was admitted as partner from 1st April, 2020 on the following terms:

a. He shall bring ₹ 1,50,000 as capital and goodwill.

b. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.

c. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.

d. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000

e. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.

f. Furniture to be reduced to ₹40,000.

g. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Ans:

In the books of Ramu, Mamu and Damu

Revaluation A/c

Particulars	₹	Particulars	₹
To machinery	36,000	By Building	75,000
To Bad debts	2,800		
To Reserve for Bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit on revaluation			
Ramu 15,000			
Mamu 10,000	25,000		
	75,000		**75,000**

Partner's Capital A/cs

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
To Ramu,			50,000	By Bal b/d	2,10,000	1,90,000	
Mamu				By bank			1,50,000
To Bank (b/f)	36,000	99,000		By Damu	25,000	25,000	
To Bal c/d (w.n.)	2,50,000	1,50,000	100000	By General reserve	36,000	24,000	
				By revaluation	15,000	10,000	
	2,86,000	2,49,000	80,000		2,86,000	2,49,000	1,50,000

Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:	2,50,000	Land & Building	2,25,000
Ramu	1,50,000	Machinery	1,44,000
Mamu	1,00,000	Furniture	40,000
Damu	25,000	Trade Receivables 40000	
Loan from HDFC bank Trade	21,000	Reserve for Bad debts 2,000	38,000
Payables		Inventory	60,000
		Bank	39,000
	5,46,000		5,46,000

Working Note:

Partner	Old Share		Sacrificed Share		New Share
Ramu	3/5	-	1/10	=	5/10
Mamu	2/5	–	1/10	=	3/10
Damu		–	2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows

Capital and goodwill brought in by Damu -		₹ 1,50,000
His share of goodwill- 2,50,000 x 1/5		₹ (50,000)
Amount brought in as capital		₹1,00,000
Total capital of the firm based on his share	1,00,000 x 5 =	₹ 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio

Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000 s

Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

9. **X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than ₹ 15,000 in any year. Capitals of X, Y and Z were ₹ 1,60,000, ₹ 1,00,000 and ₹ 80,000 respectively.**

Profits for the year ending 31.12.2020 before providing for interest on partner capital was ₹ 79,500. You are required to prepare the Profit and Loss Appropriation Account. (P&L Appro. A/c)

Ans.:

Profit and Loss Appropriation Account
for the year ended 31st December, 2020

	₹	₹		₹
To Interest on capital			By Net profit b/d	79,500
X (6% of ₹ 1,60,000)	9,600			
Y (6% of ₹ 1,00,000)	6,000			
Z (6% of ₹ 80,000)	4,800	20,400		

To Partners' capital accounts: [profit (₹ 79,500 – ₹ 20,400) transferred] $x(\frac{5}{10} of\ ₹59100$ Less: Transferred to Z	29,550 3,180	26,370		
$y(\frac{3}{10} of\ ₹59100$		17,730		
$z(\frac{2}{10} of\ ₹59100$ Add: Transferred from X	11,820 3,180	15,000		
		79,500		79,500

10. Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows: (goodwill Super Profit M)

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		13,10,000

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹ 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Ans.:

Valuation of Goodwill:		₹
(1)	Average Capital Employed Total Assets less Trade payables as on 31.12.2020 Add: 1/2 of the amount withdrawn by partners Less: 1/2 of the profit earned in 2020	 12,50,000 1,50000 14,00,000 2,00,000
		12,00,000
(2)	Super Profit: Profit of M/s Amar, Akbar, Anthony Normal profit @ 30% on ₹ 12,00,000	4,00,000 3,60,000
	Super Profit	40,000
(3)	Value of Goodwill 3 Years' Purchase of Super profit (₹ 40,000 × 3) = ₹ 1,20,000	

11. Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as **(Death)**

Liabilities	Amount	Assets	Amount

Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts: Monika	1,00,000	Stock in trade	15,000
Yedhant	75,000	Trade receivables 35,000	
Zoya	75,000	Less: Provision for doubtful debt (2,000)	33,000
		Cash in hand	7,000
		Cash at bank	12,000
	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at ₹ 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at ₹ 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill is adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2018.

Ans.:

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's	-	-	98,125	By General reserve	4,000	4,000	4,000
Executor				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit & Loss Adj. (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & Building	1,75,000

Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1
= ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250X1/3
= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

12. M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under: (Retirement + Admission)

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	Amt.	Assets	Amt.
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only up to 85% of the balance sheet figure. Balance to be considered bad.

c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit-sharing ratio, which is 3:4:3.

d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Ans:

Revaluation Account

2020		₹	2020		₹
July 1	To Building	11,000	July 1	By Investments (46,000 - 42,000)	4,000
	To Plant and Machinery	80,000			
	To Trade receivable (Bad Debts)	23,850		By Partners Capital A/c (loss on revaluation)	
				A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850
		1,14,850			1,14,850

Dr. **Partners' Capital Account** **Cr.**

Part.	A	B	C	D	Part.	A	B	C	D
To Revl. A/c	33,255	22,170	55,425	,	By Bal B/d	1,24,000	96,000	1,60,000	-
To B & C capital A/c	-	-	-	90,000	By d capital a/c	-	60,000	30,000	-
To investment a/c	-	46,000	-	-	By bank a/c	29,255	-	25,425	2,10,000
To Bal c/d	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

   Goodwill of the firm is valued at ₹ 3 lakhs sacrificing ratio:

   A 3/10 - 3/10 = 0

   B 2/10 - 0 = 2/10

   C 5/10 - 4/10 = 1/10

   Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

   Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

	₹
B: 90,000 x 2/3 = 60,000	
C: 90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

Total capital of the reconstituted firm (given) 4,00,000		₹
A	(3/10)	1,20,000
C	(4/10)	1,60,000
D	(3/10)	1,20,000

13. The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1 and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows: (Extract – Death)

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated up to 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit	₹ 29,340
2018	Profit	₹ 26,470
2019	Loss	₹ 8,320
2020	Profit	₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years.

Ans:

P's Capital Account

2020	Particular	₹	2020	Particular	₹
Sep. 30	To Current A/c (30,000 - 5000)	25,000	Jan. 1	By Balance b/d	30,000
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	3,000	Dec. 31	By Profit and Loss A/c : Interest on Capital	2,400
			Dec. 31	Share of Profit	4,735
Dec. 31	To Balance Transferred to P's Executor's A/c	38,465		Q&R (Goodwill)	11,830
			Dec. 31	Insurance Policies A/c	17,500
		66,465			66,465

Working Notes:

a. Valuation of Goodwill

Year	Profit before Interest On fixed capital	Interest	Profit after interest
	₹	₹	₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

Average	₹ 11,830
Goodwill at two years purchase of average net profits	₹ 23,660
Share of P in the goodwill	₹ 11,830

b. Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	10,000
	35,000
Share of P (1/2)	17,500

c. Share in profit for 2020:

Profit for the year	13,470
Less: Interest on capitals	(4,000)
9,470 P's share in profit (1/2)	4,735

14. Profit and Loss Appropriation Account:

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 & L oss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year

Ans:

Profit and Loss Appropriation Account
for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Salary to B	3,000	By Net Profit b/d	73,000
To Interest on capital			
A 2,500			
B 2,000	4,500		
To Reserve (10% of 65500)	6,550		
To Partners' current accounts:			
A 50,000			
B 64,000	58,950		
	73,000		73,000

Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
Mar31	To Balance c/d	50,000	40,000	Apr01	By balance b/d	50,000	40,000
		50,0000	40,000			50,000	40,000

Partners' Current Accounts

2020	Particular		₹	2020	Particular		₹

Apr 1	To Balance b/d	-	3000	Apr 1	By balance b/c	10000	
Mar 31	To drawings	1000	2000	Mar 31	By interest on capital	2500	2000
	To balance c/d	40975	29475		By salary		3000
					By profit and loss appro	29475	29475
		41975	34475			41975	34475

15. Calculation of goodwill

Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit.

Ans:

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{3,00,000 \times 100}{20} = 15,00,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 + ₹ 4,00,000]

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years purchase

= ₹1,00,000 x 3 = ₹ 3,00,000

16. Admission and Retirement of Partner 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:

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 1 st April, 2021. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C in their new profit sharing ratio, which is 2:2:1. (i) The surplus funds, if any, will be used for repaying bank overdraft. (ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare (a) Revaluation account; (b) Partners capital accounts; (c) Bank account; and (d) Balance sheet of the reconstituted firm as on 1st April, 2021.

Ans:

Revaluation Account

Particulars	₹	Particulars	₹
To Building	**30000**	To Investment	**9000**
To plant and machinery	78000	To loss to Partners:	
To provision for doubtful debts	83400	Monika 91200	
		Yedhant 54720	
		Zoya 36480	182400
	191400		191400

Part.	A	B	C	F	Part.	A	B	C	F
To Revl. A/c	91200	54720	36480		By Bal B/d	240000	60000	90000	
To investment a/c		45000			By Reserves A/c	30000	18000	12000	
To B's Loan A/c		68280			By C and F's Capital A/c	30000	90000		
To A and B's Capital A/c			60000	60000	By Bank A/c (balancing figure)	31200		234000	180000
To Balance c/d	240000		240000	120000					
	331200	168000	336480	180000		331200	168000	336480	180000

Particulars	₹	Particulars	₹
To A capital	31200	By bank overdraft	132000
To C capital	234480	By balance c/d	313680
To F capital	180000		
	445680		445680

Balance Sheet of Firm as on 1.7.2021

Particulars		₹	Particulars		₹
To capital a/c			Land		30000
A	240000		building		570000
C	240000		Plant and machinery		312000
F	120000	600000	Furniture		129000
Long term debts		900000	Inventories		390000
Trade payables		510000	Trade receivables	417000	
Q loan account			Less provision for doubtful debts	834000	333600
		68280	Balance at bank		313680
		2078280			**2078280**

17. Profit and Loss Appropriation Account 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.

Ans:

Particulars		₹	Particulars	₹
To interest on capital			By Net profit	477000
A(5% of 960000)	48000			
B(5% of 600000)	30000			
C(4% of 480000)	24000	102000		
To partner's capital account (477000-102000)				
A(5/10 of 375000)	187500			
Less transferred to C	15000	172500		
B(3/10 of 375000)		112500		
C(2/10 of 375000	75000			
Add transferred from A	15000	90000		
		477000		**477000**

18. Calculation of goodwill

Ashu and Suhan are partners in a firm. Their capital are Ashu ₹ 15,00,000 and Suhan ₹ 10,00,000. During the year ended 31st March,2022 the firm earned a profit of ₹ 7,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm: (i) By Capitalization Method; and (ii) By Super Profit Method if the goodwill is valued at 5 years' purchase of Super Profit.

Ans:

(i) Capitalisation Method:

Total Capitalised Value of the firm

Average profit x 100/Normal rate of return = 750000x100/20= 3750000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 37,50,000 – ₹ 25,00,000 [i.e., ₹ 15,00,000+10,00,000]

Goodwill = ₹ 12,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100=25,00,000 x 20/100= ₹ 5,00,000

Average Profit = ₹ 7,50,000

Super Profit = Average profit – Normal Profit

=7,50,000-5,00,000=2,50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 5 = ₹ 12,50,000

19. Retirement of partne

On 31st March,2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below:

Particulars	₹	Particulars	₹
Capital account		Land and building	120000
Mr. Aadi	80000	Plant and machinery	80000
Mr. Arnav	120000	Stock of goods	48000

Mr. Aarush	80000	Debtors	44000
Creditors	40000	Cash and bank balance	28000
	320000		320000

On 1st April, 2022, Aadi desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%. Plant and Machinery be depreciated by 30%.

(ii) Stock of goods to be valued at ₹40,000. Old credit balances of Sundry creditors, ₹8,000 to be written back.

(iii) Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained ₹ 30,200.

(iv) Goodwill of the entire firm is valued at ₹56,000 and Aadi's share of the goodwill is adjusted in the A/cs of Arnav and Aarush, who would share the future profits equally. No goodwill account being raised.

(v) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(vi) Amount due to Mr. Aadi is to be settled on the following basis: @ 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) Capital Accounts of the partners, (c) Cash and Bank Account and (d) Balance Sheet of the new firm M/s Arnav & Aarush as on 1.04.2022.

Ans:

Revaluation Account

Date	Particulars	Amount	Date	Particulars	Amount
2022	To plant and machinery	24000	2022	By land and building	24000
April	To stock of goods	8000	April	By creditors	8000
	To provision for bad debts	2200		By cash and bank	30200
	To capital account				
	Aadi 8000				
	Arnav 12000				
	Aarush 8000	28000			
		62200			**62200**

Partners' Capital Accounts

Date	Particular	Aadi	Arnav	Aarush	Date	Particulars	Aadi	Arnav	Aarush
2022 April	To Aadi's capital a/c- goodwill		4000	12000	2022 April	By balance b/d	80000	120000	80000
	To cash and bank a/c 50% amt due)	52000				By revaluation a/c	8000	12000	8000
	To Aadi's loan a/c	52000				By Arnav & Aarushi's capital a/c	16000		
	To bal c/d		140000	140000		By cash and bank account		12000	64000
		104000	144000	152000			104000	144000	152000

Cash and Bank Account

Particulars	₹	Particulars	₹
To balance b/d	28000	By Aadi's capital a/c- 50% due	52000
To revaluation – surrender	30200	By bal c/d	82200
value of joint life policy			

To Arnav's capital	12000		
To Aarush's capital	64000		
	134200		134200

Balance Sheet of M/s Arnav & Aarush as on 01.04.2022

Particulars		₹	Particulars		₹
Partner's capital a/c			Land and building	120000	
Mr. Arnav	140000		Add depreciation 20%	24000	144000
Mr. Aarush	140000	280000	Plant and machinery	80000	
Mr. Aadi's loan account		52000	Less depreciation 30%	24000	56000
Creditors		32000	Stock of goods	48000	
			Less revalued	8000	40000
			Debtors	44000	
			Less provision for bad debts 5%	2200	41800
			Cash and bank balance		82200

Working Notes

Adjustment for Goodwill	
Goodwill of the firm	**56000**
Mr. Aadi's Share (2/7)	**16000**
Gaining ratio of Arnav & Aarush;	
Arnav = ½ - 3/7 = 1/14	
Aarush = ½ - 2/7 = 3/14	
Arnav: Aarush = 1:3	

Therefore, Arnav will bear – ¼ × 16000 or ₹4,000

Aarush will bear = ¾ × 16000 or ₹12,000

20. P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of 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.

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

Ans:

Calculation of Capital as on 01.04.2021

Particulars	P	Q	R	Total
Closing capital	150000	180000	210000	540000
Add drawings	20000	20000	20000	60000
Less share of profit	12000	24000	24000	60000
Capital as on 01.04.2021	158000	176000	206000	540000

Particulars	P	Q	R	Total
Share of profit already credited (A)	12000	24000	24000	60000
Amount which should have been credited				
Interest on Capital @ 10%	15800	17600	20600	54000

Share of Profit (out of the balance amount) (60000-54000)	1200	2400	2400	6000
	17000	20000	23000	60000
Difference [(A)-(B)]	-5000	4000	1000	-

Particulars	Q	R	Total
Q's capital		4000	
R's capital		1000	
To P's capital			5000
(Being the omission of interest on capital rectified)			

21. Calculation of goodwill

The profits and losses for the previous years are: 2019 Profit ₹ 15,000, 2020 Loss ₹ 25,500, 2021 Profit ₹ 75,000, 2022 Profit ₹ 1,12,500. The average Capital employed in the business is ₹ 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years

Ans:

Total Profit for 4 years = ₹ 15,000+ ₹ (25,500) +₹ 75,000+₹ 1,12,500= ₹ 1,77,000.

Average profits = Total Profit/No. of years = 177000/4 = 44250

Average Profits for Goodwill = ₹ 44,250 – Proprietor Remuneration

= ₹ 44,250 – ₹ 9,000 = ₹ 35,250

Normal Profit = Interest on Capital employed

= ₹ 30,000 (i.e. ₹ 3,00,000 x10/100) = ₹ 30,000

Super Profit = Average Profit-Normal Profit = ₹ 35,250 – ₹ 30,000 = ₹ 5,250

Goodwill = Super Profit x No of years purchases = ₹ 5,250 x 3 =₹ 15,750

22. Admission of partner

Shyam, Sunder and Girdhar are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2022 is as below: The partners have agreed to take Hari as a partner with effect from 1st April, 2022 on the following items:

(i) Hari shall bring ₹ 20,000 towards his capital.

(ii) The value of stock to be increased to ₹ 35,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 2% of the trade receivables.

(iv) The value of Land & Buildings to be increased by ₹ 14,000 and the value of the goodwill be fixed at ₹ 45,000.

(v) The new profit sharing ratio shall be divided equally among the partners. The outstanding liabilities include ₹ 1,750 due to Aman which has been paid by Shyam.

Necessary entries were not made in the books. Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Hari.

Ans:

Revaluation Account

Date	Particulars	Amount	Date	Particulars	Amount
2022	To Provision for bad and	535	2022	By Inventory in trade	3500

April	doubtful debts		April		
	To Furniture and fittings	1800		By Land and Building	14000
	To Capital A/cs:				
	Shyam 7582				
	Sundar 5055				
	Girdhar 2527	15165			
		17500			17500

Partners' Capital Accounts

Particulars	Shyam	Sundar	Girdhar	Hari	Particulars	Shyam	Sundar	Girdhar	Hari
To shyam & sundar			3750	11250	By balance b/d	37500	37500	25000	
To balance c/d	67832	52805	27027	8750	By general reserve	9750	6500	3250	
					By cash				20000
					By girdhar and hari	11250	3750		
					By outstanding liabilities	1750			
					By revaluation	7582	5055	2527	
	67832	52805	30775	20000		67832	52805	30775	20000

Working Note:

Calculation of sacrificing ratio

Partners	New share	OLD SHARE	Sacrifice ratio	Gain
Shyam	¼	3/6	6/24	
Sundar	¼	2/6	2/24	
Girdhar	¼	1/6		2/24
Hari	1/4			6/24

Entry for goodwill adjustment

Shyam (2/24 of ₹45,000)	Dr.	3750	
Sundar (6/24 of ₹45,000)	Dr.	11250	
To Girdhar (6/24 od ₹45,000)			11250
To Hari (2/24 of ₹45,000)			3750

Balance Sheet of Shyam, Sundar, Girdhar and Hari as on 1st April,2022

Particulars		₹	Particulars		₹
Trade payables		56250	Land and building		106500
Outstanding liabilities		3750	Furniture		16200
Capital account of partners			Inventory of goods		35000
Mr shyam	67832		Trade receiables	26750	
Mr sundar	52802		Less provisions	535	26215
Mr. girdhar	27027		Cash		7000
Mr hari	8750	156415	Bank		25500
		216415			216415

23. Calculation of Goodwill

Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Particulars	₹	Particulars	₹
Capital		Fixed assets	1500000
Ved	255000	Inventory	300000

Jain	945000	Trade receivables	150000
Agarwal	675000	Bank	15000
Trade payables	90000		
	1965000		1965000

Balance Sheet of M/s Ved, Jain & Agrawal

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.

Ans:

Valueation of goodwill		
1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2022	1875000
	Add: 1/2 of the amount withdrawn by partners	225000
		210000
	Less: 1/2 of the profit earned in 2022	(300000)
		1800000
2)	Super Profit	
	Profit of M/s Ved, Jain & Agrawal	600000
	Normal profit @ 30% on ₹ 18,00,000	540000
	Super Profit	60000
3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	300000

24. 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:

Particulars		₹	Particulars		₹
Capital account			Building		1000000
A	800000		Furniture		240000
B	420000		Office equipment		280000
C	40000	1620000	Stock		250000
Creditors		370000	Debtors	30000	
General reserves		360000	Less provisions doubtful debts	30000	270000
			Joint life policy		160000
			Bank		150000
		2350000			2350000

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	Rs
2019	90000
2020	140000
2021	120000
2022	130000

(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.

Ans:

Revaluation Account

Particulars	Amount	Particulars	Amount
To furniture	40000	By office equipment	47000
To stock	50000	By building	500000
To joint life policy	10000	By provision for doubtful debts	15000
To partner's capital a/c			
A 231000			
B 154000			
C 77000	462000		
	562000		562000

*Alternatively JLP A/c of Rs. 10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

Partners' Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To b's capital	90000		30000	By balance b/d	800000	420000	400000
To B's loan		814000		By general reserve	180000	120000	60000
To balance c/d	1121000		507000	By revaluation	231000	154000	77000
				By A's capital		90000	
				By C's capital		30000	
	1211000	814000	537000		1211000	814000	537000

Balance Sheet of M/s Arnav & Aarush as on 01.04.2022

Particulars		₹	Particulars		₹
Capital accounts			Building		1500000
A	1121000		Furniture		200000
C	507000	1628000	Office equipment		327000
B's loan account		814000	Stock		200000
Sundry creditors		370000	Debtors	300000	
			Less provision for doubtful debts	(15000)	285000
			JLP		150000

			Cash at bank		150000
		2812000			2812000

Working Notes:

Calculation of goodwill:

1) Average of last 4 year's profit

= (90,000+1,40,000+1,20,000+1,30,000)/4

=120000

2) Goodwill at three years' purchase

1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (old ratio)	Share of goodwill(new ratio)	Adjustment
A	180000	270000	90000
B	120000		120000
C	60000	90000	30000

25. A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.

Balance Sheet as at 31st March, 2020 They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture 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

Ans:

Revaluation Account

Particulars	Amount	Particulars	Amount
To furniture	1000	By land and building	50000
To stock	20000		
To provision for doubtful debts	8000		
To revaluation profit	21000		
A(21000 x ¾) 15750			
B(21000 x 1/4) 5250			
	50000		50000

Partners' Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To b's current		45250		By balance b/d	285000	155000	
To balance c/d	420000	140000	140000	By general reserve	45000	15000	
				By revaluation profit	15750	5250	
				By bank			140000
				By C's current	30000	10000	

				By as current account	44250		
	420000	185250	140000		420000	185250	140000

Working Notes:

1. Calculation of total Capital

   C's capital contribution of ₹ 1,40,000 consists of 1/5 th of capital.

   Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

   Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1 i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

   A= ¾ x 4/5 = 12/20 = 3/5

   B = ¼ x 4/5 = 4/20 = 1/5

   C = 1/5 = 4/20 = 1/5 or 3:1:1

3. Goodwill

   C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current Account because capitals of old partners are also adjusted on the basis of C's Capital

   Therefore, Journal entry for goodwill will be

C's Current A/c	Dr.	40000	
To A's Capital A/c			30000
To B's capital a/c			10000

DISSOLUTION OF PARTNERSHIP FIRMS AND LLP

1. X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3:2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above-said date. Fixed assets realized ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹ 6,000. You are required to prepare:

(a) Realization account;

(b) Partners capital account; and

(c) Cash account.

Ans:

(a) Realization Account

Particulars	₹	Particulars	₹
To Fixed assets	5,00,000	By Creditors	3,20,000
To Stock in trade	3,00,000	By Cash (5,20,000+4,40,000)	9,60,000
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000
To Cash – Expenses	6,000	By Loss transferred to partners' capital accounts	
To Cash -Creditors (3,20,000 x 95%)	3,04,000	X	35,555
		Y	26,667
		Z	17,778
	16,10,000		**16,10,000**

(b) Partners' Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Realization A/c	35,555	26,667	17,778	By Balance b/d	4,00,000	3,00,000	2,00,000
To Realization A/c	-	2,50,000	-	By General reserve	40,000	30,000	20,000
To Cash	4,04,445	53,333	2,02,222				
	4,40,000	**3,30,000**	**2,20,000**		**4,40,000**	**3,30,000**	**2,20,000**

(c) Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Realization A/c (Expenses)	6,000
To Realization A/c (Fixed assets and book debts realized)	9,60,000	By Realization A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	2,02,222
	9,70,000		**9,70,000**

2. P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		₹	Assets		₹
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		40,000
Q	20,000		Freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts:			Motor Vehicle		700
P			Current Assets		
Q	500		Stock		3,900
Loan from P Trade	9,000	9,500	Trade Debtors	2,000	
Creditors		8,000	Less: Provision	(100)	1,900
		12,400	Cash at Bank		200
			Miscellaneous losses		

		R's Current Account Profit and Loss Account	400 12,000
	79,900		**79,900**

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

(a) Cash and Bank Account,

(b) Realization Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Ans:

Cash / Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	200	By Realization A/c- Creditors	11,700
To Realization A/c-		By Realization A/c- Expenses	1,500
Freehold property	7,000	By P's Loan A/c	8,000
Plant and Equipment	5,000	By P's Capital A/c	14,200
Stock	3,000	By Q's Capital A/c	24,200
Trade Debtors	1,600		
To Capital Accounts:			
P 25,500			
Q 17,000			
R 300	42,800		
	59,600		**59,600**

Realization Account

Particulars	₹	Particulars		₹
To Trademark	40,000	By Trade Creditors		12,400
To Freehold Property	8,000	By Provision for Bad Debts		100
To Plant and Equipment	12,800	By Bank:		
To Motor Vehicle	700	Freehold Property	7,000	
To Stock	3,900	Plant and Equip.	5,000	
To Sundry Debtors	2,000	Stock	3,000	
To Bank (Creditors)	11,700	Debtors	1,600	16,600
To Bank (Expenses)	1,500	By Q (Car)		500
		By Capital Accounts: (Loss)		
		P	25,500	
		Q	17,000	
		R	8,500	51,000

	80,600		80,600

Partners' Capital Accounts

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Current A/c (Transfer) (WN)	5,500	—	2,400	By Balance b/d	20,000	20,000	10,000
To Realization A/c	25,500	17,000	8,500	By Current A/c	—	5,000	—
(Loss)				(Transfer) (WN)			
To Realization A/c	—	500	—	By Bank	—	—	300
(Car)				By Bank	25,500	17,000	—
To R's Capital A/c (Deficiency)	300	300	—	(realization loss)			
To Bank	14,200	24,200	—	By P & Q (Deficiency)	—	—	600
	45,500	42,000	10,900		45,500	42,000	10,900

Working Note

Particulars	P	Q	R
Current Account Balance Less: share of Profit & Loss A/c (debit balance) Adjusted	500 (Cr) 6000 (Dr)	9000 (Cr) 4000 (Dr)	400 (Dr) 2000 (Dr)
Current Account Balance	5500 (Dr)	5000 (Cr)	2400 (Dr)

Note:

1. P, Q, and R will bring cash to make good their share of the loss on realization. In actualpractice they will not be bringing any cash; only a notional entry will be made.
2. On following Garner Vs. Murray rule, solvent partners P and Q have to bear the lossdue to insolvency of a partner R in their fixed capital ratio.

3. Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	₹	Assets	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realized as under:

Particulars	₹
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realization amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

Ans:

In the books of M/s Amal and Bimal

Realization Account

Particulars	₹	Particulars	₹	₹
To Sundry Assets:		By Cash A/c:		
Plant & Machinery	2,500	Plant & Machinery	1,250	
Furniture	500	Furniture	150	
Debtors	1,000	Debtors	400	
Stock	800	Stock	500	2,300
Cash A/c-expenses	175	By Partners' Capital A/c Loss on realization (Bal. fig.)		
		Amal	1,337	
		Bimal	1,338	2,675
	4,975			**4,975**

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	200	By Realization A/c- expenses	175
To Realization A/c		By Sundry Creditors A/c (Bal. fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		**2,700**

Sundry Creditors Account

Particulars	₹	Particulars	₹
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c-transfer (bal. fig.)	2,275		
	4,800		**4,800**

Partners' Capital Accounts

Particulars	Amal (₹)	Bimal (₹)	Particulars	Amal (₹)	Bimal (₹)
To Balance b/f	—	550	By Balance b/f	750	—
To Realization A/c - loss			By Cash A/c	—	200
	1,337	1,338	By Deficiency A/c- transfer (bal. fig.)	587	1,688
	1,337	**1,888**		**1,337**	**1,888**

Deficiency Account

Particulars	₹	Particulars	₹
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
Amal	587		
Bimal	1,688		
	2,275		**2,275**

4. A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities	₹	Assets	₹
Creditors	15,700	Bank	535
Employees Provident Fund	6,300	Debtors	15,850

Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		**82,000**

Following information is given to you: -

1. One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.
2. There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.
3. The remaining assets were realized at the following values: - Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to ₹ 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

Ans:

Realization Account

Particulars		₹	Particulars		₹
To Sundry Assets: -			By Creditors		15,700
Debtors	15,850		By Employee's Provident Fund		6,300
Stock	25,200		By Bank A/c:		
Prepaid Expenses	800		Joint Life Policy	4,500	
Plant & Machinery	20,000		Debtors	10,800	
Patents	8,000	69,850	Stock	15,600	
To Bank-Creditors:		12,100	Plant and Machinery	12,000	
(₹ 15,700 – ₹ 3,200 - ₹ 400)			Patents 60% of (₹ 8,000 – ₹ 5,000)	1,800	44,700
To Bank A/c Employee's P.F)		6,300	By Loss transferred to:	9,220	
To Bank A/c (expenses)		1,500	A's Capital A/c	6,915	
			B's Capital A/c	4,610	
			C's Capital A/c	2,305	23,050
			D's Capital A/c		
		89,750			**89,750**

Capital Accounts

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Bal. b/d	—	—	3,200	8,415	By Bal. b/d	40,000	20,000	—	—
To Realization A/c	9,220	6,915	4,610	2,305	By Bank (Realization loss)	9,220	6,915	4,610	—
To D's Capital (Deficiency)	5,360	2,680	—	—	By Bank (Recovery)	—	—	—	2,680
To Bank	34,640	17,320	—	—	By A's Capital (2/3)	—	—	—	5,360
					By B's Capital (1/3)	—	—	—	2,680
					By Bank A/c		—	3,200	—
	49,220	**26,915**	**7,810**	**10,720**		**49,220**	**26,915**	**7,810**	**10,720**

Bank Account

Particulars	₹	Particulars	₹

To Balance b/d	535	By Realization A/c	12,100
To Realization A/c	44,700	By Realization A/c	6,300
To A's Capital A/c	9,220	By Realization A/c	1,500
To B's Capital A/c	6,915	By A's Capital A/c	34,640
To D's Capital A/c	2,680	By B's Capital A/c	17,320
To C's Capital A/c (4,610 + 3,200)	7,810		
	71,860		**71,860**

Working Note

D's loss will be borne by A and B only because only solvent partners having credit balance has to bear the loss on account of insolvency. C will bring his share of loss in cash.

5. M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities		₹	₹	Assets	₹	₹
Capital:	X	29,200		Fixed Assets		40,000
	Y	10,800		Stock		25,000
	Z	10,000	50,000	Book Debts	25,000	
Z's Loan			5,000	Less: Provision	(5,000)	20,000
Loan from Mrs. X			10,000	Cash		1,000
Sundry Trade Creditors			25,000	Advance to Y		4,000
			90,000			**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

Ans:

Realization Account

Particulars		₹	Particulars		₹
To Sundry			By Provision for Doubtful Debts		5,000
Fixed Assets (transfer)		40,000	By Cash (20,000+21,000+20,500)		61,500
Stock		25,000	By Sundry Trade Creditors (Discount)		
Book Debts		25,000	By Loss:		29,000
To Cash	Expenses	1,080	X (2/5)	9,600	
	Creditors	28,420	Y (2/5)	9,600	
			Z (1/5)	4,800	24,000
		1,19,500			**1,19,500**

Sundry Trade Creditors

Particulars	₹	Particulars	₹
To Realization A/c	29,000	By Balance b/d	25,000
		By Partners Capital Accounts (Purchase omitted)	4,000
	29,000		**29,000**

Z's Loan Account

Particulars	₹	Particulars	₹
To Cash Account	5,000	By Balance b/d	5,000

Mrs. X's Loan Account

Particulars	₹	Particulars	₹
To X's Capital A/c – transfer	10,000	By Balance b/d	10,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Sundry Trade Creditors (after deducting discount of 2%)	28,420
To Realization A/c- assets realized	61,500	By Realization A/c – expenses	1,080
To X's Capital A/c*	9,600	By Z's Loan	5,000
To Z's Capital A/c*	4,800	By X's Capital A/c	34,300
		By Z's Capital A/c	8,100
	76,900		**76,900**

*X and Z bring these amounts to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

Capital Accounts

Particulars	X(₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Sundry Trade Creditors- omission	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000
To Balance c/d	27,600	9,200	9,200				
	29,200	**10,800**	**10,000**		**29,200**	**10,800**	**10,000**
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200
To Realization A/c- loss	9,600	9,600	4,800	By Mrs. X's Loan	10,000	-	-
To Y's Capital A/c	3,300	-	1,100	By Cash (Realization loss)	9,600	-	4,800
To Cash	34,300	-	8,100	By X's Capital A/c		3,300	
				By Z's Capital A/c	-	1,100	-
	47,200	**13,600**	**14,000**		**47,200**	**13,600**	**14,000**

Note: Y's deficiency comes to ₹ 4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600: 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2022.

6. A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹ 9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	₹	Assets	₹
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

Ans:

Statement of Distribution of Cash

Realization		Interest on loans from partner's spouses	Interest on loans from partners	Partners Capitals A	B	C	Total
		₹	₹	₹	₹	₹	₹
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of Investments	1,000	(1,000)					
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				
(iii) Sale of machinery	1,200						
Maximum possible loss ₹ 22,800 (total of capitals ₹ 24,000 less Cash available ₹ 1,200) allocated to partners in the profit sharing ratio i.e. 5:3: 2				(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C				1,800	840	(2,640)	
Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1-2) = (3)				9,600	6,000	7,200	22,800
(iv) Sale of stock 4,000							
Max. possible loss 22,800 - 4,000= 18,800							
allocated to partner's in the ratio 5:3:2				(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit & cash paid (4)				200	360	3,440	4,000
Balances in capital accounts left unpaid - Loss (3-4) = (5)				9,400	5,640	3,760	18,800

7. The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		**49,000**

The assets realized the following sums in installments:

I	1,000
II	3,000
III	3,900

IV	6,000
V	20,100
	34,000

The expenses of realization were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

Ans:

First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

Statement showing Realization and Distribution of Cash Payments

Particulars	Realization (₹)	Creditors (₹)	Partners' Loan (₹)	Partners' Capitals (₹)
1. After taking into account cash balance and amount set aside for expenses (1 includes saving in expenses i.e. ₹ 100 (₹ 500 - ₹ 400).)	1,000	1,000	-	-
2.	3,000	1,000	2,000	- 900
3.	3,900	-	3,000	6,000
4.	6,000	-	-	20,100
Including saving in expenses	20,100	-	-	
	34,000	**2,000**	**5,000**	**27,000**

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

1. Calculation to determine the mode of distribution of ₹ 900

Particulars	Total (₹)	A (₹)	B (₹)	C (₹)
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining assets prove to be worthless (in their profit-sharing ratio)				
	(41,100)	(16,440)	(16,440)	(8,220)
	+ 900	– 1,440	+ 1,560	+ 780
Deficiency of A's capital written off against those of B and C in the ratio of				
their capital, 18,000:9,000 (Garner vs. Murray)			(960)	(480)
Manner in which the first ₹ 900				
should be distributed			+ 600	+ 300

2. Distribution of ₹ 6,000

Balance after making payment of amount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining asset to be valueless (in their profit sharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	6,000	960	3,360	1,680

3. Distribution of ₹ 20,100

Balance after making payment of				

amount shown in step (2)	35,100	14,040	14,040	7,020
Less: Possible loss, assuming remaining assets to be valueless (in their profit sharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of ₹ 20,100	20,100	8,040	8,040	4,020
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	15,000	6,000	6,000	3,000

8. A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		**2,00,000**

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Ans:

Statement showing distribution of cash amongst the partners

	Creditors	B's Loan	A	B	C
2022	₹	₹	₹	₹	₹
June 30 Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5 1st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realisation A/c	1,000				
	Nil				
August 30					

2nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15 Amount realised ₹ 80,000 Add: Balance out of the Provision for Expenses A/c 1,400 81,400			32,560	32,560	16,280
Amountunpaid being loss on Realisation in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. Highest relative capital basis

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5- 8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

			Creditors	A	B	C
First	₹ 8,400		8,400	-	-	-
Next	₹ 4,000	(2 : 0 : 0)		4,000	-	-
Next	₹ 36,000	(2 : 0 : 1)		24,000	-	12,000
Balance	₹ 11,600	(2 : 2 : 1)		4,640	4,640	2,320
	60,000		8,400	32,640	4,640	14,320

9. P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities	₹	Assets	₹
Capitals:		Bank	30,000

P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		**2,00,000**

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Ans:

Books of P & Q LLP. Realization Account

Particulars		₹	Particulars		₹
To Debtors	25,000		By Creditors		20,000
To Stock	35,000		By Bank overdraft		5,000
To Furniture	40,000		By Bank:		
To Machinery	60,000	1,60,000	Investment	*25,000*	
To Bank:			Furniture	*30,000*	
Creditors	20,000		Machinery	*50,000*	
Bank overdraft	5,000		Debtors (90%)	*22,500*	
Outstanding bill	2,000	27,000	Stock	*20,125*	
To Profit transferred to:			Bad debts Recovered	*1,245*	1,48,870
P's capital	1,310		By P's capital (stock taken over)		15,750
Q's capital	1,310	2,620			
		1,89,620			1,89,620

Partners' Capital Accounts

	P	Q		P	Q
To P's current A/c	16,940		By Balance b/d	1,00,000	50,000
To Bank	83,060	68,810	By Q's current Account		18,810
	1,00,000	**68,810**		**1,00,000**	**68,810**

Bank Account

	₹		₹
To Balance b/d	30,000	By Realization	27,000
To Realization	1,48,870	By P's capital	83,060
		By Q's capital	68,810
	1,78,870		**1,78,870**

Working Note:

Partners' Current Accounts

	P	Q		P	Q
To Balance b/d	10,000		By Balance b/d		10,000

To Realization	15,750		By Reserves	7,500	7,500
To Q's capital		18,810	By Realization (profit)	1,310	1,310
			By P's Capital	16,940	
	25,750	**18,810**		**25,750**	**18,810**

PRACTICAL QUESTIONS

10. P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		₹	Assets	₹
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		**3,00,000**

They decided to dissolve the business. The following are the amounts realized:

Particulars	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization account.

(ii) Partners' capital accounts.

(iii) Cash account.

Ans:

Realization Account

Particulars		₹	Particulars		₹
To Debtors		48,000	By Creditors		48,000
To Stock		60,000	By Cash A/c (Assets realized):		
To Fixtures		24,000	Plant and Machinery	1,02,000	
To Plant and machinery		1,08,000	Fixtures Stock	18,000	
To Cash A/c (Creditors)		45,600	Sundry Debtors	84,000	
To Cash A/c (GST)		4,200	By Q (Unrecorded asset)	44,400	2,48,400
To Cash A/c (Realization exp.)		1,500			4,800
To Profit on Realization					
P	3,960				
Q	3,960				
R	1,980	9,900			
		3,01,200			**3,01,200**

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
				By Reserve fund	24,000	24,000	12,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Realization A/c (Profit)	3,960	3,960	1,980
	1,47,960	**75,960**	**37,980**		**1,47,960**	**75,960**	**37,980**

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		**3,08,400**

11. 'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		**3,05,480**

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so
all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize ₹ 45,900. Realization expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realization Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Ans:

Realization Account

Particulars	₹	Particulars		₹
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant Fixtures	1,07,500	
To Debtors	54,780	Stock Debtors	20,000	
To Bank (Creditors)	84,650	By Loss on Realization transferred	41,040	
To Bank (Expenses)	4,500	to Partners' Current A/cs	45,900	2,74,440
		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			**3,94,630**

Partners' Current Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	14,500	By Balance b/d	29,700	11,300	–
To Realization	14,216	14,216	7,108	By Capital A/c Transfer	–	2,916	21,608
To Capital A/c transfer	15,484	–	–				
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

Partners' Capital Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Current A/c	–	2,916	21,608	By Balance b/d	80,000	50,000	20,000
To Fat's Capital A/c Deficiency in the ratio of 8:5	990	618	–	By Current A/c (transfer)	15,484	–	–
				By Bank (Realization loss)	14,216	14,216	1,608
To Bank	1,08,710	60,682	–	By Thin & Short Capital A/cs	1,09,700	64,216	21,608
	1,09,700	**64,216**	**21,608**		**1,09,700**	**64,216**	**21,608**

Working Notes:

1. Bank Account

Particulars	₹	Particulars	₹
To Realization A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realization A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realization A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		**3,02,872**

2. Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following

the rule in Garner vs. Murray.

12. Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500
General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts 60,000	
Loan from D	1,20,000	Less: Prov. for bad debts (6,000)	54,000
Trade Creditors	30,000	Stock	36,000
Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital Withdrawn:	
		Kumar	32,400
	3,56,400		**3,56,400**

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture - Remaining taken over by Kumar at 90% of book value
Stock - Realized 120% of book value
Book Debts - ₹ 12,000 of debts proved bad, remaining were fully realized
Land & Building - Realized ₹ 1,65,000
Investments - Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Ans:

1. Realization Account

Particulars	₹	Particulars	₹
To Land and Building	1,35,000	By Provision for bad debts	6,000
To Plant & Machinery Furniture	45,000	By Loan from D	1,20,000
To Investments	25,500	By Trade creditors	30,000
To Book debts	15,000	By Bills payable	12,000
To Stock	60,000	By Outstanding salary	7,500
To Bank (Realization exp.)	36,000	By Kumar - Furniture taken over (13,500 x	12,150
To Amit– Realization exp.	15,000	By .9)	
To Bank A/c -	3,000	Bank A/c –	
Bill payable		Stock Realized 43,200	
D's Loan	11,940		2,56,200

Creditors	61,500	By Land & Building	12,750
Salary	18,000	1,65,000	
To Profit transferred to partners'	7,500	Debtors 48,000	
capital Accounts		Amit (Investment taken over)	
Amit 9,264			
Sumit 9,264			
Kumar 4,632	23,160		
	4,56,600		**4,56,600**

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	13,500	By Realization A/c (payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To Realization A/c (assets realized)	2,56,200	By Amit	79,314
To Kumar	12,618	By Sumit	89,064
	2,82,318		**2,82,318**

Partners' Capital Accounts

Particulars	Amit ₹	Sumit ₹	Kumar ₹	Particulars	Amit ₹	Sumit ₹	Kumar ₹
To Balance b/d			32,400	By Balance b/d	55,200	55,200	
To Realization A/c (Investment taken over)	12,750			By Kumar's Loan			15,000
				By General Reserve	24,600	24,600	12,300
To Realization A/c (Furniture taken over)			12,150	By Realization A/c (expense)	3,000		
To Bank A/c	79,314	89,064		By Realization A/c (profit)	9,264	9,264	4,632
				By Bank A/c			12,618
	92,064	**89,064**	**44,550**		**92,064**	**89,064**	**44,550**

Working Notes:

1. Payment for Bills Payable

Particulars	Amount (₹)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. Payment to D's Loan

Particulars	Amount (₹)
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (₹ 45,000) and ₹ 7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. ₹ 60,000 – ₹ 6,000 = ₹ 54,000.	54,000

3. Payment to Trade Creditors

Particulars	Amount (₹)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value ₹ 12,000 accepted at value ₹ 10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	Amount (₹)
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value ₹ 12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

TOPIC 11: COMPANY ACCOUNTS

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

1. **Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.**

   Ans.:

   False: Debenture interest is payable before the payment of any dividend on shares.

2. **When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.**

   Ans.:

   False - When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

3. **Re-issue of forfeited shares is allotment of shares but not a sale.**

   Ans:

   False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

4. **Interest on calls in arrears is payable by company to shareholders.**

   Ans:

   False: Interest on calls in arrears is payable by shareholders to company.

5. **Debenture holders enjoy the voting rights in the company.**

   Ans:

   False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

6. **Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.**

   Ans:

   True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

7. **In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities Premium account of ₹ 35 lakhs are appearing; the accountant can use the balance in securities premium account to write off preliminary expenses.**

   Ans:

   True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

B. Solve the following questions:

1. **Alpha Limited registered with an authorized equity capital of ₹ 4,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, two shareholders failed**

to pay the amount on 100 shares each held by them and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Ans.:

Particulars		Dr. ₹	Cr. ₹
Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on app. for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	18,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			2,500
(First call money received on 800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)			

2. Aditya Limited issued 20,000 9% Debentures of the nominal value of ₹1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

Ans.:

In the books of Aditya Company Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each)			

(b)	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000
	(Being the issue of 10,000 9% Debentures @ 90% as per Board's Resolution No….dated….)			
	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c		5,00,000	
	To 9% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	20,00,000
	To Bank Loan A/c (See Note)			
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

3. **Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each. The amounts were payable as follows:**

On application - Rs. 6 per share
On allotment - Rs. 10 per share
On first and final call - Rs. 4 per share

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Daniel Ltd.

Ans.:

In the books of Daniel Ltd.

Journal Entries

Particulars		Dr.	Cr.
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 1,50,000 shares at Rs. 6 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (1,00,000 x Rs. 6)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 1,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000

(Being allotment amount due on 1,00,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated)		
Bank A/c Dr. To Equity Share Allotment A/c (Being balance allotment money received for 1,00,000 shares)	7,00,000	 7,00,000
Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 1,00,000 equity shares at Rs. 4 per share as per Directors' resolution no... dated...)	4,00,000	 4,00,000
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share first and final call A/c (Being final call received on 97,000 shares)	3,88,000 12,000	 4,00,000
Share capital A/c (3,000 x Rs. 20) Dr. To Forfeited shares A/c (3,000 x Rs. 16) To Calls in arrears A/c (3,000 x Rs. 4) (Being forfeiture of 3,000 shares of Rs. 20 each fully called-up for non-payment of first and final call @ Rs. 4 as per Directors' resolution no... dated..)	60,000	 48,000 12,000
Bank A/c (2,500 x Rs.16) Dr. Forfeited shares A/c (2,500 x Rs.4) To Equity Share Capital A/c (2,500 x Rs. 20) (Being re-issue of 2,500 shares @ Rs. 16)	40,000 10,000	 50,000
Forfeited share A/c (2,500 x Rs. 12) To capital reserve A/c (2,500 x Rs. 12) (Being profit on re-issue transferred to capital reserve)	30,000	 30,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c	**Rs.**
Forfeited amount per share = 48,000/3,000 =	16
Loss on re issue (20-16)	4
Surplus per share	12

Transfer to capital reserve Rs. 12 x 2,500 Rs. 30,000

4. **On 1st January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.**

Pass necessary journal entries for the accounting year 2020.

Ans.:

Journal Entries

		Dr.	**Cr.**
1-1-2020	Bank A/c Dr. Discount/Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c	36,00,000 4,00,000	 40,00,000 2,00,000

	(For issue of debentures at discount redeemable at premium)		
30-6-2020	Debenture Interest A/c Dr. To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	4,80,000	 4,32,000 48,000
	Debenture holders A/c Dr. Tax Deducted at Source A/c Dr. To Bank A/c (For payment of interest and TDS)	4,32,000 48,000	 4,80,000
31-12-2020	Debenture Interest A/c Dr. To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	4,80,000	 4,32,000 48,000
	Debenture holders A/c Dr. Tax Deducted at Source A/c Dr. To Bank A/c (For payment of interest and tax)	4,32,000 48,000	 4,80,000
	Profit and Loss A/c Dr. To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	9,60,000	 9,60,000
	Profit and Loss A/c Dr. To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)	80,000	 80,000

5. Deepak Chemicals Ltd. invited applications for 10 lakhs shares of Rs. 100 each payable as follows:

	Rs.
On Application	**10**
On Allotment (on 1st June, 2020)	**30**
On First Call (on 1st Nov., 2020)	**30**
On Final Call (on 1st March., 2021)	**30**

All the shares were applied for and allotted. A shareholder holding 15,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2021.

Ans.:

Journal of Deepak Chemicals Ltd.

2020		**Dr. Rs. In lakhs**	**Cr. Rs. in lakhs**
June 1	Bank A/c Dr. To Shares Application A/c (Receipt of applications for 10 lakh shares along with application money of Rs. 10 per share.)	100	100

June 1	Share Application and Allotment A/c Share Allotment A/c To Share Capital A/c (The allotment of 10 lakh shares: payable on application Rs. 10 share and Rs. 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	100 300	 400
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30&Rs. 30) on 15,000 shares.]	Dr.	309	300 9
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)	Dr. Dr.	300	 300
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 9.85 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	295.5 4.5	 300
2021 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 10 lakh shares @ Rs. 30 per share, as per Directors' resolution no... dated...)	Dr.	300	300
March 1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 9.85 lakhs shares, the balance having been previously received.)	Dr. Dr.	295.5 4.5	 300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.63	 0.63
March 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.63	 0.63

Working Note:

The interest on calls in advance paid @ 12% on :	**Rs.**
Rs. 4,50,000 (first call) from 1st June to 1st Nov., 2020–5 months	22,500
Rs. 4,50,000 (final call) from 1st June to 1st March., 2021–9 months	40,500
Total Interest Amount Due	63,000

6. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:
₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st Feb, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15 th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Ans.:

Pehal Ltd. Journal

2017		Dr.	Cr.
May 20	Bank Account Dr. To Share Application A/c (Application money on 60,000 shares at ₹ 30 per share received.)	18,00,000	18,00,000
June 1	Share Application A/c Dr. To Share Capital A/c (The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' Resolution no dated.)	18,00,000	18,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)	18,00,000	18,00,000
July 15	Bank Account Dr. To Share Application and Allotment A/c (The sums due on allotment received.)	18,00,000	18,00,000
Oct 1	Share First Call Account Dr. To Share Capital Account (Amount due from members in respect of first call on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)	1,20,000	1,20,000
Oct 20	Bank Account Dr. To Share First Call Account (Receipt of the amounts due on first call.)	12,00,000	12,00,000
2018 Feb 1	Share Second and Final Call A/c Dr. To Share Capital A/c (Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)	12,00,000	12,00,000
March 31	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 60,000 shares at ₹20 per share.)	12,00,000	12,00,000

7. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Ans:

In the books of Company

Journal

Particulars		Dr.	Cr.
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No dated.)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No dated)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

8. Pihu ltd. Issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 40 on application

₹ 50 on allotment

You are required to give necessary journal entries regarding issue of debentures.

Ans.

Books of Pihu Ltd. Journal

Particulars		Debit	Credit
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,000,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	

To 9% Debentures A/c (Amount due on allotment)		30,00,00,000
Bank A/c Dr. To Debenture Allotment A/c (Money received consequent upon allotment)	25,00,00,000	25,00,00,000

9. Alankit Limited issued at par 2,00,000 Equity shares of ₹ 100 each payable ₹ 25 on application; ₹ 30 on allotment; ₹ 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.

You are required to prepare journal entries to record these transactions.

Ans:

Book of Alankit Limited Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 2,00,000 shares @₹ 25 per share)		50,00,000	50,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)		50,00,000	50,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)		60,00,000	60,00,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		60,00,000	60,00,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹ 20 per share)		40,00,000	40,00,000
	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,00,000 shares at ₹25 per share)		50,00,000	40,00,000 10,00,000
	Equity Share Final Call A/c Dr. To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹25 each)		50,00,000	50,00,000
	Bank A/c Dr. Calls in Advance A /C Dr		39,00,000 10,00,000	

	Calls in Arrears A/c (Being final call received for 1,56,000 shares and calls in advance for 40,000 shares adjusted)	Dr.		1,00,000	50,00,000
	Interest on Calls in Advance A/c To shareholders A/c (Being interest made due on calls in advance of ₹10,000,00 at the rate of 12% p.a.)	Dr.		30,000	30,000
	Interest on Calls in Advance A/c To shareholders A/c (Being interest made due on calls in advance of ₹10,000,00 at the rate of 12% p.a.)	Dr.		30,000	30,000
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,667	1,667
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		1,01,667	1,01,667

10. Priya Ltd. issued 25,00,000, 12% debentures of ₹ 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:

₹ 4 on application

₹ 5 on allotment

Record necessary journal entries regarding issue of debenture.

Ans.

Books of Priya Ltd. Journal

Particulars		Debit (₹)	Credit (₹)
Bank A/c	Dr.	1,00,00,000	
To Debenture Application A/c			1,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	1,00,00,000	
To 12% Debentures A/c			1,00,00,000
(Application money transferred to 12% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	1,25,00,000	
Discount on issue of debentures A/c	Dr.	25,00,000	
To 12% Debentures A/c			15,000,000
(Amount due on allotment)			
Bank A/c	Dr.	1,25,00,000	
To Debenture Allotment A/c			125,00,000
(Money received consequent upon allotment)			

11. Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par;

(ii) Debentures are issued at 20 % discount; and

(iii) Debentures are issued at 20% premium.

Ans.:

Machinery A/c To Avneet Ltd. (Machinery purchased)	Dr.	9,90,000	 9,90,000
Case (i) When debentures are issued at par: Avneet Ltd. To 10% Debentures A/c (10% Debentures issued to Avneet Ltd.)	 Dr.	 9,90,000	9,90,000
Case (ii) When debentures are issued at 20% discount: Avneet Ltd. Discount on Issue of Debentures A/c To 10% Debentures A/c (10% Debentures issued to Avneet Ltd. at 20% discount)	 Dr. Dr.	 9,90,000 2,47,500	 12,37,500
Case (iii) When debentures are issued at 20% premium: Avneet Ltd. To 10% Debentures A/c To Premium on Issue of Debentures A/c (10% Debentures issued to Avneet Ltd. at 20% premium)	 Dr.	 9,90,000	 8,25,000 1,65,000

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100
Less: Discount 20%	20
Value at which issued	80

₹ 9,90,000/80 = 12,375 Debentures

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120

₹ 9,90,000/ 120 = 8,250 Debentures

12. On 1st January 2018·Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five-year period at 5% premium.

Pass necessary journal entries for the accounting year 2018.

Ans.:

Journal Entries

		Dr. (₹)	**Cr. (₹)**

1-1-2018	Bank A/c Discount/Loss on Issue of Debentures A/c To 10% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount redeemable at premium)	Dr. Dr.	18,00,000 3,00,000	 20,00,000 1,00,000
30-6-2018	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	Dr.	1,00,000	 90,000 10,000
	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c (For payment of interest and TDS)	Dr. Dr.	90,000 10,000	 1,00,000
31-12-2018	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	Dr.	1,00,000	 90,000 10,000
	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c (For payment of interest and tax)	Dr. Dr.	90,000 10,000	 1,00,000
	Profit and Loss A/c To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	Dr.	2,00,000	 2,00,000
	Profit and Loss A/c To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)	Dr.	60,000	 60,000

13. Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at ₹ 1,25,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.

(v) Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2019 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost.

Ascertain the value of Stock as on 31st March 2019.

Ans.:

Statement of Valuation of Physical Stock as on 31st March,2019

	₹	₹
Value of stock as on 10th April, 2019		1,25,000
Add: Cost of sales during the intervening period Sales made between 1.4.2019 and 9.4.2019 Less: Gross profit @20% on sales	20,000 (4,000)	16,000
Free sample		4,000
		1,45,000
Less: Purchases actually received during the intervening period: Purchases from 1.4.2019 to 9.4.2019 Less: Goods not received upto 9.4.2019	10,000 (2,000)	(8,000)
		1,37,000
Add: Purchases during March, 2019 but not recorded in stock		20,000
Value of physical stock as on 31.3.2019		1,57,000

14. B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Ans:

In the books of B Ltd. Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
	Bank A/c Dr. To Equity Share Application A/c (Application money on 50,000 shares @ ₹ 3 per share received.)	1,50,000	1,50,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)	1,50,000	1,50,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)	2,50,000	1,50,000 1,00,000

	Bank A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share. X, holding 1,000 shares failed to pay allotment money.)	Dr. Dr. Dr.	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
	Equity Share Call A/c To Equity Share Capital A/c (Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr. Dr. Dr.	1,88,000 1,88,000 12,000	 1,88,000 2,00,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No…..dated ….) **'OR'** Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Calls in Arrear A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000

	and for non-payment of call money on 2,000 shares as per Board's Resolution No… dated…)		
	Bank A/c Dr. Forfeited Shares A/c Dr. To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No…..dated….)	20,000 5,000	 25,000
	Forfeited Shares A/c Dr. To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000
Total		6,03,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

Transferred to Capital Reserve: X share (1,000 x ₹ 1) ₹ 1,000

Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	= 1,00,000
less: Amount reversed on forfeiture	= (2,000)
Balance remaining	= 98,000

15. ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Ans:

1. Bank A/c	Dr.	40,000	
To Equity Share Application A/c			40,000
(Being the application money received for 20,000 shares at ₹ 2 per share)			
2. Equity Share Application A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(Being share allotment made for 20,000 shares at ₹ 2 per share)			
3. Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... Dated...)			
4. Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Being allotment money received for 20,000 equity shares at ₹ 3 per share)			
5. Equity Share First Call Account Dr. 80,000	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Being first call money due on 20,000 equity shares @ Rs. 4 per share)			
6. Bank Account	Dr.	78,800	
To Equity Share First Call Account			78,000
(Being full amount of first call money received except on 300 shares)			
OR	Dr.	78,800	
Bank Account	Dr.	1,200	
Calls in Arrear A/c			80,000

To Equity Share First Call Account (Being full amount of first call money received except on 300 shares)			
7. Equity Share Final Call Account To Equity Share Capital A/c 20,000 (Being first call and final call money due)	Dr.	20,000	 20,000
8. Bank Account To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares) OR Bank Account Calls in Arrear A/c To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr. Dr. Dr.	19,700 300 19,700 300	 20,000 20,000
9. Equity Share Capital A/c (300 x ₹ 10) To Equity Share First Call Account To Equity Share Final Call Account To Forfeited Shares A/c (Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No…..dated ….) OR Equity Share Capital A/c To Forfeited Shares A/c To Calls in Arrears (Being 300 shares forfeited on which first call and final	Dr. Dr.	3,000 3,000	 1,200 300 1,500 1,500 1,500
10. Bank A/c (300 x ₹ 8) Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 300 shares @ ₹8 each as per Board's Resolution No…..dated….)	Dr. Dr.	2,400 600	 3,000
11. Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	900	 900

16. Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

(i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.

(ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.

(iii) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value,

You are required to pass necessary Journal Entries.

Ans:

In the books of Y Company Ltd.

Journal Entries

Date	Particulars		Dr. ₹	Cr.₹
(i)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	13,00,000	 13,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 12% Debentures A/c (Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)	Dr. Dr.	13,00,000 2,00,000	 15,00,000
(ii)	Bank A/c To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 540 each)	Dr.	27,00,000	 27,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No….dated….)	Dr. Dr.	27,00,000 3,00,000	 30,00,000
	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)	Dr.	14,00,000	 14,00,000

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

17. A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

1. **Applicants for 10,000 shares received allotment in full;**
2. **Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;**
3. **Applicants for 5,00,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and**
4. **The money due on final call was received on the due date.**

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Ans.:

Journal of a Limited

Date	Particular		Dr. ₹	Cr. ₹
2020 May-31	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share)	Dr.	11,20,000	 11,20,000
June 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)	Dr.	11,20,000	 2,70,000 5,50,000 3,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No….dated….)	Dr.	6,75,000	 1,35,000 5,40,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	1,25,000	 1,25,000
Dec. 31	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution No…..dated….)	Dr.	9,45,000	 9,45,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received)	Dr.	9,45,000	 9,45,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000

(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

a. Amount Received on Application (3) = No. of shares applied for (1) X ₹2

b. Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

1. Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

Ans:

Journal Entries in the books of Bharat Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

Working Note-

Number of Bonus shares to be issued- (40,000 shares / 4) X 1 = 10,000 sharesValue of Bonus shares- 10,000 shares of ₹ 10 each = ₹ 1,00,000

2. Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Ans:

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c			1,25,000
	(For making provision of bonus issue)			
	Share Final Call A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....)			
	Bonus to shareholders A/c	Dr.	1,25,000	
	To Share Final Call A/c			1,25,000
	(For bonus money applied for call)			
(ii)	General Reserve A/c	Dr.	5,00,000	
	To Bonus to shareholders A/c			5,00,000
	(For making provision of bonus issue)			
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c			5,00,000
	(For issue of 50,000 bonus shares at ₹ 10)			

3. Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2022 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

Ans:

Journal Entries in books of Solid Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
2022 April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000

	(Final call of ₹ 2 per share on 90,000 equity shares due as per Board's Resolution dated)		
April 20	Bank A/c Dr. To Equity Share Final Call A/c (Final Call money on 90,000 equity shares received)	1,80,000	1,80,000
	Securities Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr. To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)	20,000 1,60,000 45,000	 2,25,000
April 20	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profit)	2,25,000	2,25,000

Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)

		Particulars	Notes	Amount (₹)
		EQUITY AND LIABILITIES	1	
1		**Shareholders' funds**	2	
	a	Share capital	3	12,05,000
	b	Reserves and Surplus		1,95,000
2		**Non-current liabilities**		
	a	Long-term borrowings		5,00,000
		Total		19,00,000

Notes to Accounts

1.	**Share Capital**		
	<u>Authorised share capital</u>		
	10,000 12% Preference shares of ₹ 10 each		1,00,000
	1,12,500 Equity shares of ₹ 10 each		11,25,000
	Issued, subscribed and fully paid share capital		
	8,000 12% Preference shares of ₹ 10 each		80,000
	1,12,500 Equity shares of ₹ 10 each, fully paid (Out of above, 22,500 equity shares @ ₹ 10 each were issued by way of bonus)	(A)	12,05,000
	Total		**12,05,000**
2.	**Reserves and Surplus**		
	Revaluation Reserve		35,000
	Securities Premium	20,000	
	Less: Utilised for bonus issue	<u>(20,000)</u>	Nil
	General reserve	1,60,000	
	Less: Utilised for bonus issue	<u>(1,60,000)</u>	Nil
	Profit & Loss Account	2,05,000	
	Less: Utilised for bonus issue	<u>(45,000)</u>	1,60,000
	Total		**1,95,000**
3.	**Long-term borrowings**		
	Secured		

	12% Debentures @ ₹ 100 each	5,000

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

Working Note-

Number of Bonus shares to be issued (90,000 shares / 4) X 1 = 22,500 shares

4. Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

	₹
Share capital:	
Authorised capital:	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Ans:

Journal Entries in the books of Preet Ltd.

			Dr. (₹)	Cr. (₹)
1-4-2022	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)			
20-4-2022	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Redemption Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c (b.f.)	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	3,37,500	3,37,500
	To Equity share capital A/c			
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		₹
Share Capital		
Authorised Capital		
15,000 12% Preference shares of ₹10 each		1,50,000
1,68,750 Equity shares of ₹10 each (refer working note below)		16,87,500
Issued and subscribed capital		
12,000 12% Preference shares of ₹10 each, fully paid		1,20,000
1,68,750 Equity shares of ₹10 each, fully paid		16,87,500
(Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus)		
Reserves and surplus		
Securities Premium	37,500	
Less: Utilised for bonus issue	(37,500)	NIL
Capital Redemption Reserve	60,000	
Less: Utilised for bonus issue	(60,000)	NIL
General Reserve	1,80,000	
Less: Utilised for bonus issue	(1,80,000)	NIL
Profit and Loss Account	3,00,000	
Less: Utilised for bonus issue	(60,000)	2,40,000

Working Notes:

1. Number of Bonus shares to be issued- (1,35,000 shares / 4) X 1 = 33,750 shares
2. The authorised capital should be increased as per details given below:

Existing issued Equity share capital	₹ 13,50,000
Add: Issue of bonus shares to equity shareholders	₹ 3,37,500
	₹ 16,87,500

5. A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150. Calculate the value of a right. What should be the ex-right market price of a share?

Ans:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + No. of right shares)

= (₹ 150 X 4 Shares + ₹ 125 X 1 Share) / (4 + 1) Shares

= ₹ 725 / 5 shares = ₹ 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 150 – ₹ 145 = ₹ 5 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 125 will have to pay ₹ 20 (4 shares X ₹ 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

6. Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2022:

Particulars	Amt. (₹)
4,500 Equity Shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	40,000

Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

Ans:

Journal Entries in the books of Saral Ltd.

2022			Dr.	Cr.
	Capital Redemption Reserve A/c	Dr.	70,000	
	Securities Premium A/c	Dr.	40,000	
	General Reserve A/c (b.f.)	Dr.	40,000	
	To Bonus to Shareholders A/c			1,50,000
	(Bonus issue of one shares for every three shares held, by utilising various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Capitalisation of profit)			

Working Note- Number of bonus shares to be issued- 4500 / 3 X1= 1500 shares

7. The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	₹ in Lakhs
(1) Share Capital Authorised :	
20 crore shares of ₹ 10 each Issued and Subscribed :	20,000
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	**12,000**
Called and paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up 2 crore	8,000
11% Cumulative Preference Shares of ₹ 10 each,	
fully called and paid up	2,000
Total	**10,000**
(2) Reserves and Surplus :	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	**4,798**

On 2nd April 2022, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held . Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Ans:

Journal Entries in the books of Brite Ltd.

2022		Dr. (₹ in lakhs)	Cr. (₹ in lakhs)
April 2	Equity Share Final Call A/c Dr.	2,000	
	To Equity Share Capital A/c		2,000
	(Final call of ₹ 2 per share on 10 crore equity shares made due)		
	Bank A/c Dr.	2,000	
	To Equity Share Final Call A/c		2,000
	(Final call money on 10 crore equity shares received)		
June 1	Capital Redemption Reserve A/c Dr.	1,485	
	Securities Premium A/c Dr.	2,000	
	General Reserve A/c (b.f.) Dr.	515	
	To Bonus to Shareholders A/c		4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.......)		
	Bonus to Shareholders A/c Dr.	4,000	
	To Equity Share Capital A/c		4,000
	(Capitalisation of profit)		

Notes to Accounts

			₹ in lakhs
1.	**Share Capital**		
	Authorised share capital:		
	20 crore shares of ₹ 10 each		20,000
	Issued, subscribed and fully paid up share capital:		
	14 crore Equity shares of ₹ 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up		2,000
	Total		**16,000**
2.	**Reserves and Surplus:**		
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	(1,485)	-
	Securities Premium	2,000	
	Less: Utilised for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilised for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		**798**

8. Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2022

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000

3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Ans:

Journal Entries in the books of Manoj Ltd.

			Cr. (₹)	Dr. (₹)
1-4-2022	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2022	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

	₹
Authorised Capital	
30,000 12% Preference shares of ₹10 each	3,00,000
3,37,500 Equity shares of ₹10 each (refer W.N.)	33,75,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid	33,75,000

(Out of the above, 67,500 equity shares @ ₹10 each were issued by way of bonus shares)		
Reserves and surplus		
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	(1,20,000)	NIL
Securities premium	75,000	
Less: Utilised for bonus issue	(75,000)	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	(3,60,000)	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	(1,20,000)	4,80,000

Working Note:

1. Number of bonus shares to be issued- 2,70,000/4 X1= 67,500 shares
2. The authorised capital should be increased as per details given below:

Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	6,75,000
	33,75,000

9. 4. A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Ans:

Ex-right value of the shares $= \frac{\text{(Cum−right value of the existing shares + Rights shares x Issue Price)}}{\text{(Existing Number of shares + No.of right shares)}}$

$= \frac{(₹\ 240 \text{ x } 2 \text{ Shares} + ₹\ 120 \text{ x } 1 \text{ Share})}{(2+1) \text{ Shares}}$

$= \frac{600}{3 \text{ Shares}}$ = ₹ 200 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 240 – ₹ 200 = ₹ 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 120 will have to pay ₹ 80 (2 shares x ₹ 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

10. A Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Ans:

Journal Entry in the books of A Ltd.

	Cr. (₹)	Dr. (₹)
Bank A/c Dr.	62,500	
To Equity share capital A/c		62,500
(For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated….)		

Working Note:

Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

11. Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000
4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

Ans:

Journal Entries in the books of Mars Ltd.

2022			Dr. (₹)	Cr. (₹)
April 1	Equity Share Final Call A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Final call of ₹ 2 per share on 4,00,000 equity shares made due)			
April 25	Bank A/c	Dr.	8,00,000	
	To Equity Share Final Call A/c			8,00,000
	(Final call money on equity shares received)			
May 1	Capital Redemption Reserve A/c	Dr.	2,40,000	
	Securities Premium A/c	Dr.	2,75,000	
	General Reserve A/c Profit and Loss A/c (b.f.)	Dr.	1,60,000	
	To Bonus to Shareholders A/c	Dr.	3,25,000	
	(Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.)			10,00,000
	Bonus to Shareholders A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Capitalisation of profit)			
June 20	Bank A/c	Dr.	24,00,000	
	To Securities Premium A/c			4,00,000
	To Equity Share Capital A/c			20,00,000

	(Being Rights issue of 2 shares for every 5 shares held as per board resolution dated ………..)		

REDEMPTION OF DEBENTURES

1. The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.
   The Interest on debentures had been paid up to December 31, 2021.
   On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.
   Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.
   Ans:

6% Mortgage Debentures Account

2022		₹	2022		₹
Feb. 28	To Debenture- holders A/c	10,00,000	Jan. 1	By Balance b/d	10,00,000

Premium on Redemption of Debentures Account

2022		₹	2022		₹
Feb. 28	To Debenture- holders A/c	10,000	Jan. 1	By Profit & Loss A/c	10,00,000

Debentures Redemption Reserve Investment Account

2022		₹	2022		₹
Feb. 28	To Balance b/d	1,50,000	Jan. 1	By Bank	1,50,000

Debenture Interest Account

2022		₹	2022		₹
Feb. 28	To Bank (10,000 x 100 x 6% x 2/12)	10,000	Jan. 1	By Profit & Loss A/c	10,000

Bank A/c

2022		₹	2022		₹
Jan 01	To Balance b/d	9,00,000	Feb. 28	By Debenture-holders (10,000 x 101)	10,10,000
Feb 28	To Interest on Debentures Redemption Investments (1,50,000 x 4% x 2/12)	1,000		By Debenture Interest A/c	10,000
	To Debentures Redemption Reserve investment A/c	1,50,000		By Balance c/d	31,000
		10,51,000			**10,51,000**

Debenture Redemption Reserve Account

2022		₹	2022		₹
Feb 28	To General Reserve- note	1,00,000	Jan.1 Jan.1	By Balance b/d By Profit & Loss (b/f)	50,000 50,000
		1,00,000			**1,00,000**

Note

Amount to be transferred to DRR before the redemption = ₹ 1,00,000 [i.e. 10% of (10,000 X 100)].

2. The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking

company, NBFC and HFC) as on 1-4-2021:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment 1,12,500 represented by 10% ₹ 1,125 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(a) Debentures Account

(b) DRR Account

(c) DRR Investment Account

(d) Bank Account

(e) Debenture Holders Account.

Ans:

12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31st March, 2022	To Debenture holders A/c	7,50,000	1st April, 2021	By Balance b/d	7,50,000
		7,50,000			**7,50,000**

DRR Account

Date	Particulars	₹	Date	Particulars	₹
31st March, 2022	To General reserve A/c (Refer Note)	75,000	1st April, 2021 1st April, 2021	By Balance b/d By Profit and loss A/c (Refer Note)	25,000 50,000
		75,000			**75,000**

10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	₹	Date	Particulars	₹
1st April, 2021	To Balance b/d	1,12,500	31st March, 2022	By Bank A/c	1,12,500
		1,12,500			1,12,500

Bank A/c

Date	Particulars	₹	Date	Particulars	₹
31st March, 2022	To Balance b/d To Interest on DRR Investment (1,12,500 x 10%) To DRR Investment A/c	7,50,000 11,250 1,12,500	31st March, 2022	By Debenture holders A/c By Balance c/d	8,25,000 48,750
		8,73,750			**8,73,750**

Debenture holders A/c

Date	Particulars	₹	Date	Particulars	₹
31st March, 2022	To Bank A/c	8,25,000	31st March, 2022	By 12% Debentures By Premium on redemption of debentures (7,50,000 X 10%)	7,50,000 75,000
		8,25,000			**8,25,000**

Note–

Calculation of DRR before redemption = 10% of ₹ 7,50,000 = 75,000
Available balance = ₹ 25,000
DRR required = 75,000 – 25,000 = ₹ 50,000.

3. XYZ Ltd. has issued 1,000, 12% convertible debentures ₹100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Ans:

	No. of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion	
[₹ 4,200/ ₹ 20]	210 shares

Calculation of cash to be paid :

Number of debentures	₹ 200
Less: number of debentures to be converted into equity shares	₹ (40)
	₹ 160

Redemption value of 160 debentures (160 × ₹ 105) i.e. ₹ 16,800.

4. The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

Particulars	**Note No**	**₹**
Equity and liabilities		
1. Shareholder's Funds		
a. Share Capital	1	2,00,000
b. Reserves and Surplus	2	1,20,000
2. Non-current liabilities		
a. Long term borrowings	3	1,20,000
3. Current Liabilities		
a. Trade payables		1,15,000
Total		**5,55,000**
Assets		
1. Non-current assets		
Property, Plant and Equipment	4	1,15,000
2. Current assets		
Inventories		1,35,000
Trade receivables		75,000
Cash and bank balances	5	2,30,000

Total		5,55,000

Notes to Accounts

			₹
1.	**Share Capital**		
	Authorised share capital		
	30,000 shares of ₹ 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000
2.	**Reserve and Surplus**		
	Profit & Loss Account		1,20,000
3.	**Long term borrowings**		
	12% Debentures		1,20,000
4.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
5.	**Cash and bank balances**		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Ans:

Journal of BEE Co. Ltd.

		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	75,000	
To Equity Share Application A/c			75,000
(Application money received on 5,000 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Share Application A/c	Dr.	75,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			25,000
(Share application money on 5,000 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated…)			
Securities Premium A/c	Dr.	25,000	
Profit & Loss A/c	Dr.	25,000	
To Bonus to Shareholders A/c			50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)			

Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 10% x 1,20,000)	Dr.	12,000	 12,000
Debenture Redemption Reserve Investment A/c To Bank A/c (for DRR Investment created 15% x 1,20,000)	Dr.	18,000	 18,000
12% Debentures A/c Premium Payable on Redemption A/c @ 3% To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,20,000 3,600	 1,23,600
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to Profit & Loss A/c)	Dr.	3,600	 3,600
Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve)	Dr.	12,000	 12,000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	18,000	 18,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,23,600	1,23,600

5. A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Ans:

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of	
5% [3,500 x (100+5)] Equity shares of ₹ 10 each issued on conversion [₹ 3,67,500/ ₹ 15]	₹ 3,67,500 24,500 shares

6. Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price - ₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

(d) No. of debentures applied for- 2,00,000.

(e) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

Ans:

Journal Entries in the books of Libra Ltd.

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
1.5.2021	Bank A/c	Dr.	2,00,00,000	
	To Debenture Application A/c			2,00,00,000
	(Application money received on 1,50,000 debentures @ ₹ 100 each)			
1.6.2021	Debenture Application A/c	Dr.	2,00,00,000	
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
1.6.2021	Debenture Redemption Investment A/c	Dr.	12,00,000	
	To Bank A/c (2,00,000 X 100 x 15% X 40%)			12,00,000
	(Being Investments made for redemption purpose)			
30.9.2021	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)			
31.10.2021	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.2022	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year) (Refer working note)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2022

On ₹ 80,00,000 for 6 months @ 15% = ₹ 6,00,000

On ₹ 1,20,00,000 for 1 months @ 15% = ₹ 1,50,000

₹ 7,50,000

7. Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following

information as at 31st March, 2022:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹ 10 each fully paid Issued and subscribed share capital:	4,50,000
30,000 equity shares of ₹ 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Ans:

Journal Entries in the Books of Case Ltd.

		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated…)			

Securities Premium A/c Profit & Loss A/c To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)	Dr. Dr.	37,500 37,500	 75,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)		75,000	 75,000
12% Debentures A/c Premium Payable on Redemption A/c (@ 3%) To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,80,000 5,400	 1,85,400
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to Profit & Loss A/c)	Dr.	5,400	 5,400
Debenture Redemption Reserve A/c To General Reserve (For DRR transferred to general reserve)	Dr.	18,000	 18,000
Bank A/c To Debenture Redemption Reserve Investment (for DRR Investment realised)	Dr.	27,000	 27,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,85,400	 1,85,400

REDEMPTION OF PREFERENCE SHARES

1. Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Ans:

In the books of Hinduja Company Ltd.

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 50,000 Equity Shares of ₹10 each at par for the purpose of redemption of preference shares, as per Board Resolution No. ……..dated)	Dr.	5,00,000	 5,00,000
	8% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)	Dr.	5,00,000	 5,00,000

	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	5,00,000	5,00,000

2. C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Ans:

In the books of C Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the issue of 1,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share as per Board's Resolution No….. dated)	12,00,000	 10,00,000 2,00,000
	10% Redeemable Preference Share Capital A/c Dr. To Preference Shareholders A/c (Being the amount payable on redemption of Preference shares transferred to Preference Shareholders A/c)	10,00,000	 10,00,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	10,00,000	 10,00,000

Note: Amount required for redemption is ₹ 10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to ₹ 10,00,000. Premium received on new issue cannot be used to finance the redemption.

3. G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Ans:

In the books of G India Limited Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 10,000 Equity Shares of ₹9 each at par, as per Board's Resolution No…….Dated…..)	90,000	 90,000
	10% Redeemable Preference Shares Capital A/c Dr. To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)	90,000	 90,000

	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	90,000	90,000

4. The Board of Directors of a Company decided to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹ 50 only.

Ans:

Nominal value of preference shares	₹ 5,00,000
Maximum possible redemption out of profits	₹ 3,00,000
Minimum proceeds of fresh issue ₹ 5,00,000 – 3,00,000	= ₹ 2,00,000
Proceed of one share	= ₹ 9

Minimum number of shares = $\frac{20,000}{9}$ = 22,22.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

5. X Ltd. gives you the following information as at 31st March, 2023:

Particulars	**₹**
EQUITY AND LIABILITIES	
1. Shareholders' funds	
a. Share capital	2,90,000
b. Reserves and Surplus	48,000
2. Current liabilities	
Trade Payables	56,500
ASSETS	
1. Property, Plant and Equipment	3,45,000
2. Non-current investments	18,500
3. Current Assets	
Cash and cash equivalents (bank)	31,000

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.

(c) to issue minimum equity share of ₹ 50 each share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

Ans:

Journal

Date	**Particulars**	**Dr. (₹)**	**Cr. (₹)**
	Bank A/c Dr. To Share Application A/c	37,500	37,500

	(For application money received on 750 shares @ ₹ 50 per share)		
	Share Application A/c Dr. To Equity Share Capital A/c (For disposition of application money received)	37,500	37,500
	Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (For amount payable on redemption of preference shares)	65,000 6,500	71,500
	Bank A/c Dr. Profit and Loss A/c (loss on sale) A/c Dr. To Investment A/c (For sale of investments at a loss of ₹ 3,500)	15,000 3,500	18,500
	Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 65,000 - ₹ 37,500)	27,500	27,500
	Preference Shareholders A/c Dr. To Bank A/c (For payment of preference shareholders)	71,500	71,500
	Profit and Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	6,500	6,500

Working Note:

Calculation of Number of Shares:	₹
Amount payable on redemption (₹ 65,000 + 10% of ₹ 65,000)	71,500
Less: Sale price of investment	(15,000)
	56,500
Less: Available bank balance (31,000 - 12,000)	(19,000)
Funds from fresh issue	37,500

No. of shares = 37,500/50=750 shares

6. The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st January 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Ans:

In the books of ABC Limited Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)

2023 Jan 1	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,00,000	1,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,00,000	1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	75,000 25,000	1,00,000

Note: Securities premium and capital reserve (not being distributable profits) cannot be utilised for transfer to Capital Redemption Reserve.

7. C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of ₹ 10 each at par,

(ii) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Ans:

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 25,000 equity shares of ₹ 10 each at par as per Board's resolution No……dated…..)	Dr.	2,50,000	2,50,000
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of ₹ 100 each as per Board's Resolution No…..dated……)	Dr.	1,00,000	1,00,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	50,000
	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	3,00,000 30,000	3,30,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	3,30,000

	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	30,000	 30,000

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	3,00,000
Less: Proceeds from new issue	(2,50,000)
Total Balance	**50,000**

8. The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2021).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements.

Ans:

In the books of ....

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 2,500 Equity Shares of ₹ 10 each at a premium of Re. 1 per share as per Board's Resolution No.....dated.......)	25,000	 25,000
	General Reserve A/c Profit & Loss A/c Dr. Investment Allowance Reserve A/c Dr. To Capital Redemption Reserve A/c Dr. (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	60,000 10,000 5,000	 75,000
	8% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	1,00,000 10,000	 1,10,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)	1,10,000	 1,10,000
	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	 10,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹ 1,00,000
Less: Profit available for distribution as dividend:	₹ 60,000	
General Reserve : ₹(80,000-20,000)		
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 10,000-5,000)	₹ 5,000	(₹ 75,000)
		₹ 25,000

Therefore, No. of shares to be issued = ₹ 25,000/₹10 = 2,500 shares.

9. The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries. (Ignore date column)

Ans:

Journal Entries

		Dr. (₹)	Cr. (₹)
8% Preference Share Final Call A/c	Dr.	15,00,000	
To 8% Preference Share Capital A/c			15,00,000
(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
Bank A/c	Dr.	15,00,000	
To 8% Preference Share Final Call A/c			15,00,000
(For receipt of final call money on preference shares)			
Bank A/c	Dr.	10,00,000	
To Equity Share Application A/c			10,00,000
(For receipt of application money on 50,000 equity shares @ ₹ 20 per share)			
Equity Share Application A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(For capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	17,50,000	
To Equity Share Capital A/c			12,50,000
To Securities Premium A/c			5,00,000

(For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	17,50,000	 17,50,000
General Reserve A/c To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)	Dr.	27,50,000	 27,50,000
8% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	50,00,000 2,50,000	 52,50,000
Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	52,50,000	 52,50,000
General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	Dr.	2,50,000	 2,50,000

Note: On the redemption of redeemable preference shares out of accumulated divisible profits, it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

10. With the help of the details in Illustration 9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices. (Ignore date column)

Ans:

Journal Entries

Date			Dr. (₹)	Cr. (₹)
	8% Preference Share Final Call A/c To 8% Preference Share Capital A/c (For final call made on preference shares @ ₹ 30 each to make them fully paid up)	Dr.	15,00,000	15,00,000
	Bank A/c (48,000 x ₹30) Calls in arrears A/c (2,000x ₹30) To 8% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	14,40,000 60,000	15,00,000
	Preference Share Capital A/c (2000 X ₹100) To Calls in Arrears A/c (2000 X ₹30) To Shares Forefeited A/c (2000 X ₹70)	Dr.	2,00,000	 60,000 1,40,000

	(For Shares Forefeited after shareholders fail to pay the Final Call)		
	Bank A/c Dr. To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ ₹ 20 per share)	10,00,000	10,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (For capitalisation of application money received)	10,00,000	10,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)	17,50,000	12,50,000 5,00,000
	Bank A/c Dr. To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	17,50,000	17,50,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 48,00,000 – 10,00,000 – 12,50,000)	25,50,000	25,50,000
	8% Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5% premium)	48,00,000 2,40,000	50,40,000
	Preference Shareholders A/c Dr. To Bank A/c (For amount paid to preference shareholders)	50,40,000	50,40,000
	General Reserve A/c Dr. To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	2,40,000	2,40,000
	Shares Forfeited A/c Dr. To Capital Reserve A/c (For transferring balance to Capital Reserve A/c after redemption of preference shares)	1,40,000	1,40,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹ 22,50,000 (₹10,00,000 application money plus ₹ 12,50,000 received on allotment towards share capital) will be considered.

11. The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st

April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column)

Ans:

In the books of B Limited

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
12% Redeemable Preference Share Capital A/c	Dr.	1,80,000	
Premium on Redemption of Preference Shares A/c	Dr.	36,000	
To Preference Shareholders A/c			2,16,000
(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)			
Preference Shareholders A/c	Dr.	2,14,800	
To Bank A/c			2,14,800
(Being the amount paid on redemption of 17,900 pref. shares)			
Bank A/c	Dr.	33,000	
To Equity Shares Capital A/c			30,000
To Securities Premium A/c			3,000
(Being the issue of 3,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No……. Dated……)			
General Reserve A/c	Dr.	1,20,000	
Profit & Loss A/c	Dr.	30,000	
To Capital Redemption Reserve A/c			1,50,000
(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)			
Capital Redemption Reserve A/c	Dr.	1,20,000	
To Bonus to Shareholders A/c			1,20,000
(Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No……dated…)			
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Being the utilisation of bonus dividend for issue of 12,000 equity shares of ₹ 10 each fully paid)			
Profit & Loss A/c	Dr.	36,000	
To Premium on Redemption of Preference Shares A/c			36,000
(Being premium on redemption of preference shares adjusted against to Profit & Loss Account)			

Working Note:

1. Partly paid-up preference shares cannot be redeemed.

2. Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	₹ 1,80,000
Less: Proceeds from fresh issue (excluding premium)	(₹ 30,000)
	₹ 1,50,000

3. No bonus shares on 3,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

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Harish Mathariya is a Chartered Accountant as well as a Company Secretary by profession. He specializes in extending services in the areas of Finance & Auditing. He is also a visiting faculty to the most reputed Management Institutes in & around Pune.

His core lies in routing accounts through the very basics, for which, he has been the most loved face for Accounts.

Having taught students for over 15+ years, he is well known for taking Accounts in a very conceptual way.

To his credit, he as 100+ All India Rankers, which also includes AIR 1 twice.

His students acknowledge his simplification in Accounts as "Don't worry Bol Hari". He is a Founder of http://www.onlylectures.com and is also a Co-Founder of YES Academy, most loved academy for CS.