CA FOUNDATION

MARATHON

JUNE 2024

Accounting: Part 1

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CA FOUNDATION MARATHON (SUPER REVISION/ONE SHOT)	
ACCOUNTING	
S.NO.	CHAPTER NAME
1	Depreciation & Amortisation
2	Final Accounts of Sole Proprietors
3	Accounts from Incomplete Records
4	Financial Statements of Not for Profit Organisation

Depreciation & Amortisation

DEPRECIATION and AMORTISATION

CONCEPT OF DEPRECIATION

Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than a period of 12 months.

It is necessary that part of the acquisition cost of the fixed assets is treated or allocated as an expense in each of the accounting period in which the asset is utilized. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation.

Meaning of Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation starts from the day asset is available for use.

Depreciation on components of an assets

Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.
An enterprise should allocate the amount initially recognised in respect of an item of asset to its significant parts/components and should depreciate each such part separately based on the useful life and residual value of each particular component.
For Example – Aircraft is a classic example of such an asset. The airframe (i.e. the body of the aircraft), the engines and the interiors have different individual useful lives.

OBJECTIVES FOR PROVIDING DEPRECIATION

- True cost of production
- Income measurement
- True Position Statement
- Funds for replacement

FACTORS FOR DEPRECIATION

Assessment of depreciation & amount of depreciation are usually based on the following three factors

- **Historical Cost** or other amount substituted for the Historical Cost of the Asset when revalued.
- **Estimated Useful Life**
- **Estimated Residual Value**

These factors are explained as follows -

1. Historical Cost:

Purchase price (after deducting trade discount) GST credit ✓ : Cost ✗	XX
Add : Other Non-refundable taxes & duties GST credit ✗ : Cost ✓	XX
Add: Any directly attributable cost of bringing the asset to its working condition for its intended use. Example: Costs of site preparation, Initial delivery & handling costs, Installation and assemble costs, professional fees, etc.	XX
Add: Estimated dismantling, restoration costs	XX
Cost of Asset	XX

2. 'Useful Life' is either -
   (a) The period over which a depreciable asset is expected to be used by the enterprise, or
   (b) The number of production or similar units expected to be obtained from the use of the asset by the enterprise.

3. Residual/Scrap Value is the amount likely to be obtained by the disposal of the Fixed Asset at the end of its Useful Life.

DEPRECIABLE AMOUNT

'Depreciable Amount' of a Depreciable Asset is determined as under -

Particulars	Amount
Historical Cost, or other amount substituted for it in the Financial Statements Less: Estimated Residual Value	XX (XX)
Depreciable Amount	XX

METHODS OF DEPRECIATION

Methods Available:

The following methods are available for computing and allocating the depreciable amount of an asset over its useful life -

- Fixed Instalment or Straight Line Method
- Reducing Balance or Written Down Value (WDV) Method,
- Sum of Digits of Years Method
- Machine Hour Method,
- Production Units Method,
- Depletion Method,

METHOD 1: FIXED INSTALMENT OR STRAIGHT-LINE METHOD (SLM)

Meaning	➢ An equal amount of depreciation is written off from Asset every year. ➢ Suitable for assets which generate equal utility during each year of its useful life. ➢ At the end of the useful life of the asset, the cost of the asset will be NIL or equal to its Residual Value / Scrap Value. ➢ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): Unequal every year

Formula	Straight Line Depreciation $= \dfrac{\text{Cost of Asset Less Residual Value}}{\text{Useful Life}}$
	SLM Depreciation Rate $= \dfrac{\text{SLM Depreciation}}{\text{Cost of Asset}} \times 100$
Example	X Ltd purchased a Machine costing ₹ 10 Lakhs, having a useful life of 5 years Its estimated Residual Value is ₹ 1 Lakh. Dep. p.a. = $\dfrac{10L - 1L}{5}$ = 180000 p.a. Rate = $\dfrac{180000}{1000000} \times 100$ = 18%

METHOD 2: REDUCING BALANCE / WRITTEN DOWN VALUE (WDV) METHOD

Meaning	➢ Depreciation Amount for each year is computed by applying a fixed % on the Opening Balance of the Asset (i.e. Diminishing Balance of the Asset.) ➢ The value of the asset will never be extinguished. ➢ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): More or Less Equal/constant/Uniform every year
Formula	WDV Depreciation Rate = $1 - \sqrt[n]{\dfrac{\text{Residual.Value}}{\text{Cost.of.Asset}}}$, where n = Useful Life.
Example	X Ltd purchased a machine costing ₹ 10 Lakhs, and has ascertained its WDV rate as 10% p.a. Depreciation amounts for the first three years will be as under

Particulars	Year 1	Year 2	Year 3
Cost / Opening WDV	1000000	900000	810000
(-) Depreciation 10%	(100000)	(90000)	(81000)
Closing WDV	900000	810000	729000

METHOD 3: SUM OF DIGITS OF YEARS METHOD

Meaning	It is a variation of the WDV Method. Under this method, Depreciation Amount for each year is computed by applying the following formula –
Formula	Dep. = Depreciable Amt. x $\dfrac{\text{No.of years of balance useful life (including current year)}}{\text{Total of Digits of the Useful Life of the Asset (in years)}}$ → $\dfrac{n \times (n+1)}{2}$
Example	X Ltd purchased a machine costing ₹ 78 Lakhs, having a useful life of 5 years, and estimated Scrap Value ₹ 3 Lakhs. Depreciation amounts for the five years will be – Depreciable Amt. = 78 − 3 = 75

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation amount for the year $5 \times \frac{6}{2} = 15$	$75L \times \frac{5}{1+2+3+4+5}$ $75 \times \frac{5}{15}$ = 25L	$75L \times \frac{4}{15}$ = 20L	$75L \times \frac{3}{15}$ = 15L	$75L \times \frac{2}{15}$ = 10L	$75L \times \frac{1}{15}$ = 5L

Note: Depreciation is calculated on the Depreciable Amt, i.e. Cost less Residual Value

B.V./Carrying Amt. after 1 year = 78L − 25L = 53L

Example: (Sum of Digits of Years Method)

Original cost of Asset 35,00,000. Residual Value 2,00,000. Useful Life 10 Years. Find book value of asset after 6 years and Depreciation for 7th year.

$\frac{n \times (n+1)}{2} = \frac{10 \times 11}{2} = 55$

Depreciation

Alt. 1

Year 1 = $33,00,000 \times \frac{10}{55} = 600000$

Year 2 = $3300000 \times \frac{9}{55} = 540000$

Year 3 = $3300000 \times \frac{8}{55} = 480000$

Year 4 = $3300000 \times \frac{7}{55} = 420000$

Year 5 = $3300000 \times \frac{6}{55} = 360000$

Year 6 = $3300000 \times \frac{5}{55} = 300000$

Total = 2700000

Alt. 2

$\frac{33,00,000}{55} \times (10+9+8+7+6+5)$

$= 33L \times \frac{45}{55} = 2700000$

Book value after 6 years

Cost - Dep. for 6 years

35L - 27L = 8,00,000

Dep. for 7th year =

$33L \times \frac{4}{55} = 2,40,000$

METHOD 4: MACHINE HOUR METHOD

Meaning	In this method, Depreciation is computed based on the number of Machine Hours (rather than years). 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.
Formula	Dep. = Depreciable Amt x $\frac{\text{No.of Machine Hours during the year}}{\text{Total Machine Hours during the entire useful life}}$
Example $\frac{2070000}{20700} = 100/hr$	X Ltd purchased a machine costing ₹ 23,00,000, having a Scrap Value of ₹ 2,30,000. The machine has a useful life of 20,700 machine hours distributed as under – • Years 1 to 3: 2,500 machine hours each, • Years 4 to 6: 2,000 machine hours each, and • Years 7 to 10: 1,800 machine hours each. In this case, Depreciation Amounts will be computed as under – Depreciable Amt. = 23L - 2.30L = 2070000 Year 1 to 3 = $20,70,000 \times \frac{2500}{20700} = 2,50,000$ p.a. Year 4 to 6 = $2070000 \times \frac{2000}{20700} = 200000$ p.a. Year 7 to 10 = $2070000 \times \frac{1800}{20700} = 180000$ p.a.

METHOD 5: PRODUCTION UNITS METHOD

<table>
<tr><td>Meaning</td><td>Depreciation is computed based on the production / output quantity.</td></tr>
<tr><td>Formula</td><td>Dep. = Depreciable Amt x $\frac{\text{Production Quantity for the current year}}{\text{Total Estimated Production Quantity from the Machine}}$</td></tr>
<tr><td>Example</td><td>X Ltd purchased machine costing ₹25,00,000, having Scrap Value of ₹5,00,000. The machine is expected to produce 10,00,000 units of output as follows –
• Years 1 & 2: 1,15,000 units each,
• Years 3 to 7: 1,00,000 units each, and
• Years 8 to 10: 90,000 units each.
$\frac{20L}{10L} = 2$/unit
In this case, Depreciation Amounts will be computed as under –
Year (1 & 2) = $20,00,000 \times \frac{1,15,000}{10,00,000}$ = 2,30,000 p.a.
Year (3 to 7) = $20,00,000 \times \frac{1,00,000}{10,00,000}$ = 2,00,000 p.a.
Year (8 to 10) = $20,00,000 \times \frac{90,000}{10,00,000}$ = 1,80,000 p.a.</td></tr>
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METHOD 6: DEPLETION METHOD

<table>
<tr><td>Meaning</td><td>➢ Depletion means reduction or exhaustion.
➢ This method is used in the case of Mines, Quarries, Oil Well, etc. containing only a certain estimated quantity of resources / products.
➢ Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.</td></tr>
<tr><td>Formula</td><td>Dep. = Depreciable Amt x $\frac{\text{Quantity of Mineral / Oil extracted during current year}}{\text{Total Estimated Quantity from the Mine / Quarry / Well}}$</td></tr>
<tr><td>Example</td><td>X Ltd took a quarry on lease by paying ₹ 75,00,000. As per technical estimate, total quantity mineral deposit is 1,00,000 tones. Extraction pattern is given as:
• Year 1: 6,000 tones,
• Years 2 to 5: 15,000 tones each, and
• Years 6 & 7: 17,000 tones each.
In this case, Depreciation Amounts will be computed as under –
Year 1 = $75,00,000 \times \frac{6,000}{1,00,000}$ = 4,50,000
Year (2 to 5) = $75,00,000 \times \frac{15,000}{1,00,000}$ = 11,25,000 p.a.
Year (6 & 7) = $75,00,000 \times \frac{17,000}{1,00,000}$ = 12,75,000 p.a.</td></tr>
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ACCOUNTING ENTRIES FOR DEPRECIATION

Depreciation can be recorded in the books of account, under 2 approaches –

Method	Method 1 Asset Credit Method	Method 2 Provision for Depreciation Method
Journal Entry	Depreciation A/c Dr. To Fixed Asset A/c Profit and Loss A/c Dr. To Depreciation A/c	Depreciation A/c Dr. To Provision for Depreciation A/c Profit and Loss A/c Dr. To Depreciation A/c
Provision for Depreciation A/c	There is no Provision for Depreciation Account at all.	Depreciation for each year is credited to Provision for Dep. A/c, which shows the Accumulated Dep. on the Asset.
Effect on Asset A/c	Asset A/c is shown at Historical Cost less Depreciation. So, balance in Asset A/c is reduced every year.	Asset shown in books at Original Cost. Net Book Value = Original Cost less Accumulated Depreciation thereon.

Note: The above schemes are applicable to SLM and WDV Methods. The same treatment is also applicable under –
(a) Sum of Digits, (b) Machine Hours, (c) Production Units, and (d) Depletion Methods.

Example:
Original Cost of Machinery 1,00,000. Residual Value 10,000. Useful Life: 10 Years
Method: Straight Line Method
Show Presentation in Balance Sheet as both the approaches for first 2 years.

Depreciation p.a. = $\frac{1,00,000 - 10,000}{10}$ = 9,000 p.a.

100000	91000
(9000)	(9000)
91000	82000

Approach 1: **Asset Credit Method**

* Depreciation A/c -Dr 9000
  To Machinery A/c 9000
* P&L A/c -Dr 9000
  To Depreciation A/c 9000

B/S

Liabilities	Assets	Year1	Year2
	Machinery	91000	82000

Approach 2: **Provision for Depreciation Method**

* Depreciation A/c -Dr 9000
  To Provision for Dep. A/c 9000 Cr.
* P&L A/c -Dr 9000
  To Depreciation A/c 9000

B/S

Liabilities	Assets	Year1	Year2
	Dr - Machinery	100000	100000
	- Prov. for Dep. Cr	(9000)	(18000)
		91000	82000

SALE / DISPOSAL OF DEPRECIABLE ASSETS

Sale/Disposal of Depreciable Assets in dealt with in the following manner —

1. Ascertain Depreciation for the year (upto date of disposal) & charge the same for that year.
2. Determine Net Book Value" (or) Written Down Value of the Asset = Historical Cost less Depreciation till date, including depreciation upto the date of disposal.
3. Compare Net Book Value of Asset with its Disposal Value and ascertain Profit / (Loss) on disposal & thereafter transfer the Profit / (Loss) on disposal to the Profit and Loss Account.

CHANGE IN ESTIMATED USEFUL LIFE & SCRAP VALUE

The useful lives & scrap values of major depreciable assets or classes of depreciable assets may be reviewed periodically. The change should be accounted for as a change in an accounting estimate. Where there is a revision of the estimated useful life or scrap value of an asset, the unamortised depreciable amount should be charged over the revised estimate. Prospective Effect

Example

A Machine costing ₹ 11,00,000 is depreciated on straight line basis, assuming 10 years working life & 1,00,000 residual value, for 3 years. The estimate of remaining useful life after 3rd year was reassessed at 5 years with 70,000 residual value. Calculate depreciation for the 4th year.

Depreciation p.a. (For Ist 3 years) = $\frac{11,00,000 - 1,00,000}{10}$ = 1,00,000 p.a.

Book value after 3 years = 11,00,000 − (100000 × 3) = 8,00,000

Remaining Life = 5 years Residual value = 70000

Depreciation (4th year) = $\frac{800000 - 70000}{5}$ = 1,46,000

CHANGE IN METHOD OF DEPRECIATION

Whenever any change in depreciation method is made such change in method is treated as change in accounting estimate as per Accounting Standards.

Change in method of depreciation is applied with prospective effect. Hence, depreciation is recalculated in accordance with the new method from the date method is changed.

Example

A Machine costing ₹ 10,00,000 is depreciated on straight line basis, assuming 10 years working life for 4 years. After 4th year, method of straight line is changed to WDV method & depreciation rate is 12% p.a. Calculate depreciation for 5th year.

Depreciation p.a. (For Ist 4 years) = $\frac{1000000 - \text{Nil}}{10}$ = 1,00,000

Book value after 4 years = 10,00,000 − (100000 × 4) = 6,00,000

Method changed from SLM to WDV

Depreciation (5th year) = 600000 × 12% = 72,000

REVALUATION OF DEPRECIABLE ASSETS

An enterprise should choose Either Cost model, Or Revaluation model as its accounting policy and should apply that policy to an entire class of PPE.

Class of PPE: A class of PPE is a grouping of assets of a similar nature and use in operations of an enterprise.

Examples of separate classes:

(a) Land (b) Buildings (c) Machinery (d) Ships (e) Motor Vehicles (f) Furniture & Fixtures (g) Aircraft (h) Office Equipment

First Revaluation	Upward	Use Revaluation Surplus (R/S)
	Downward	Use P & L A/c
Subsequent Revaluation		

Case	1st	2nd	1st	2nd
1	↑	↑	R/S	R/S
2	↓	↓	P & L	P & L
3	↑	↓	R/S	Use R/S 1st then P&L A/c
4	↓	↑	P & L	Use P&L 1st then Rev. Res.

Example: *(ICAI Study Material)*

A machine of cost ₹ 12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by ₹ 60,000 the remaining useful life was reassessed at 9 years.

Calculate depreciation for the fourth year.

Depreciation p.a. (For Ist 3 years) = $\frac{12,00,000 - \text{Nil}}{10}$ = 1,20,000 p.a.

Book value after 3 years = 12,00,000 − (1,20,000 × 3) = 8,40,000

Revised Book value = 840000 + 60000 = 9,00,000

Remaining Life = 9 years

Depreciation (4th year) = $\frac{9,00,000}{9}$ = 1,00,000

Question 1: (CA Foundation Jan 2021) (10 Marks)

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

Question 2: (CA Foundation June 2022) (10 Marks)

The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April,2020. The Books of Accounts of the Factory are closed on 31st March every year. Depreciation is written off @ 10% per annum under the Diminishing Balance Method. On 1st September,2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September,2020 a machine which had cost ₹ 21,87,000 on 1st April,2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April,2019 was scrapped on 1st September,2020 and it realized nothing. Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Show all necessary working notes.

Solution

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

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000+ 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation	6,60,471
				By Balance c/d	65,46,159
		109,44,600			**109,44,600**

Working Note:

(i)	**Calculation of loss on sale of machine on 01-09-2020**		₹
	Cost on 1-4-2018		21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
	W.D.V. on 31-03-2019		19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
	W.D.V. on 31-03-2020		17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2020		(3,75,000)
	Loss		13,22,659
(ii)	**Calculation of loss on scrapped machine**		
	Cost on 1-4-2019		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2020		19,66,500
	Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
	Loss		18,84,562
(iii)	**Depreciation**		
	Balance of machinery account on 1-4-2020		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

Question 3: (CA Foundation July 2021) (4 Marks)

The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000.
On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method.
Calculate the depreciation for the year ended 31st March, 2021.

Dep: (FY 1/4/20 to 31/3/21)

On Machine Sold (1/7) : 3M = $216000 \times 15\% \times \frac{3}{12}$ = 8100

On Balance Machinery (opening) : $(2854000 - 216000) \times 15\%$ = 395700

Purchase 1/7 : 9M = $(458000 + 22000) \times 15\% \times \frac{9}{12}$ = 54000

Purchase 1/11 : 5M = $560000 \times 15\% \times \frac{5}{12}$ = 35000

492800

Question 4: (CA Foundation May 2019) (10 Marks)/ (RTP Nov 2022 & 2023)

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2018 and spent ₹ 3,000 on its overhauling. On 1st July 2019, another machine was purchased for ₹ 10,000. On 1st July 2020, the machinery which was purchased on 1st January 2018, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2021, the machine which was purchased on 1st July, 2019 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, 2019 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, 2018.

Solution

Machine A/c

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
1/1	To Bank A/c (37,000+3,000)	40,000	31/12	By Depreciation A/c	4,000
			31/12	By Balance c/d	36,000
		40,000			**40,000**

2019			2019		
1/1	To Balance b/d	36,000	31/12	By Depreciation A/c (5,400+750)	6,150
1/7	To Bank A/c	10,000	31/12	By Balance c/d (30,600+9,250)	39,850
		46,000			**46,000**
2020			2020		
1/1	To Balance b/d	39,850	1/7	By Bank A/c	28,000
1/7	To Bank A/c	25,000	1/7	By Depreciation A/c	2,295
			1/7	By Profit & Loss A/c (Loss on sale)	305
			31/12	By Depreciation A/c (1,388+1,875)	3,263
			31/12	By Balance c/d (7,862+23,125)	30,987
		64,850			**64,850**
2021			2021		
1/1	To Balance b/d	30,987	1/7	By Bank A/c	2,000
			1/7	By Depreciation A/c	590
			1/7	By Profit & Loss A/c (Loss on sale)	5,272
			31/12	By Depreciation A/c	3,469
			31/12	By Balance c/d	19,656
		30,987			**30,987**

Working Note:

	Machine 1	Machine 2	Machine 3
Cost of Machinery	40,000	10,000	25,000
Less: Depreciation for 2018	(4,000)		
Written down value as on 31.12.2018	36,000		
Less: Depreciation for 2019	(5,400)	(750) [6 months]	
Written down value as on 31.12.2019	30,600	9,250	
Less: Depreciation for 2020	(2,295) [6 months]	(1,388)	(1,875) [6 months]
Written down value as on 1.7.2020	**28,305**		
Less: Sale Proceeds	(28,000)		
Loss on Sale	**305**		
Written down value as on 31.12.2020		**7,862**	**23,125**
Depreciation for 6 months in 2021		(590)	
Written down value as on 1.7.2021		**7,272**	
Sale proceeds		(2,000)	
Loss on sale		**5,272**	
Depreciation for 2021			(3,469)
Written down value as on 31.12.2021			**19,656**

Question 5: (ICAI Study Material)

On April 1, 2019 a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for ₹ 90,000. On October 1, 2021, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October 2019 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the period of three accounting years ending March 31, 2022.

When asset is sold
To determine Profit / (Loss)

Solution

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Bank A/c	2,00,000	31.03.2020	By Balance c/d	3,00,000
01.10.2019	To Bank A/c	1,00,000			
		3,00,000			**3,00,000**
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Machinery Disposal A/c	2,00,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			**3,00,000**
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Machinery Disposal A/c	1,00,000
01.10.2021	To Bank A/c	2,50,000	31.3.2022	By Balance c/d	2,50,000
		3,50,000			**3,50,000**

Provision for Depreciation Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (20,000 + 5,000)	25,000
		25,000			**25,000**
01.10.2020	To Machinery Disposal A/c (20,000 + 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			**45,000**
01.10.2021	To Machinery Disposal A/c (5,000 + 10,000+ 5,000)	20,000	01.04.2021	By Balance b/d	15,000
31.03.2022	To Balance c/d	12,500	01.10.2021	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
		32,500			**32,500**

Machinery Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.2020	To Machinery A/c	2,00,000	01.10.2020	By Provision for Dep. A/c	30,000
			01.10.2020	By Bank A/c	90,000
			01.10.2020	By Profit & Loss A/c (Loss on Sale)	80,000
		2,00,000			**2,00,000**

1.10.2021	To Machinery A/c	1,00,000	01.10.2021	By Provision for Dep. A/c	20,000
1.10.2021	To P & L A/c (Profit on Sale)	5,000	01.10.2021	By Bank A/c	85,000
		1,05,000			**1,05,000**

Question 6: *(CA Foundation June 2023) (10 Marks)*

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year.

Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Examples of intangible assets include:

(a) Streaming rights of movies / TV shows / web series on platforms like Netflix etc.
(b) Broadcasting rights of events such as Cricket World Cup, Indian Premier League, etc.
(c) Landing rights / time slots at airports which permit aircrafts to land or take-off during a particular time frame.
(d) Patents
(e) Trademarks
(f) Copyrights
(g) Goodwill (purchased)
(h) Computer Software

Intangible assets can be recognized in the financial statements provided they meet the following conditions:

(i) The intangible asset is identifiable.
(ii) The enterprise can exercise control over such intangible asset.
(iii) It is probable that the future economic benefits attributable to the asset will flow to the enterprise; and
(iv) The cost of the intangible asset can be measured reliably.

Difference between Tangible and Intangible Assets

These are assets that have a physical substance i.e., they can be seen and touched, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	These are identifiable assets that do NOT have a physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Tangible Assets have a finite life based on expected usage.	Intangible Assets have a finite life based on contractual terms. In some cases, intangible assets could also have an indefinite life e.g. purchased goodwill.
Useful life is based on expected usage, with no presumption laid down for the same.	Useful life of Intangible Assets is presumed not to exceed 10 years unless evidence exists to the contrary
Tangible Assets are depreciated over the useful life. In other words, writing off the value of tangible assets on an annual basis is known as depreciation.	Intangible Assets are amortised over the useful life. In other words, writing off the value of intangible assets on an annual basis is known as amortisation.
Examples incl. Property, Machinery, Vehicles etc.	*Examples* incl. software, streaming rights, landing rights, trademarks, patents etc.

AMORTISATION

Amortisation can be defined as 'the systematic allocation of the depreciable amount of an intangible asset over its useful life'. The concept of amortisation in case of intangible assets is similar to the concept of depreciation in case of tangible assets.

Useful Life

Amortisation should commence when the asset is available for use. It is presumed that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use unless evidence exists to the contrary.

Question 7: (ICAI Study Material)

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹ 28,00,000 and spent ₹ 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year. Show Patent Account & Amortisation Account for the year 2021 and 2022.

Patent A/c

1/7/21	To Bank A/c (2800000 + 200000)	3000000	31/12/21	By Amortisation A/c $\left(\frac{30L}{10}\right) \times \frac{6}{12}$	150000
				By Balance c/d	2850000
1/1/22	To Balance b/d	2850000	31/12/22	By Amortisation A/c	300000
				By Balance c/d	2550000

Amortisation A/c

31/12/21	To Patent A/c	150000	31/12/21	By P&L A/c	150000
31/12/22	To Patent A/c	300000	31/12/22	By P&L A/c	300000

Question 8: (ICAI Study Material)

Prime Streaming Co. acquired the streaming rights of a movie for ₹ 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years. Calculate amortisation for the fourth year.

Amortisation Amount p.a. (For Ist 3 years) $= \frac{1800000}{10} = 180000$

Carrying Amount / Book value after 3 years $= 1800000 - (180000 \times 3) = 1260000$

Remaining Life = 5 years

Amortisation Amount (4^{th} year) $= \frac{1260000}{5} = 252000$

Solution 1 :

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
1/1/19	To Balance b/d	3,50,00,000	1/10	By Depreciation A/c (50L × 20% × 9/12)	7,50,000
1/10	To P&L A/c (Profit)	7,50,000		By Bank A/c (claim)	35,00,000
1/10	To Bank A/c	60,00,000	31/12	By Depreciation A/c (50L × 9 × 20%) + (60L × 20% × $\frac{3}{12}$)	93,00,000
				By Bal c/d	2,82,00,000
1/1/20	To Bal b/d	2,82,00,000	31/12	By Depreciation A/c [(50L × 9) + (60L)] × 20%	1,02,00,000
				By Balance c/d	1,80,00,000

Working Note:

Book value on 1/1/19

Cost of 10 Trucks (1/7/17)	= 50L x 10 =		5,00,00,000
- Dep. for 2017 (6M)	500L x 20% x $\frac{6}{12}$ =		(5000000)
			45000000
- Dep. for 2018 (12M)	500L x 20%		(10000000)
		1/1/19	35000000

Profit / (Loss)

B.V. of 1 Truck 1/1/19	=	3500000
- Dep. 9 Months	=	(750000)
B.V. 1/10/19		2750000
Amount Rec.		3500000
Profit		750000

Solution 6:

Machinery A/c

1/4/21	To Bal b/d	12,00,000	1/10	By Machinery Disposal A/c	200000
1/10	To Bank A/c	480000	31/3	By Bal c/d	1480000

Provision for Depreciation A/c

1/10	To Machinery Disposal A/c (20000 + 18000 + 16200 + 7290)	61490	1/4/21	By Bal b/d	465000
			1/10/21	By Depreciation	7290
31/3	To Bal c/d	493720	31/3	By Depreciation	82920

Machinery Disposal A/c

1/10	To Machinery A/c	2,00,000	1/10	By Prov. for Dep.	61490
				By Bank A/c	110000
				By P&L A/c (loss)	28510

Working Note

(1)

Cost 1/4/18	200000
− Dep 18-19	(20000)
	180000
− Dep. 19-20	(18000)
	162000
− Dep. 20-21	(16200)
1/4/21	145800
− Dep. (6M)	(7290)
B.V. 1/10/21	138510
Sale	110000
Loss on Sale	28510

(2)

Balance Cost = 12L − 2L = 1000000

− Prov. for Dep. = 465000 − 54200 = (410800)

or

465000 + 7290 − 61490 =

WDV 589200

OR

Opening WDV = 1200000 − 465000 = 735000

− WDV of asset sold 1/4 (145800)

589200

Dep. for 21-22

$(589200 \times 10\%) + (480000 \times 10\% \times \frac{6}{12})$

$= 58920 + 24000$

$= 82920$

First time Revaluation

Machinery

Book value = 100000

Fair value

130000

Increase 30000

Machinery A/c - Dr 30000

To Revaluation Reserve 30000

Fair value

80000

Dec: 20000

P&L A/c - Dr 20000

To Machinery 20000

Subsequent Revaluation

First Time Increase of 30000 (Revaluation Reserve)

Machinery

Book value = 110000

Fair value 145000

Inc: 35000

Machinery A/c – Dr	35000	
To Rev. Res.		35000

Bal. = 65000

Fair value 90000

Dec: 20000

Rev. Res. A/c – Dr	20000	
To Machinery		20000

Bal: 30000 – 20000 = 10000

Fair value 60000

Dec: 50000

Rev. Res. A/c – Dr	30000	
P&L A/c – Dr	20000	
To Mach.		50000

Bal: Nil

Subsequent Revaluation

First Time Decrease of 20000 P&L : 20000

Machinery

Book value = 75000

Fair value 60000 (15000 ↓)	Fair value 83000 (Inc: 8000)	Fair value 110000 (Inc: 35000)
P&L A/c - Dr 15000	Machinery A/c - Dr 8000	Machinery A/c - Dr 35000
To Machinery 15000	To P&L A/c 8000	To P&L A/c 20000
		To Revaluation Reserve A/c 15000

Final Accounts of Sole Proprietor

FINAL ACCOUNTS OF SOLE PROPRIETORS

FINANCIAL STATEMENTS

1. Financial Statements (also called General Purpose Financial Statements) consist of–
   - (a) Statement of Performance - Profit and loss Account
   - (b) Statement of Financial Position - Balance Sheet
2. Meaning: the above terms are explained below –

Item	Description
Statement of Performance	• This Statement / Account shows the result of operations, i.e. Profit or Loss of the entity for the period. • It is also called "Performance Statement" or "Income Statement" • Consists of – (i) Manufacturing Account, (ii) Trading Account, and (iii) Profit and Loss Account.
Statement of Financial Position	• This Statement (not an Account) shows the financial position, i.e. Assets and Liabilities of the entity as on a particular date. • It is also called "Position Statement" or "Balance Sheet"

Final Accounts of Sole Proprietorship

Non-Manufacturing / Trading Entities, i.e. Entities engaged in purchase and sale of goods, without involving any production process

1. Trading account
2. Profit and Loss Account
3. Balance Sheet

Manufacturing Entities i.e. Entities engaged in converting Raw Materials into Finished Goods through production process.

1. Manufacturing Account
2. Trading Account
3. Profit and Loss Account
4. Balance Sheet

TRADING ACCOUNT

The Trading Account shows the surplus of the Sale Value over the Cost of Goods Sold. This is called as Gross Profit.

Trading Account of ……. For the year ended …….

Particulars	₹	Particulars	₹
To Opening Stock To Purchases (net of Returns) To Direct Expenses like Freight Inward, Octroi, Wages, etc. To Gross Profit c/d to P/L Account		By Sales (net of returns) By Closing Stock By Gross Loss c/d to P&L Account	
Total		Total	

Gross Profit = Sales - Cost of Goods Sold
Where Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses – Closing Stock
GP (%) = Gross Profit/ Sales * 100

PROFIT AND LOSS ACCOUNT

Profit and Loss Account of ……… for the year ended …………

Particulars	₹	Particulars	₹
To Gross Loss b/d (if any) To Administrative Expenses To Selling Expenses To Financing Expenses To Depreciation To Other Items, Adjustments & Prov. To Net Profit, transferred to Capital A/c		By Gross Profit b/d from Trading A/c By Other Income items By Net Loss, tfd. to Capital A/c	
Total		Total	

ITEMS IN PROFIT AND LOSS ACCOUNT

	Item	Examples	
1.	Administrative Expenses	• Salaries of Staff, etc. • Rent, Rates and Insurance • Printing and Stationery, • Repairs & Maintenance of Office building / Furniture,	• Telephone Expenses • Books and Periodicals • Legal Expenses • Audit Fees, etc.
2.	Selling and Distribution Expenses	• Salesman Salaries • Agents Commission • Advertising & Sales Promotion • Carriage / Freight outwards	• Bad Debts • Repairs and Maintenance of Delivery Vans, vehicles, etc.
3.	Financing Expenses	• Interest Paid on Term loans, Working Capital Loans, etc. • Discount on Bills Discounted with Bank • Discount allowed to customers. • Bank Charges	
4.	Depreciation	• Depreciation on various assets is generally shown as a separate line item in the P&L A/c.	
5.	Other Items, Adjustments & Provisions	• Provisions for Bad and Doubtful Debts, Provision for Discount Allowed to Debtors, Provisions for Repairs and Renewals, etc. • Items like Loss on Sale of Fixed Assets / Investments, Loss (net of insurance Claim) in respect of abnormally lost goods, etc.	
6.	Other Income	• Rent from Properties • Interest on Investments in Fixed Deposits • Dividend from Shares	• Profit on Sale of Fixed Assets • Sale of Old Newspapers, Junk Materials, etc. • Bad Debts Recovered

BALANCE SHEET

Balance Sheet is a statement of financial position which sets out the Assets and liabilities of an enterprise as at a certain date.

(a) Assets are shown on Right Hand Side and Liabilities are shown on Left Hand Side.

(b) It is prepared as at a particular date and not for a period. So, it is a Position Statement, and not a Performance Statement.

(c) The Balance Sheet is not an account, its two side represent Liabilities and Assets and not the Debit and the Credit sides of an account.

(d) The Balance Sheet represents the confirmation of the Basic Accounting Equation, i.e. Equity + Liabilities =Assets. Hence, the total of both the sides should agree.

(e) The Ledger Account Balance of all Personal and Real Accounts will flow into the Balance Sheet.

Balance Sheet of .... as at ....

Liabilities	₹	Assets	₹
Capital Reserves & Surplus Loans Current Liabilities: Sundry Creditors Outstanding Expenses		Fixed Assets Investments Current Assets: Stock Debtors Cash at Bank, Cash in Hand	
Total		Total	

ARRANGEMENT OF ASSETS AND LIABILITIES

	Method 1: Permanence Approach	Method 2: Liquidity Approach
Assets	Assets which are to be used in the business for a longer span of time and which are not meant for sale, are shown first. These items are followed by Current/Liquid Assets 1. Fixed Assets: • Land and Building • Plant & Machinery 2. Current Assets • Stock • Sundry Debtors • Bills Receivable • Other Investments • Cash at Bank • Cash in hand	Assets which are readily convertible into cash are shown first and which are not readily convertible are shown subsequently in the Balance Sheet 1. Current Assets • Cash in hand • Cash at Bank • Other Investments • Bills Receivable • Sundry Debtors • Stock 2. Fixed Assets • Plant & Machinery • Land and Building
Liabilities	• Capital • Reserves & Surplus • Loans • Trade Creditors • Bills Payable One way is to first show the capital, then long-term liabilities and last of all short-term liabilities	• Bills Payable • Trade Creditors • Loans • Reserves & Surplus • Capital The other way is to start with short-term liabilities and then show long term liabilities and last of all capital

Note: The Permanence Approach is generally adopted for presentation of balance sheet

ADJUSTMENT ENTRIES IN FINAL ACCOUNTS

1. EXPENSES

	Adjustment	Journal entry	Treatment in Trading and P&L A/c	Treatment in Balance sheet
1.	Outstanding or Accrued Expenses	Expenses A/c Dr. To O/s Expenses A/c	Add to Expense on Debit side of Trading/ P&L A/c	Liability Side under "CurrentLiabilities"
2.	Prepaid Expenses	Prepaid Exp. A/c Dr. To Expenses A/c	Reduce from Expense on Debit side of Trading/ P& L A/c	Assets Side under "Current Assets"

Expenses

O/s Expenses
(Accrued but not paid)

Expense A/c - Dr.
To O/s Expense A/c

Trading and P&L A/c

To Expense xx
+ O/s Exp. xx xx

B/s

Liabilities	Assets
O/s Exp. xx	

Prepaid Expenses
(Paid but not accrued)

Prepaid Expense A/c - Dr
To Expense A/c

Trading and P&L A/c

To Expense xx
- Prepaid Exp (xx) xx

B/s

Liabilities	Assets
	Prepaid Exp. xx

Note:
If O/s Expense, Prepaid Expense appearing in trial balance then effect only in balance sheet as entry has already been passed & respective expense has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	

Adjustments:
1) O/s Salary 20000
2) Prepaid Rent 8000

P&L A/c

To Salaries 140000
+ O/s Sal. 20000 160000
To Rent 90000
- Prepaid (8000) 82000

Balance sheet

Liabilities		Assets	
O/s Salaries	20000	Prepaid Rent	8000

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	
O/s Salary		20000
Prepaid Rent	8000	

P&L A/c

To Salaries 140000
To Rent 90000

Balance sheet

Liabilities		Assets	
O/s Salaries	20000	Prepaid Rent	8000

2. INCOMES

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Accrued Income or Income receivable	Accrued Income A/cDr. To Income A/c	Add to Income Head on Credit side of P&L A/c	Assets Side under "Current Assets".
2.	Income Received in advance / Unearned Income	Income A/c Dr. To Income recd in advance	Reduce from Income Head on Credit side of P&L A/c.	Liability Side under "Current Liabilities".

Income

Accrued Income
(Accrued but not Received)

Accrued Income A/c - Dr
To Income A/c

P&L A/c

	By Income xx + Accrued Income xx xx

B/s

Liabilities	Assets
	Accrued Income xx

Pre Received Income
(Received but not accrued)

Income A/c - Dr
To Pre Received Income A/c

P&L A/c

	By Income xx - Pre Rec. Income (xx) xx

B/s

Liabilities	Assets
Pre Rec. Income xx	

Note:
If Accrued Income, Pre received income appearing in trial balance then effect only in balance sheet as entry has already been passed & respective income has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Interest on F.D.		70000
Interest on Loan given		60000

Adjustments:
1) Accrued Interest on F.D. 5000
2) Interest on loan received in advance 3000

P&L A/c

	By Int on FD 70000 + Acc. Int. 5000 75000 By Int. on loan 60,000 - Pre Rec. (3000) 57000

Balance sheet

Liabilities		Assets	
Pre Rec. Interest	3000	Accrued Int on FD	5000

Example: Trial Balance

	Dr.	Cr.
Interest on F.D.		70000
Int. on loan given		60000
Acc. Int. on F.D.	5000	
Prerec. Int. on loan		3000

P&L A/c

	By Int. on FD 70,000 By Int. on loan 60000

Balance sheet

Liabilities		Assets	
Pre Rec. Int.	3000	Acc. Int.	5000

3. CLOSING STOCK

Closing Stock

Not Appearing in Trial Balance / Given in Adjustments
(Entry to be passed)

Closing Stock A/c – Dr.
To Trading A/c
(2 Effects)

Trading A/c

	By Closing Stock xx

B/s

Liabilities	Assets
	Closing Stock xx

Appearing in Trial Balance
(Entry already passed)

Closing Stock A/c – Dr.
To Purchases A/c
(1 Effect)

B/s

Liabilities	Assets
	Closing Stock xx

Example: Trial Balance

	Dr.	Cr.
Opening Stock	100000	
Purchases	1200000	
Sales		2000000

Adjustments:

Closing Stock 200000

Trading A/c

To Opening Stock	100000	By Sales	2000000
To Purchases	1200000	By Clos. Stk	200000

Balance Sheet

Liabilities	Assets	
	Clos. Stock	200000

Example: Trial Balance

Adjusted Purch. = Op. Stk + Purch. – Closing Stock

	Dr.	Cr.
Purchases	1200000	
Closing Stock	200000	
Sales		2000000

Trading A/c

To Purchases	1200000	By Sales	2000000

Balance Sheet

Liabilities	Assets	
	Closing Stock	200000

4. DEPRECIATION

Depreciation

Method 1
Asset Credit Method

Depreciation A/c – Dr
To Fixed Asset A/c

P&L A/c

To Dep. xx	

B/s

Liabilities	Assets
	Fixed Ass. xx –Dep. (xx) xx

Method 2
Provision for Depreciation Method

Depreciation A/c – Dr
To Provision for Dep. / Acc. Dep. A/c

P&L A/c

To Dep. xx	

B/s

Liabilities	Assets
	Fixed Ass. xx –Acc. Dep (xx) xx

Note:
If Depreciation appearing in trial balance then effect only in P&L Account

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	

Adjustments:
Dep. on Machinery 10% p.a.

P&L A/c

To Dep. on Machinery (5L × 10%)	50,000		

Balance sheet

Liabilities		Assets	
		Machinery (5L − 50000)	4,50,000

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	
Dep. on Machinery	50000	

P&L A/c

To Dep. on Machinery	50,000		

Balance sheet

Liabilities		Assets	
		Machinery	5,00,000

Example: Trial Balance

	Dr.	Cr.
Machinery (cost)	600000	
Prov. for Dep.		100000

Adjustments:
Dep. on Machinery 10% p.a. (WDV Method)

P&L A/c

To Dep. on Machinery (6L − 1L) × 10%	50000		

Balance sheet

Liabilities		Assets	
		Machinery	600000
		− Prov. for Dep. (100000 + 50000)	(150000)
			450000

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000
Dep. on Machinery	30000	

P&L A/c

To Dep. on Mach.	30000		

Balance sheet

Liabilities		Assets	
		Machinery	600000
		− Prov. for Dep.	(100000)
			500000

5. ABNORMAL LOSS

1) Abnormal loss A/c - Dr
   To Trading A/c

2) Insurance claim Rec. A/c - Dr
   P&L A/c (Loss) - Dr
   To Abnormal loss A/c

Trading A/c

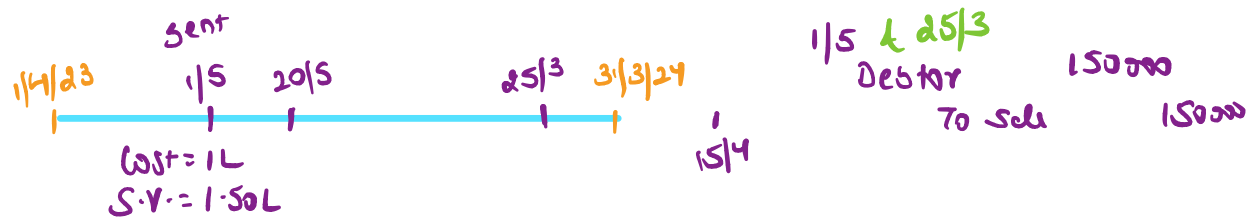
	By Abnormal Loss xx

P&L A/c

To Abnormal Loss xx	

B/s

Liabilities	Assets
	Ins. claim Rec. xx



6. SALE OF GOODS ON APPROVAL OR RETURN BASIS PENDING CONFIRMATION

1) Sales A/c - Dr
   To Debtors A/c
   (At Selling Price)

2) Stock with customers A/c - Dr
   To Trading A/c
   (Lower of Cost or NRV)

Trading A/c

	By Sales xx - Approval Basis (xx) xx By Closing Stock In hand xx With customers xx xx

Balance sheet

Liabilities	Assets
	Debtors xx - Approval Basis (xx) xx Closing Stock In hand xx With customers xx xx

7. MANAGER COMMISSION

Manager Commission

1) Manager Commission A/c - Dr
To O/s Manager Commission

Before charging

Net Profit before comm. $\times \frac{\text{Rate}}{100}$

$110000 \times \frac{10}{100} = 11000$

After charging

Net Profit before comm. $\times \frac{\text{Rate}}{100+\text{Rate}}$

$110000 \times \frac{10}{110} = 10000$

Example:

Net Profit before Commission 110000

Commission

a) 10% of Profits before charging Commission

b) 10% of Profits after charging Commission

(a)

NP before comm:	110000
- Comm. 10%	(11000)
	99000

(b)

NP before comm:	110000
- Comm.	(10000)
NP after comm.	100000

110

10% (10)

100

8. BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

Bad Debts

1) Bad debts A/c - Dr
To Debtors A/c

2) P&L A/c - Dr
To Bad debts

P&L A/c

Dr	Cr
To Bad debts xx	

B/S

Liabilities	Assets
	Debtors xx
	- Bad debts(xx) xx

Example: Trial Balance

	Dr.	Cr.
Debtors	400000	

Adjustments:

Bad debts 10000

P&L A/c

To Bad debts 10000	

Balance sheet

Liabilities	Assets
	Debtors 390000 (400000 − 10000)

Example: Trial Balance

	Dr.	Cr.
Debtors	500000	
Bad debts	10000	

Adjustments:

Further Bad debts 15000

P&L A/c

To Bad debts 25000 (10000 + 15000)	

Balance sheet

Liabilities	Assets
	Debtors 485000 (500000 − 15000)

Provision for Doubtful Debts

P&L A/c − Dr

To Provision for Doubtful debts A/c

B/s

Liabilities	Assets
	Debtors xx − PDD (xx) xx

Provision for Doubtful Debts A/c

To Bad debts	xx	By Bal b/d	xx
To Bal c/d	xx	By P&L A/c (B.f.)	xx

P&L A/c

To PDD xx	

Example:

Year 1: Debtors 500000

Create Provision for Doubtful debts @ 2%.

P&L A/c

To PDD 10000	

$500000 \times 2\% = 10000$

P&L A/c − Dr 10000

To PDD 10000

Balance sheet

Liabilities	Assets
	Debtors 500000 − PDD (10000) 490000

Year 2: Case (a)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful Debts		10000
Debtors	1000000	
Bad debts	30000	

Create Provision for Doubtful Debts @ 2%

Prov. for Doubtful debts A/c

To Bad debts	30000	By Bal b/d	10000
To Bal c/d (10L x 2%)	20000	By P&L A/c (B.f.)	40000

Alt 1

P&L A/c

To PDD	40000		

Balance sheet

Liabilities		Assets	
		Debtors	10,00,000
		– PDD	(20000)
			980000

Alt 2

P&L A/c

To Bad debts	30000		
To PDD (20000 – 10000)	10000		

OR

Actual Bad debts	=	30000
+ clos. Prov. for D/Debts	=	20000
– opening PDD		(10000)
		40000

Year 2: Case (b)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful Debts		10000
Debtors	1000000	
Bad debts	30000	

Adjustments:

Further Bad debts 20000

Create Provision for Doubtful Debts @ 2%

Prov. for Doubtful debts A/c

To Bad debts (30000 + 20000)	50000	By Bal b/d	10000
To Bal c/d (980000 x 2%)	19600	By P&L A/c (B.f.)	59600

P&L A/c

To PDD	59600		

Balance sheet

Liabilities		Assets	
		Debtors (1000000 – 20000)	980000
		– PDD	(19600)
			960400

9. DISCOUNT ALLOWED AND PROVISION FOR DISCOUNT ON DEBTORS

The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who make their payment promptly after getting the discount.

Example:

Trial Balance

	Dr.	Cr.
Bad debts	20000	
Discount Allowed	30000	
Debtors	1000000	
Prov. for Doubtful debt		5000
Prov. for Discount		15000

Adjustments:

Create Provision for Doubtful debts @ 3%

Create Provision for Discount @ 5%

P&L A/c

To PDD	45000		
To Prov. for Disc.	63500		

Balance Sheet

Liabilities		Assets	
		Debtors	10,00,000
		– PDD	(30000)
		- Prov. for Disc.	(48500)
			921500

Prov. for Doubtful debt A/c

To Bad debts	20000	By Bal b/d	5000
To Bal c/d (10L x 3%)	30000	By P&L A/c (B.f.)	45000

Prov. for Disc. A/c

To Disc. All.	30000	By Bal b/d	15000
To Bal c/d (10L - 30000) x 5%	48500	By P&L A/c (B.f.)	63500

10. DISCOUNT RECEIVED & RESERVE FOR DISCOUNT ON CREDITORS

Provision for discount on creditors is often not provided in keeping with principle of conservatism

Example:

Trial Balance

	Dr.	Cr.
Prov. for Disc. on Creditors	15000	
Creditors		500000
Discount Received		25000

Create Provision @ 2%

Prov. for Disc. on Credi. A/c

To Bal b/d	15000	By Disc. Rec.	25000
To P&L A/c (B.f.)	20000	By Bal c/d (5L x 2%)	10000

P&L A/c

		By Prov. for Disc.	20000

Balance Sheet

Liabilities		Assets	
Creditors	500000		
– Prov.	(10000)		
	490000		

11. GOODS USED OTHER THAN FOR SALE

	Situation	Journal Entry	Treatment in financial Statement
1.	Goods withdrawn for personal use	Drawings A/c Dr. To Purchases A/c	Reduce from capital in B/ sheet. Purchases reduced in Trading A/c
2.	Goods given away as charity/ donation	Donation / Charity A/c Dr. To Purchases A/c	Add to donation / charity A/c Purchases reduced in Trading A/c
3.	Goods distributed as free sample	Samples/Advertisement Dr. To Purchases A/c	Add to samples/advt. in P/L A/c Purchases reduced in Trading A/c
4.	Goods used for construction of building or machinery	Building/Machinery A/c Dr. To Purchases A/c	Add to Assets Cost in B/ sheet Purchases reduced in Trading A/c

12. OTHER MISC. ITEMS

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Interest on capital	Interest on capital A/c Dr. To Capital	Show in debit side of P&L A/c	Add to capital A/c on the liabilities Side.
2.	Interest on drawings	Capital A/c Dr. To Interest on drawings	Show in credit side of P&L A/c	Reduce from capital A/c on liabilities side

P&L A/c : Net Profit = 50000
↓
Capital A/c

NP = 50000
−IOC (10000) → Cap. A/c
40000 → Cap. A/c

Question 1: (ICAI Study Material)

The following is the Trial Balance of Mr. Wanchoo on 31st March 2023.

Trial Balance on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		10,00,000
Inventories as on 1st April, 2022	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st March 2023 was ₹ 2,70,000

Pass closing entries for the above items. Prepare Trading Account, Profit & Loss Account & Balance Sheet.

Question 2: (CA Foundation Nov 2020) (5 Marks)

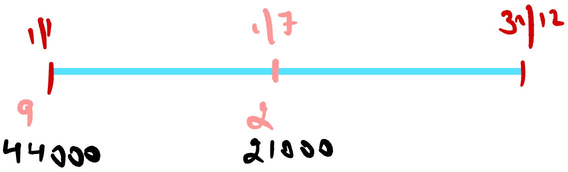
Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 44,000 per month each. On 1st July, 2023 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

(a) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2023.

(b) Amount actually paid as salaries during 2023.

(c) Outstanding salaries as on 31st December, 2023.



Solution

(a) Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2023

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

(b) Amount actually paid as salaries during 2023

Employee = 9 x 44000 x 11 + 9 x 40000 = 47,16,000

Trainees = 2 x ₹21,000 x 5 = 2,10,000

Amount paid as salaries = ₹ 49,26,000

(c) Outstanding salaries as on 31.12.2023

Employee = 9 x ₹44000 = ₹3,96,000

Trainees = 2 x ₹21,000 = ₹42,000

Outstanding salaries = ₹ 4,38,000

Question 3: (ICAI Study Material)

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Particulars	Amount	Particulars	Amount
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Profit c/d	D		
	F		F
To Rent	26,00,000	By Gross Profit b/d	D
To Office Expenses	13,00,000	By Miscellaneous Income	E
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

Question 4: (CA Foundation Jan 2021) (5 Marks)

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, 2023 has been given below:

On 1st April, 2022 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2022-23 while remaining pertains to year 2023-24- During the year 2022-23 he made cash sales of ₹ 7,50,000.

You are required to compute :

a) Total income for the year 2022-23.
b) Total money received during the year, if the closing balance as on 31st March, 2023 in Advance from Customers Account is ₹ 2,55,000.

300000
(225000)
75000 180000 255000

Solution

(i) Computation of Income for the year 2022-23:

	₹
Money received during the year related to 2022-23	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2022-23	**9,75,000**

(ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2022	By Balance b/d	3,00,000
31.3.23	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**

Question 5: (CA Foundation Dec 2022) (10 Marks)

The balance sheet of S on 1st April, 2022 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2022-23, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

a. Commission paid to selling agent ₹ 65,000.
b. Discount received from creditors ₹ 75,000.
c. Purchased a vehicle of ₹ 50,000 on 31st March, 2023.
d. Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
e. A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2023

But while preparing the Profit and Loss Account he had forgotten to provide for

1) prepaid expenses ₹ 15,000 and
2) outstanding commission₹ 35,000.

His current assets and liabilities on 31st March, 2023 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000. During the year he introduced further capital of ₹ 3,00,000 into the business. You are required to prepare the balance sheet as at March 31, 2023.

Solution

Balance Sheet of S as on 31st March, 2023

Liabilities		₹	Assets		₹
Capital	22,00,000		Cash at Bank		5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables	13,00,000	
	28,50,000		Less: Prov. for D/debts	(39,000)	12,61,000
Add: Introduction of cap.	3,00,000	31,50,000	Vehicles (WN. 2)		2,70,000
Outstanding commission		35,000	Furniture & Fixtures (WN. 3)		5,85,000
Trade payables		1,46,000	Inventories		6,50,000
			Prepaid expenses		15,000
		33,31,000			**33,31,000**

Working Note 1 **Profit and Loss Account (Revised)**

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		**6,85,000**

Working Note 2 **Vehicles A/c**

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		**3,25,000**

Working Note 3 **Furniture & Fixtures A/c**

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	6,50,000		**6,50,000**

Question 6: (RTP Nov 2018) / (RTP May 2021) / (RTP May 2023) (Similar)

The following is the Trial Balance of Hari as at 31st December, 2023:

	Dr. (₹)	Cr. (₹)
Hari's Capital Account	-	76,690
Stock 1st January, 2023	46,800	-
Sales	-	3,89,600
Returns Inwards	8,600	-
Purchases	3,21,700	-
Returns Outwards	-	5,800
Carriages Inwards	19,600	-
Rent & Taxes	4,700	-
Salaries & Wages	9,300	-
Sundry Debtors	24,000	-
Sundry Creditors	-	14,800
Bank Loan @14% p.a.	-	20,000
Bank Interest	1,100	-
Printing and Stationary Expenses	14,400	-
Bank Balance	8,000	-
Discount Earned	-	4,440
Furniture & Fittings	5,000	-
Discount Allowed	1,800	-
General Expenses	11,450	-
Insurance	1,300	-
Postage & Telegram Expenses	2,330	-
Cash Balance	380	-
Travelling Expenses	870	-
Drawings	30,000	-
	5,11,330	5,11,330

The following adjustments are to be made:

a) Included amongst the Debtors is ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him.

b) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.

c) Depreciation on Furniture & Fittings @ 10% shall be written off.

d) Personal Purchases of Hari amounting to ₹ 600 had been recorded in the Purchases Day Book.

e) Interest on Bank Loan shall be provided for the whole year.

f) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.

g) Credit Purchase Invoice amounting to ₹ 400 had been omitted from the Books.

h) Stock on 31.12.2023 was ₹ 78,600.

Prepare:

(i) Trading & Profit and Loss Account for the year ended 31.12.2023 and

(ii) Balance Sheet as on 31st December, 2023.

Solution

Trading and Profit and Loss Account of Mr. Hari
(for the year ended 31st December, 2023)

Particulars		Amount	Particulars		Amount
To Opening Stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less : Returns	(8,600)	3,81,000
Add: Omitted Invoice	400		By Closing Stock		78,600
Less: Returns	(5,800)				
Less: Drawing	(600)	3,15,700			
To Freight & Carriage		19,600			
To Gross Profit c/d		77,500			
		4,59,600			**4,59,600**
To Rent and taxes		4,700	By Gross Profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank Interest	1,100				
Add: Due	1,700	2,800			
To Printing & Stationery	14,400				
Less: Prepaid	(3,600)	10,800			
To Discount allowed		1,800			
To General Expenses		11,450			
To Insurance		1,300			
To Postage & Telegram Expenses		2,330			
To Traveling Expenses		870			
To Provision for Bad Debts (New)		1,150			
To Prov. for Discount on Debtors		437			
To Depreciation on Furn. & Fitt.		500			
To Net Profit tfd. to Capital A/c		34,503			
		81,940			**81,940**

Balance Sheet of Hari as at 31st December, 2023

Liabilities		Amount	Assets		Amount
Capital	76,690		Furniture and Fittings	5,000	
Add: Net Profit	34,503		Less: Dep.	(500)	4,500
Less: Drawings (Cash 30,000+Goods 600)	(30,600)	80,593	Sundry Debtors (24,000-1,000) Less: Prov. for D/D	23,000 (1,150)	
Bank Loan		20,000		21,850	
Bank Interest Due		1,700	Less: Prov. for discount	(437)	21,413
Sundry Creditors [1]		14,200	Stock		78,600
			Prepaid: Printing & Stationery		3,600
			Bank Balance		8,000
			Cash Balance		380
		1,16,493			**1,16,493**

Working Note (1):

Sundry Creditors Balance as per Trial Balance	14,800
Less : Set off in respect of Ram	(1,000)
Add : Purchases Invoice which were omitted	400
	14,200

Question 7: ***(CA Foundation May 2018) (20 Marks)/(RTP May 2020)/(RTP Nov 2023)***

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

	Dr. (₹)	Cr. (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs of Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
	30,73,400	30,73,400

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

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

Solution

M/s Raghuram & Associates
Trading and Profit and Loss Account for the year ended 31st March, 2023

Particulars	Amount	Particulars	Amount
To Opening Stock	3,20,000	By Sales 15,00,000	
To Purchases 12,00,000		Less: Return (24,000)	14,76,000
Less: Returns (18,000)	11,82,000	By Closing Stock	4,10,000
To Freight	62,000		
To Gross Profit c/d	3,22,000		
	18,86,000		**18,86,000**
To Salaries	72,000	By Gross Profit b/d	3,22,000
To Rent 55,000		By Discount Received	12,000
Add: O/s Rent 5,000	60,000		
To Provision for Doubtful Debts (WN-1)	16,200		
To Rent and Taxes	24,000		
To Discount Allowed	7,500		
To Carriage outwards	8,500		
To Printing and stationery	6,000		
To Electricity charges	14,000		
To Insurance premium (W.N. 1)	4,800		
To Depreciation (W.N. 2)	80,000		
To General expenses	11,000		
To Bank Charges	3,800		
To Interest on loan 4,400			
Add: O/s Interest 100	4,500		
To Motor car expenses (Repairs)	13,000		
To Net profit tfd to Capital Account	8,700		
	3,34,000		**3,34,000**

Balance Sheet of M/s Raghuram & Associates
(as at 31st March, 2023)

Liabilities	Amount	Assets	Amount
Capital Account		Land & Building 5,00,000	
Opening Balance 14,11,400		Less: Dep. (25,000)	4,75,000
Add: Profit 8,700		Motor Vehicles 1,00,000	
Less: Drawings (20,000)		Less: Dep. (20,000)	80,000
Less: Prop. Ins Prem. (42,000)	13,58,100	Office equipment 2,00,000	
Loan from Rajan 60,000		Less: Dep. (30,000)	1,70,000
Add: O/s Interest 100	60,100	Furniture & Fixture 50,000	
Sundry Creditors	62,000	Less: Dep. (5,000)	45,000
O/s Rent	5,000	Closing Stock	4,10,000
		Sundry Debtors 2,80,000	
		Less: Prov. for D/D (14,000)	2,66,000
		Prepaid insurance (W.N. 1)	1,200
		Cash at Bank	16,000
		Cash in Hand	22,000
	14,85,200		**14,85,200**

Working Notes:

1. Insurance premium

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months (6,000*3/15)	(1,200)
Transfer to Profit and Loss A/c	**4,800**

2. Depreciation

On Building (5% of 5,00,000)	25,000
On Motor Vehicles (20% of 1,00,000)	20,000
On Furniture & Fittings (10% of 50,000)	5,000
On Office Equipment (15% of 2,00,000)	30,000
	80,000

3. Interest on Loan

Interest on Loan (60,000*10%*9/12)	4,500
Less: Interest as per Trial Balance	(4,400)
Amount Outstanding	**100**

4. Provision for Doubtful Debts Account

Particulars	**Amount**	**Particulars**	**Amount**
To Bad Debts A/c	12,200	By Balance b/d	10,000
To Balance c/d (2,80,000)*5%	14,000	By P&L A/c (Bal. Fig.)	16,200
	26,200		**26,200**

Question 8: (RTP May 2019) / (RTP Nov 2020) / (RTP Nov 2022) (Similar)

The following is the Trial Balance of T on 31st March, 2023:

Particulars	Dr. (₹)	Cr. (₹)
Capital		6,00,000
Drawings	70,000	
Fixed Assets (Opening)	1,40,000	
Fixed Assets (Additions 01.10.2022)	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
Bank Overdraft		8,000
Suspense A/c		2,000
Depreciation	14,000	
Rent (17 months upto 31.8.2023)	17,000	
Investments 12% (01.08.2022)	2,50,000	
Cash & Bank Balance	1,69,000	
Total	31,19,000	31,19,000

Stock on 31st March, 2023 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 31.03.2023, 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, 2023.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2023.

Drawings 20000
To Bank 20000

Expenses 12000
Drawings 8000
To Bank 20000

Creditors 1000
Sales Ret. A/c - Dr 1000
To Purch. Ret. 1000

MANUFACTURING ACCOUNT

Profit Cost of Goods Manufactured.

- The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of Cost.
- This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

Manufacturing Account of ………….for the year ended………

Particulars	₹	Particulars	₹
To Raw Material consumed: Opening stock of raw materials Add: Purchases of Raw Materials Less: Closing Stock of Raw Materials Net Balance = Material Consumed To Direct Manufacturing Wages To Direct Expenses (Note: 1) To Production Overheads (Note: 2) To Opening Stock of WIP		By Closing Stock of WIP By NRV/ Sale Value of By Products (Note: 3) By Net Factory Cost of Production tfd. to Trading A/c (Bal. Fig)	
Total		Total	

Trading Account of ………….for the year ended………

Particulars	₹	Particulars	₹
To Opening stock of finished goods To Manufacturing A/c: Cost of Product To Gross Profit c/d to P&L Account		By Sales By Closing stock of finished goods	
Total		Total	

Note: 1

Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product/ service.

Examples: (a) Royalty for use of license/ technology, (b) Hire Charges of Plant / Equipment, if based on units produced.

Note: 2

These are called Factory Overheads/ Production Overheads/ Works Overheads/ Manufacturing Overheads etc.

It is the Total Indirect costs (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced.

Examples: Factory Rent, Depreciation on Machinery, Depreciation on Factory shed, Repair & Maintenance work, Supervisor's Salary, Consumables like Oils, Lubricants, etc.

Note: 3

By-Product is an incidental product, arising during the production operations, having some saleable value. Examples: Molasses is the by-product in sugar manufacturing

Net Realizable Value of By-product is credited to this account.

Question 9: (ICAI Study Material)

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2023.

W.I.P.	- Opening	3,90,000
	- Closing	5,07,000
Raw Materials	- Purchases	12,10,000
	- Opening	3,02,000
	- Closing	3,10,000
	- Returned	18,000
	- Indirect material	16,000
Wages	- Direct	2,10,000
	- Indirect	48,000
Direct expenses	- Royalty on production	1,30,000
Indirect Expenses	- Repairs and maintenance	2,30,000
	- Depreciation on factory shed	40,000
	- Depreciation on plant & machinery	60,000
By-product at selling price		20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2023.

Solution

Books of Mr. Pankaj

Manufacturing Account for the year ended 31st March, 2023

Particulars	Amount	Amount	Particulars	Amount
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By- products (at S.P.)	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished goods transferred (Bal. Fig.)	
Less: Return	(18,000)			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Dep. on Factory Shed	40,000			
Dep. on Plant & Machinery	60,000	3,94,000		
		23,08,000		**23,08,000**

Question 10: (CA Foundation Nov 2020) (10 Marks)

Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2022-23. There are certain figures missing in these accounts.

Raw Material A/c

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

Creditors A/c

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

Manufacturing A/c

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

Additional Information:

a) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2022 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

b) Wages include the following:

Paid to factory workers	₹ 3,15,000
Paid to labour at office	₹ 50,000

c) 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.

Solution

Manufacturing A/c

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

Raw Material A/c

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

(1744000 – 249000 – 215000 – 365000)

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.
So, depreciation omitted from being charged = 12,00,000 X 15% = ₹1,80,000
Correct total depreciation expense = ₹ (2,15,000 + 1,80,000) = 3,95,000

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

(3) Expenses to be excluded from direct expenses:
Office Electricity Charges (80,000 X 25%) = 20,000
Delivery Charges to Customers = 22,000
Total expenses not part of Direct Expenses = 42,000
=> Revised Direct Expenses = ₹ (2,49,000 - 42,000) = ₹ 2,07,000
Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

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

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

(5) Creditors A/c

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

Question 11: (CA Foundation June 2022) (20 Marks)

The following is the trial balance of Mr. B for the year ended 31st March,2023:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

a) Stock of finished goods at the end of the year was ₹ 3,50,000.
b) 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.
c) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.
d) 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,2023 and Balance Sheet as at that date.

Solution

Manufacturing Account for the year ended 31st March, 2023

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods tfd. to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	(17,500)	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent & Rates		70,000		
To Dep. on Machinery		10,500		
		28,28,000		**28,28,000**

Trading Account for the year ended 31st March, 2023

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	(35,000)	29,40,000
To Gross Profit c/d	1,99,500	By Closing Stock		3,50,000
	32,90,000			**32,90,000**

Profit and Loss Account for the year ended 31st March, 2023

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	(5,250)	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	(7,000)	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		2,95,750		**2,95,750**

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

Balance Sheet as at 31st March, 2023

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	(10,500)	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	(70,000)	3,64,000	Less: Depreciation	(3,500)	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Prov. for Bad & Doubtful Debts	(7,000)	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			**14,10,500**

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

Special Point

Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

Bank Overdraft 80,000. Find Closing Stock

Stock

$$\underbrace{x \times 80\%} \times 80\% = 80000$$

Stock	100	
−20%	(20)	
	80	× 80% = 64%

$$x = 80000 \times \frac{100}{80} \times \frac{100}{80}$$

$$= 125000$$

Sol. 1

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To opening stock	2,00,000	By Sales	50,00,000
To Purchases	18,20,000	By Closing stock	2,70,000
To wages	10,00,000		
To Gross Profit (B.f.)	22,50,000		
To Salaries	10,00,000	By Gross Profit b/d	22,50,000
To Discount allowed	50,000	By Discount Rec.	30,000
To office Exp.	6,00,000		
To Net Profit trfd. to capital A/c (B.f.)	6,30,000		

Balance sheet as at 31/3/23

Liabilities		Amount	Assets	Amount
Capital	1000000		Cash	144,000
+ NP	630000	16,30,000	Machinery	736000
Creditors		370000	Trade Receivables	850000
			Closing stock	270000
		20,00,000		2000000

Closing Entries

		Debit	Credit
1)	Trading A/c - Dr	30,20,000	
	To opening stock		2,00,000
	To Purchases		18,20,000
	To wages		10,00,000
2)	Sales A/c - Dr	50,00,000	
	Closing stock A/c - Dr	2,70,000	
	To Trading A/c		52,70,000
3)	Trading A/c - Dr	22,50,000	
	To P&L A/c		22,50,000
	OR		
	Trading A/c - Dr		
	To Gross Profit		
	Gross Profit A/c - Dr		
	To P&L A/c		

	Particulars	Dr	Cr
4)	P&L A/c -Dr	16,50,000	
	To Salaries A/c		10,00,000
	To Discount Allowed A/c		50,000
	To Office Expenses A/c		600000
5)	Discount Received A/c -Dr	30,000	
	To P&L A/c		30,000
6)	P&L A/c -Dr	630000	
	To Capital A/c		630000
	OR		
	P&L A/c -Dr		
	To Net Profit		
	Net Profit A/c -Dr		
	To Capital A/c		

Opening Entry 1/4/23

Date	Particulars	L.F.	Debit	Credit
1/4/23	Cash A/c - Dr		1,44,000	
	Machinery A/c - Dr		7,36,000	
	Trade Receivables A/c - Dr		850000	
	Opening stock A/c - Dr		270000	
	To Trade Payables A/c			3,70,000
	To Capital A/c			16,30,000

Sol. 3

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To cost of goods sold	4500000	By Sales $\left(\frac{100000}{1\%}\right)$	1,00,00,000
To Gross Profit c/d (B.F)	5500000		
	10000000		10000000
To Rent	26,00,000	By Gross Profit b/d	55,00,000
To Office Expenses	13,00,000	By Misc. Income (B.F)	5,00,000
To Selling Expenses (B.F)	1,00,000		
To Commission to Manager	2,00,000		
To Net Profit $\left(\frac{2L}{10\%}\right) - 2L$	18,00,000		
	60,00,000		60,00,000

Sol. 8

Journal Entries

			Debit	Credit
(i)	Expenses A/c —Dr		12000	
	To Drawings A/c			12000
(ii)	Purchases A/c —Dr		16000	
	To Creditors A/c			16000
(iii)	Suspense A/c —Dr		2000	
	To Purchase Return			1000
	To Sales Return			1000
(iv)	Prepaid Expenses A/c —Dr		6000	
	To Expenses			6000

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To opening stock	60,000	By Sales 2200000	
To Purchases 1600000		- Returns (98000)	2102000
+ unrecorded 16000		(99000 - 1000)	
- Returns (70000)	1546000	By closing stock	100000
(69000 + 1000)			
To Gross Profit (B/f)	596000		
To Expenses 50000		By Gross Profit	596000
+ unrecorded 12000		By Int on Fixed deposit	20000
- Prepaid (6000)	56,000	By Int on Investments	20000
To Depreciation 14000		$(250000 \times 12\% \times \frac{8}{12})$	
+ Additional 10000	24000		
$(2L \times 10\% \times 6/12)$			
To Rent	12000		
(17000 - 5000)			
To Net Profit (B/f)	544000		

Balance sheet as at 31/3/23

Liabilities	Amount	Assets	Amount
Capital 600000		Closing stock	100000
- Drawings (70000 - 12000) (58000)		Prepaid Expenses	6000
+ Net Profit 544000	1086000	Fixed Assets (140000 + 200000) 340000	
Creditors (220000 + 16000)	236000	- Dep. (10000)	330000
Bank overdraft	8000	Fixed deposit	200000
		Investments	250000
		Acc. Interest	20000
		Prepaid Rent	5000
		Debtors	250000
		Cash & Bank	169000
	1330000		1330000

Point to Remember

Provision for Doubtful debts is created on correct Debtors.

Debtors (given in Trial Balance)	xxx
− Sale on Approval basis	(xxx)
− Commission Owing	(xxx)
− Further Bad debts	(xxx)
− Further Discount Allowed	(xxx)
− Wrong Amount included in it	(xxx)
+ Correct Amount to be included	xxx
	xxx 100000

Interest on loan

Case 1:

31/3/24

	Dr.	Cr.
12% Bank loan (Taken on 1/7/23)		500000
Interest on loan	25000	

$$\text{Interest} = 500000 \times 12\% \times \frac{9}{12} = 45000$$

Paid (25000)

O/s 20000

Case 2 :

31/3/24

	Dr.	Cr.
12% Bank Loan		500000
Interest	25000	

Interest on Bank loan

400000 x 12% = 48000

− Paid = (18000)

(25000 − 7000)

O/s 30000

Bank loan A/c

31/3	To Bal c/d	500000	1/4/23	By Bal b/d	400000
			31/3/24	By Bank	100000

P&L A/c

Interest	25000	48000
	+ 30000	+ 7000
	55000	55000

Interest paid includes 7000 paid to Creditors for delayed payments.

B/S

Loan	500000
O/s Int.	30000

Cases of Input & Output GST in Trial Balance

Case 1:

	Dr.	Cr.
Input CGST	10,000	
Input SGST	10000	
Output CGST		8000
Output SGST		8000
Output IGST		6000

Output

	CGST	SGST	IGST
	8000	8000	6000
CGST	(8000)		(2000)
SGST		(8000)	(2000)
	x	x	2000

Balance Sheet

Liabilities		Assets
Output IGST	2000	

Case 2:

	Dr.	Cr.
Input CGST	9000	
Input SGST	9000	
Output IGST		15000

Output	15000
– CGST	(9000)
	6000
– SGST	(6000) → Bal: 3000
	x

Balance Sheet

Liabilities	Assets	
	Input SGST	3000

Accounts from Incomplete Records

ACCOUNTS FROM INCOMPLETE RECORDS

MEANING OF SINGLE-ENTRY

The term "Single Entry System" is popularly used to describe the problems of accounts from incomplete records.
Very often the small sole proprietorship and partnership businesses do not maintain double entry book keeping system. Sometimes they keep record only of the cash transactions and credit transactions. Sometimes they maintain no record of many transactions. But at the end of accounting period they want to know the performance and financial position of their businesses. This creates some special problems to the accountants.

FEATURES

➢ It is an inaccurate, unscientific & unsystematic method of recording business transactions.
➢ There is generally no record of real and personal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
➢ Cash book mixes up business and personal transactions of the owners.
➢ There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
➢ Profit under this system is only an estimate and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

Profitability

Final Accounts Approach

Trading and P&L A/c : NP
&
Balance sheet → (Tally)

(Missing figures from Ledger A/cs & information)

Capital Approach

↳ opening & closing Assets & Liab.

op. & clos. Statement of Affairs

* Finding Opening & closing capital
* Making capital A/c or Statement of P&L

Capital A/c

Particulars	Amount	Particulars	Amount
To Share of Loss	xx	By Bal. b/d (Opening)	xx
To Drawings	xx	By cash / Bank (Additional)	xx
To Interest on Drawings	xx	By Interest on capital	xx
To Bal c/d (Closing)	xx	By Share of Profits	xx

Statement of Profit & Loss

Particulars	Amount
Capital at the end (Closing capital)	xx
Add: Drawings	xx
Add: Interest on Drawings	xx
Less: Capital at the beginning (Opening capital)	(xx)
Less: Additional capital	(xx)
Less: Interest on capital	(xx)
Profit / (Loss) (+ve) (-ve)	xx

Bills of Exchange

$$A \xrightarrow{\text{Sale : 10000}} B$$

B	10000		Purchases	10000	
To Sales		10000	To A		10000
B/R	10000		A	10000	
To B		10000	To B/P		10000

Books of DRAWER (A)

	Held Bill Till Maturity	Discounting with Bank	Endorse to Creditor	Sent to Bank for collection
1) Event	–	Bank 9800 Discount 200 To B/R 10000	Creditor/C 10000 To B/R 10000	BSFC 10000 To B/R 10000
2) Maturity a) Honour	Bank 10000 To B/R 10000	–	–	Bank 10000 To BSFC 10000
OR				
b) Dishonour (Noting charges 100)	B 10100 To B/R 10000 To Bank 100	B 10100 To Bank 10100	B 10100 To C 10100	B 10100 To BSFL 10000 To Bank 100

Books of DRAWEE (B)

In all 4 cases, same entries to be passed :

Honour

B/P A/c - Dr	10000	
To Bank A/c		10000

Dishonour

B/P A/c - Dr	10000	
Noting charges A/c - Dr	100	
To A		10100

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Cash A/c	
To Sales (Credit)		By Bank A/c	
To Interest charged		By B/R A/c	
To B/R (Normal)		By Discount Allowed A/c	
To Bank (Discounted)		By Bad debts A/c	
To Creditors (Endorsed)		By Sales Return A/c	
		By Balance c/d	

Dishonour of B/R

Creditors A/c

Particulars	Amount	Particulars	Amount
To Purchase Return A/c		By Balance b/d	
To Cash A/c		By Purchases (Credit)	
To Bank A/c		By B/P [Dishonoured]	
To Discount Received		By Noting charges	
To B/P A/c		By Debtors A/c [Endorsed B/R Dish.]	
To B/R (Endorsed)		By Interest A/c	
To Balance c/d			

Bills Receivable (B/R) A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Bank [Discounted	
To Debtors A/c		By Discount with Bank]	
		By Creditors (Endorsed)	
		By Bank (Payment Rec.)	
		By Debtors (Dishonour)	
		By Balance c/d	

Bills Payable (B/P) A/c

Particulars	Amount	Particulars	Amount
To Bank (Paid)		By Balance b/d	
To Creditors (Dishonour)		By Creditors	
To Balance c/d			

TOPIC 1: CAPITAL COMPARISON / STATEMENT OF AFFAIRS METHOD

Question 1: (ICAI Study Material)

Rakesh started his business on 1st of April 2022. He invested a capital of ₹ 1,00,000. On 31st March 2023, 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 2023.

Question 2: (ICAI Study Material)

Assets and Liabilities of Mr. X as on 31-03-2022 and 31-03-2023 are as follows:

Particulars		31-03-2022	31-03-2023
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% & furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2022 & 31-03-2023 and compute profit for the year ended 31-03-2023.

Question 3: (ICAI Study Material)

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020- 2021 and 2021-2022 feels that he has not disclosed 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 & 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 & Building	1,90,000
		Motor Car	1,25,000
		Wife's Jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities	Sundry Creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹ 1,05,000 for 2020-2021 & ₹ 1,23,000 for 2021-2022 respectively. State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Solution

Statement of Affairs

Liabilities	1/4/20	1/4/22	Assets	1/4/20	1/4/22
Owing to Moti's Brother	40,000	-	Cash in Hand	25,500	16,000
Creditors	35,000	55,000	Inventory	56,000	91,500
Capital (Bal. Fig.)	3,13,000	5,65,000	Debtors	41,500	52,500
			Land & Building	1,90,000	1,90,000
			Wife's Jewellery	75,000	1,25,000
			Motorcar	-	1,25,000
			Loan to Moti's Brother	-	20,000
	3,88,000	**6,20,000**		**3,88,000**	**6,20,000**

Particulars	Amount
Capital as on 1/4/2022	5,65,000
Add Drawings during 2020-21 and 2021-22 (4,000×12×2)	96,000
Less Capital as on 1/4/2020	(3,13,000)
Income earned in 2020-21 and 2021-22	**3,48,000**
Income declared (1,05,000 + 1,23,000)	(2,28,000)
Suppressed Income	**1,20,000**

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 based on the information available.

Question 4: (CA Inter Nov 2022) (10 Marks)

Ramesh had ₹ 3,30,000 in the bank account on 1st January,2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

Particulars	31.3.2021	31.3.2022
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300

On and from 1st February,2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

Particular	Deposits	Withdrawals
1.1.2021 to 31.3.2021	-	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

a) The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31st March,2021 and from 1st April,2021 to 31st March,2022 respectively for the purchase of Machines for the business.

b) The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.

Bank To Debtor

c) One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.

You are required to draw up Statement of Affairs as at 31st March, 2021 & 31st March, 2022 respectively and work out his Profit or Loss for year ended 31st March, 2021 & 31st March, 2022.

Solution

Statement of Affairs as on 31st March, 2021

Liabilities	₹	Assets	₹
Capital (bal. fig.)	3,23,400	Machinery	2,20,000
Sundry creditors	5,500	Inventory	20,900
		Debtors	1,100
		Cash at bank (W.N.1)	84,700
		Cash in hand	2,200
	3,28,900		**3,28,900**

Statement of Affairs as on 31st March, 2022

Liabilities	₹	Assets		₹
Sundry Creditors	4,300	Machinery	2,20,000	
Capital (Bal. fig.)	3,60,800	Add: Additions	66,000	2,86,000
		Inventory		31,900
		Debtors (3,200 – 2,700)		500
		Cash at bank (W.N.2)		43,400
		Cash in hand		3,300
	3,65,100			**3,65,100**

Dep. is Ignored.

Calculation of loss for 3 months (1.1.2021 to 31.3.2021)

	₹
Capital as on 31.3.2021	3,23,400
Add: Drawings for 2 months (770 x 2)	1,540
	3,24,940
Less: Capital as on 1.1.2021	(3,30,000)
Loss for 3 months	5,060

Statement of Profit and Loss for the year ended 31.3.2022

Particulars	**₹**
Capital as on 31.3.2022	3,60,800
Add: Drawings (₹ 770 x 12)	9,240
	3,70,040
Less: Capital as on 31.3.2021	(3,23,400)
Net profit for the year ended 31.3.22	46,640

Working Notes:

		₹
1.	**Bank balance as on 31.3.2021**	
	Balance as on 1.1.2021	3,30,000
	Less: Withdrawals during 1.1.2021 to 31.3.2021	(2,45,300)
	Balance as on 31.3.2021	**84,700**
2.	**Bank Balance as on 31.3.2022:**	
	Balance as on 1.4.2021	84,700
	Add: Deposits during the year (2,53,000 + 2,700)	2,55,700
		3,40,400
	Less: Withdrawals during the year	(2,97,000)
	Bank Balance as on 31.3.2022	**43,400**

Bank A/c 2700

To Debtors 2700

TOPIC 2: FINAL ACCOUNTS METHOD

Question 5: (ICAI Study Material)

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	??

Debtors A/c

To Bal b/d	500000	By Cash A/c	600000
To Sales A/c	1140000	By Disc. Allowed	10000
		By B/R A/c	300000
		By Bad debts (B.f.)	30,000
		By Bal c/d	700000

Question 6: (ICAI Study Material)

A.Admajee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2022	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 year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st Mar, 2023	6,400
		Cash in hand on 31st Mar, 2023	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

Particulars	01-04-2022 (Amount in ₹)	31-03-2023 (Amount in ₹)
Sundry Debtors	14,500	17,600
Sundry Creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Stock	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2023 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Question 7: (ICAI Study Material) / (RTP May 2021)

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets & Liabilities	As on 01.04.2022	As on 31.03.2023
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000(Cr.)	80,000(Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's Capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors ₹ 7,00,000
(b) Payment for business expenses ₹ 1,20,000
(c) Receipts from debtors ₹ 7,50,000
(d) Loan ₹ 1,00,000 taken on 1.10.2022 at 10% per annum
(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

Prepare: Trading and Profit & Loss A/c for the year ended 31.3.2023 and Balance Sheet as at 31st March, 2023.

Solution

Trading and P & L A/c for year ended 31/3/2023

Particulars	Amount	Particulars		Amount
To Opening Stock	2,80,000	By Sales		
To Purchases	7,70,000	Cash	2,40,000	
To GP@ 25%	3,10,000	Credit	10,00,000	12,40,000
		By Closing Stock (Bal. Fig.)		1,20,000
	13,60,000			**13,60,000**
To Salaries	40,000	By G.P. b/d		3,10,000
To Business expenses	1,20,000			
To Interest on Loan (1,00,000*10%*6/12)	5,000			
To Net Profit	1,45,000			
	3,10,000			**3,10,000**

Balance Sheet as at 31/3/2023

Liabilities		Amount	Assets	Amount
Loan (incl. interest)		1,05,000	Cash in hand	10,000
Creditors		90,000	Cash at bank	80,000
Capital			Debtors	3,50,000
Opening	3,00,000		Stock	1,20,000
Net profit	1,45,000			
Drawings	(80,000)	3,65,000		
		5,60,000		**5,60,000**

Working Notes

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,00,000	By Bank	7,50,000
To Credit sales (Bal. Fig.)	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bank	7,00,000	By Balance b/d	40,000
To Cash	20,000	By Purchases (Bal. Fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

Cash and Bank A/c

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	10,000	-	By Balance b/d	-	50,000
To Cash (contra)		1,00,000	By Bank (contra)	1,00,000	
To Debtors	-	7,50,000	By Salaries	40,000	
To Ram loan	-	1,00,000	By Creditors	20,000	7,00,000
To Sales (Bal. Fig.)	2,40,000		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**

Question 8: (RTP Nov 2018) / (RTP May 2023)

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31stMarch,2023 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

	01.04.2022	31.03.2023
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	??
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collections from debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000

(ii) Collections on discounting of bills of exchange, after deduction of discount of ₹ 1,250 by the bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment for freight inwards ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.
(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 bonds, Face value ₹ 100 each) on 1st October, 2022 and payment made thereof.
(viii) Expenses including salaries paid ₹ 95,000.
(ix) Miscellaneous receipts ₹ 5,000.
(x) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.
(xi) Goods costing ₹ 9,000 were used as advertising materials.
(xii) Goods are invariably sold to show a gross profit of 20% on sales.
(xiii) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC Enterprises.
(xiv) Provide at 2% for doubtful debts on closing debtors.

Solution

Trading and P & L A/c for year ended 31/3/2023

Particulars	Amount	Particulars	Amount
To Opening Stock	80,000	By Sales	6,08,750
To Purchases (4,56,000 – 9,000)	4,47,000	By Closing Stock	70,000
To Freight inwards	30,000		
To G.P. (20% on sales)	1,21,750		
	6,78,750		**6,78,750**
To Advertisement Expenses	9,000	By GP b/d	1,21,750
To Dep. on Furniture	6,500	By Misc. income	5,000
To Expenses for year (95,000 + 18,000 – 20,000 + 6,000 – 7,000)	92,000	By Interest on Investment (20,000 x 6% x 6/12)	600
To Discount Allowed		By Discount Received	8,000
Debtor 15,000			
B/R 1,250	16,250		
To Provision for doubtful debts	1,455		
To Net Profit	10,145		
	1,35,350		**1,35,350**

Balance Sheet as at 31/3/23

Liabilities	Amount	Assets	Amount
Creditors	1,50,000	Furniture (60,000+10,000 - 6,500)	63,500
O/s Expenses	18,000	6% Investment at cost	19,000
Capital		Accrued Int. on Investment	600
Opening 1,88,000		Stock	70,000
Net Profit 10,145		Debtors 72,750	
Drawings (91,000)	1,07,145	Less Prov. for D/debts (1,455)	71,295
		Bills Receivable	17,500
		Cash in hand & Bank	26,250
		Prepaid expenses	7,000
	2,75,145		**2,75,145**

Working Notes:

Balance Sheet as at 1/4/2022

Liabilities	Amount	Assets	Amount
Creditors	1,10,000	Furniture	60,000
O/s Expenses	20,000	Stock	80,000
Capital (Bal. Fig.)	1,88,000	Debtors	1,60,000
		Cash & Bank	12,000
		Prepaid expenses	6,000
	3,18,000		**3,18,000**

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bills Receivable (Endorsed)	20,000	By Balance b/d	1,10,000
To Bank	3,92,000	By Debtors (Endorsed Bill Dishonoured)	4,000
To Discount Received	8,000	By Credit Purchases (Bal. Fig.)	4,56,000
To Balance c/d	1,50,000		
	5,70,000		**5,70,000**

Cost of Goods Sold = 80,000 + 4,56,000- 9,000 + 30,000 – 70,000 = $\boxed{4,87,000}$

GP = 20% on Sales = 25% on COGS = 4,87,000 *25/100 = 1,21,750

Sales = COGS + GP = 6,08,750

$0.80x = 487000$

$x = \frac{487000}{0.80}$

$487000 + 0.20x = x$

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,60,000	By B/R	1,00,000
To Sales	6,08,750	By Bank	5,85,000
To Creditors	4,000	By Disc. Allowed	15,000
		By Balance c/d (Bal. Fig.)	72,750
	7,72,750		**7,72,750**

Bills Receivable A/c

Particulars	Amount	Particulars	Amount
To Debtors	1,00,000	By Creditors	20,000
		By Bank	61,250
		By Discount	1,250
		By Balance c/d (Bal. Fig.)	17,500
	1,00,000		**1,00,000**

Cash and Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	12,000	By Freight Inwards	30,000
To Debtors	5,85,000	By Creditors	3,92,000
To B/R	61,250	By Expenses	95,000
To Misc. Income	5,000	By Investment	19,000
		By Furniture	10,000
		By Drawings (70,000+21,000 bal.fig.)	91,000
		By Balance c/d	26,250
	6,63,250		**6,63,250**

Note: All sales & purchases are assumed to be on credit basis.

<u>Question 9:</u> (CA Inter Nov 2019) (10 Marks)

Archana Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c Trade creditors Outstanding exp.	6,75,000 7,57,500 67,500	Furniture & fixtures Stock Trade debtors Prepaid insurance Cash in hand & at bank	1,50,000 9,15,000 3,12,000 3,000 1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for year ended 31st March, 2023:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2022 Cash sales Receipts from trade debtors	1,20,000 1,10,70,000 27,75,000	Payment to trade creditors Sundry expenses paid Drawings Cash in hand & at Bank on 31st March, 2023	1,24,83,000 9,31,050 3,60,000 1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

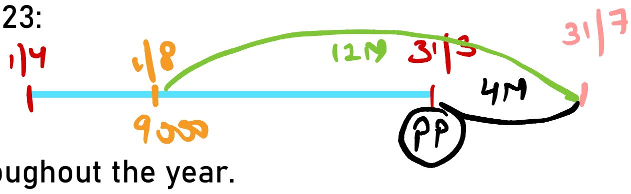
a) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively. (for the year ended 31st March, 2023)

b) Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.

c) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

d) The following are the balances as on 31st March, 2023:

- Stock ₹ 9,75,000
- Trade debtors ₹ 3,43,000
- Outstanding expenses ₹ 55,200



e) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2023, and Balance Sheet as on that date.

<u>Solution</u>

Trading and Profit and Loss Account for the year ended 31st March, 2023

Particulars	Amount	Particulars	Amount
To Opening Stock	9,15,000	By Sales	
To Purchases (W.N. 2)	125,97,000	Cash 110,70,000	
To Gross profit c/d (10% of 139,30,000)	13,93,000	Credit (W.N. 1) <u>28,60,000</u>	139,30,000
		By Closing stock	9,75,000
	149,05,000		**149,05,000**
To Sundry expenses (W.N. 4)	9,18,750	By Gross Profit b/d	13,93,000
To Discount allowed	54,000	By Discount received	42,500
To Depreciation (1,50,000*15%)	22,500		
To Net Profit (b.f.)	4,40,250		
	14,35,500		**14,35,500**

Balance Sheet of Archana Enterprises as at 31st March, 2023

Liabilities	**Amount**	**Assets**	**Amount**
Capital		Furniture & Fittings 1,50,000	
Opening balance 6,75,000		Less: Depreciation (22,500)	1,27,500
Less: Drawing (3,60,000)		Stock	9,75,000
Add: Net profit 4,40,250	7,55,250	Trade Debtors	3,43,000
Trade creditors (W.N. 3)	8,29,000	Unexpired insurance	3,000
Outstanding expenses	55,200	Cash in hand & at bank	1,90,950
	16,39,450		**16,39,450**

Working Notes:

1. **Trade Debtors Account**

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		**31,72,000**

2. **Memorandum Trading Account**

Particulars	**Amount**	**Particulars**	**Amount**
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing fig.)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		**149,05,000**

3. **Trade Creditors Account**

Particulars	**Amount**	**Particulars**	**Amount**
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as per W.N 2)	125,97,000
To Balance c/d (bal. fig.)	8,29,000		
	133,54,500		**133,54,500**

4. **Computation of sundry expenses to be charged to Profit & Loss A/c**

Particulars	**Amount**
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2022	3,000
Less: Outstanding expenses as on 31–3–2022	(67,500)
Add: Outstanding expenses as on 31–3–2023	55,200
Less: Prepaid expenses as on 31–3–2023 (Insurance paid till July, 2023) (9,000 x 4/12)	(3,000)
	9,18,750

***Question 10:* (CA Inter July 2021) (10 Marks) / (ICAI Study Material) (Similar)**

Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		6,07,500

You are furnished with following information :

1) His sales, for the year ended 31st March, 2023 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
2) Total Sales during the year 2021-22 were ₹ 6,25,000
3) Payments for all the purchases were made by cheques only.
4) Goods were sold for cash and credit both. Credit customers pay by cheques only.
5) Deprecation on furniture is to be charged 10% p.a.
6) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2023 disclosed the following:

	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2023	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2023:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2023, 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, 2023 and Balance Sheet as on that date. All the working should form part of the answer.

TOPIC 3: FINAL ACCOUNTS METHOD: TIME LAG / CREDIT PERIOD / VELOCITY

1/4/23 ———— Feb —— Mar —— 31/3/24

Total Sales = 1200000
25% Cash sales
Credit period = 2 months

Debtors?? → Sales of Feb + Mar

Credit Sales = 1200000 × 75% = 900000

Clos. Debtors (2 months sales) = $900000 \times \frac{2}{12}$ = 150000

(uniform)

Debtors = $\frac{\text{Credit Sales} \times \text{Credit Period}}{12}$

Creditors = $\frac{\text{Credit Purchases} \times \text{Credit Period}}{12}$

Question 11: (ICAI Study Material)

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 31.03.2023 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate credit sales and total sales of the company for the year ended 31.03.2023.

Debtors = 125000 Credit Period = 1.5 months

Credit Sales = $125000 \times \frac{12}{1.5}$ = 10,00,000 → 80%

Total Sales = $\frac{1000000}{80\%}$ = 1250000

Question 12: (CA Inter Dec 2021) (5 Marks)

A company sold 20% of the goods on cash basis and balance on credit basis. Debtors allowed 1.5 month's credit and their balance as on 31st March, 2023 is ₹1,50,000. Assume that sale is evenly spread throughout the year. Purchase during the year ₹9,50,000. Closing stock is ₹10,000 less than the opening stock. Average stock maintained during year is ₹60,000. Direct expenses amounted to ₹35,000.

Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2023.

Solution

Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March 23 = Debtor X $\frac{12 \text{ months}}{1.5 \text{ months}}$

= 1,50,000 X $\frac{12 \text{ months}}{1.5 \text{ months}}$

= 12,00,000

Total Sales for the year ended 2022-23 = Credit Sales X $\frac{100\%}{80\%}$

= 12,00,000 X $\frac{100\%}{80\%}$ = 15,00,000

Trading A/c for year ended 31/3/2023

Particulars	Amount	Particulars	Amount
To Opening Stock	65,000	By Sales	15,00,000
To Purchases	9,50,000	By Closing Stock	55,000
To Direct Expenses	35,000		
To Gross Profit (Bal. Fig.)	5,05,000		
	15,55,000		**15,55,000**

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x+10,000

Average stock 60,000

Average stock = (Opening stock + Closing stock)/2

Thus Opening stock is 65,000 and closing stock is 55,000.

$\frac{(x+10000)+x}{2} = 60000$

Question 13: (CA Inter Nov 2020) (10 Marks)

M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The Balance Sheet as on 31st March, 2022 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6,50,000
Trade Creditors	1,90,000	Closing stock	3,75,000
Profit & Loss A/c	1,45,000	Trade Debtors	3,65,000
		Cash & Bank	1,95,000
	15,85,000		15,85,000

Management estimates the purchase & sales for year ended 31st March, 2023 as under:

Particulars	Upto 31.01.2023 (₹)	February 2023 (₹)	March 2023 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2022; ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2023.

The time lag for payment to Trade Creditors for purchases is one month and receipt, from Trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2023 and draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current assets and liabilities apart from stock and cash and bank balances. Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2023.

Solution

Trading and P & L A/c for year ended 31/3/2023

Particulars	Amount	Particulars	Amount
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock (Bal. fig.)	4,15,000
To Gross profit c/d (25%)	6,15,000		
	28,75,000		**28,75,000**
To Expenses (24,60,000*15%)	3,69,000	By Gross Profit b/d	6,15,000
To Depreciation	80,000	By Profit on sale of Fixed Assets	2,000
To Net Profit (Bal. Fig.)	1,68,000		
	6,17,000		**6,17,000**

Balance Sheet as at 31/3/2023

Liabilities	Amount	Assets	Amount
Capital	12,50,000	Fixed Assets (Less Dep.)	6,66,000
Profit & Loss Acc (1,45,000+1,68,000)	3,13,000	Stock	4,15,000
Creditors	1,25,000	Debtors	3,85,000
		Cash & Bank	2,22,000
	16,88,000		**16,88,000**

Working Notes

Cash and Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,95,000	By Expenses	3,69,000
To Debtors (3,65,000+20,75,000)	24,40,000	By Creditors (1,90,000+16,20,000+1,40,000)	19,50,000
To Fixed Assets	56,000	By Fixed Assets	1,50,000
		By Balance c/d (Bal. Fig.)	2,22,000
	26,91,000		**26,91,000**

Fixed Assets A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	6,50,000	By Cash	56,000
To Profit on sale	2,000	By Depreciation (on sold asset)	6,000
To Bank A/c	1,50,000	By Depreciation (59,000+15,000)	74,000
		By Balance c/d (Bal. Fig.)	6,66,000
	8,02,000		**8,02,000**

Trading and P&L A/c

Particulars		Amount	Particulars		Amount
To Opening Stock		xx	By Sales	xx	
To Purchases	xx		- Returns	(xx)	xx
- Returns	(xx)	xx	By Closing Stock		xx
To Direct Expenses (Carriage Inward, wages, etc.)		xx			
To Gross Profit (B.f.)		xx			
		xx			xx
To Administrative Expenses (Salaries, Rent, Repairs, etc.)		xx	By Gross Profit		xx
To Selling & Dist. Expenses (Advertising, Commission, carriage outwards)		xx	By Other Income (Dividend, Interest, scrap sale)		xx
To Interest on Loan		xx			
To Depreciation		xx			
To Provisions		xx			
To Net Profit (B.f.)		xx			
		xx			xx

Balance Sheet

Liabilities		Amount	Assets	Amount
Capital			Machinery	xx
Opening	xx		Furniture	xx
+ Additional	xx		Office Equipment	xx
- Drawings	(xx)		Investments	xx
+ Net Profit/(Loss)	xx/(xx)	xx	Debtors	xx
Loan		xx	Inventories (Stock)	xx
Creditors		xx	Cash & Bank	xx
O/s Expenses		xx	Prepaid Expenses	xx
		xx		xx

POINTS TO REMEMBER

1) Following Accounts / Working Notes made to ascertain missing Information:

a) Cash & Bank A/c : Opening / Closing Balance, Cash Sales / Purchases, Drawings / Capital, etc.

b) Debtors A/c : Opening / Closing Balance, credit sales, collection, B/R drawn, etc.

c) Creditors A/c : Opening / Closing Balance, credit Purchases, Payments, B/P Accepted, etc.

d) Bills Receivable A/c : Opening / Closing Balance, B/R drawn, collected, Endorsed, etc.

e) Bills Payable A/c : Opening / Closing Balance, B/P Accepted, Discharged (Payment), etc.

f) Fixed Assets A/c : Opening / Closing Balance, Purchase, Sale, Depreciation, etc.

g) Opening Balance Sheet : Opening Capital

2) **Sales & Purchases**

Example (a)

Cash sales = 200000 → 40%
Credit sales = 60% of total sales

$$\text{Total Sales} = \frac{200000}{40\%} = 500000$$

Credit 60% = 300000
(5L × 60%)

(b)

Credit Purchases = 100000
Credit Purchases = 25% of total Purchase

$$\text{Total Purchase} = \frac{100000}{25\%} = 400000$$

Cash (75%) = 4L × 75% or 4L − 1L = 3L

3) **Profit Rate**

Example GP Rate = 20% on Sales

Case 1) Sales Given

Assume Sales = 500000

GP = 5L × 20% = 100000

Balancing figure can be:

* Opening stock
* Purchases
* Closing stock

Case 2) Sales not Given

Find Cost of Goods sold (COGS)

COGS = Opening stock + Purchases + Direct Exp. − Closing stock

Let sales = x

COGS + 20% of x = x

OR

COGS + 25% of COGS = Sales

4) Fixed Assets

Case (a)

	31/3/23	31/3/24
Machinery	100000	100000

Depreciation @ 10% p.a.

Depreciation = 100000 × 10% = 10000 (P&L A/c)

Balance sheet

31/3/23 = 100000

31/3/24 = 90000

Case (b)

	31/3/23	31/3/24
Machinery	100000	90000

Depreciation provided at 10% p.a.

Depreciation = 10000 (P&L A/c)

Balance sheet

31/3/23 = 100000

31/3/24 = 90000

Case (c)

	31/3/23	31/3/24
Machinery	100000	150000

Dep. 10% p.a. Purchase on 1/7/23.

Purchase = 150000 − 100000 = 50000 (Cash & Bank)

Depreciation = $(100000 \times 10\%) + (50000 \times 10\% \times 9/12)$

= 13750 (P&L A/c)

Balance sheet

31/3/23 = 100000

31/3/24 = 150000 − 13750

= 136250

Case (d)

	31/3/23	31/3/24
Machinery	100000	130000

Purchase of Machinery 65000

Machinery A/c

To Bal b/d	100000	By Dep. (B.f.)	35000
To Cash/Bank	65000	By Bal c/d	130000

Case (e)

	31/3/23	31/3/24
Machinery	100000	125000

Purchase of Machinery 60000

Sale of Machinery (Book value 10000) for 7000.

Machinery A/c

To Bal b/d	100000	By Cash/Bank	7000
To Cash/Bank	60000	By Loss on sale	3000
		By Dep. (B.f.)	25000
		By Bal c/d	125000

Case (J)

	31/3/23	31/3/24
Machinery	100000	125000

Sale of Machinery on 1/10/23 having Book value 20000 on 1/4/23 at loss of 3000.
Machinery purchased on 1/1/24. Dep. rate : 10% p.a.

Machinery

Sale of Machinery

Book value (1/4/23) = 20000

Dep. (1/4 to 1/10) = 20000 × 10% × 6/12
= 1000

Book value (1/10) = 19000

Loss on Sale = 3000

Sale value = 16000
(19000 − 3000)

Balance (out of opening)

Book value = 100000 − 20000
= 80000

Dep. @ 10% = 8000

Closing Book value = 72000

Purchase (1/1/24)

Cost = 125000 − 80000
(100000 − 20000)
= 45000

Dep. (3M) = 45000 × 10% × $\frac{3}{12}$
= 1125

Closing Book value
= 43875

1) Determination of closing capital :

Statement of Affairs (31/3/23)

Liabilities		Assets	
Creditors	12000	Cash	3200
Bank loan	10000	Inventory (stock)	34800
capital (B.f.)	1,32,000	Debtors	31000
		Machine	85000
	154000		154000

Capital A/c

To Drawings	24000	By Bal b/d	xx
		By Cash/Bank A/c	100000
To Bal c/d	132000	By Profit (B/f)	56000

Alternatively:

Statement of Profit or loss

	Closing capital	132000
+	Drawings	24000
−	Capital Introduced	(100000)
	Profit	56000

Q.

Statement of Affairs

Liabilities	31/3/22	31/3/23	Assets	31/3/22	31/3/23
Loan	100000	80000	Building	1,00,000	97,500
Creditors	40,000	70,000	Furniture	50,000	45000
Capital (B.f.)	241200	440700	Inventory	120000	270000
			Debtors	40000	90000
			Bank	70000	85000
			Cash	1200	3200
	381200	590700		381200	590700

Capital A/c

To Drawings (2000 X 12)	24000	By Bal b/d	2,41,200
		By Cash/Bank A/c	40000
To Bal c/d	440700	By Profit (B.f.)	183500

Alternative

Statement of Profit/(Loss)

Closing capital	440700
+ Drawings	24000
− Opening capital	(241200)
− Additional capital	(40000)
Profit	183500

6.

Trading and P&L A/c for year ended 31/3/23

To opening stock	3900	By Sales	
To Purchases		Cash 11000	
Cash 12000		Credit 51100	62100
Credit 37100	49100	By Closing stock	5700
To Gross Profit (B.f.)	14800		
(7500 x 10%) To Dep. on Machinery	750	By Gross Profit	14800
(1200 x 10%) To Dep. on Furniture	120	By Interest on Investments	200
To Salaries	6500		
To General Exp.	2500		
To Rent & taxes	1500		
To Prov. for Doubtful debts	800		
To Net Profit (B.f.)	2830		

Balance sheet as at 31/3/23

Liabilities			Assets		
Creditors		7900	Debtors	17600	
			- PDD	(800)	16800
Capital			Machinery (7500 - 10%)		6750
Opening	29100		Furniture (1200 - 10%)		1080
+ Additional	6000		Stock		5700
- Drawings	(3600)		Investments		5000
+ Net Profit	2830	34330	Cash		500
			Bank		6400
		42230			42230

Profit = 20% on sales

SP = 100

P = (20)

Cost 80

20% or $\frac{1}{5}$ on sales

1/4 on cost or 25% on cost

Profit = 25% on cost

Cost = 100

P = 25

SP 125

1/4 on cost

$\frac{25}{125}$ ie $\frac{1}{5}$ on sales

Profit = $33\frac{1}{3}$% on cost = $\frac{1}{3}$ on cost

Cost = 300

P = 100

SP 400

1/3 on cost

1/4 on sales

Working Note

Balance Sheet as at 31/3/22 (Opening)

Liabilities		Assets	
Creditors	5800	Debtors	14500
Capital (B.f.)	29100	Machinery	7500
		Furniture	1200
		Stock	3900
		Investments	5000
		Bank	2800

Debtors A/c

To Bal b/d	14500	By Cash/Bank	48000
To Sales (credit) (B.f.)	51100		
		By Bal c/d	17600

Creditors A/c

To Cash/Bank	35000	By Bal b/d	5800
		By Purchases (credit) (B.f.)	37100
To Bal c/d	7900		

10.

Trading and P&L A/c for year ended 31/3/23

To opening stock	350000	By Sales: Cash 150000, Credit 600000	750000
To Purchases	455000	By Closing stock	200000
To Gross Profit (B/f)	145000		
(50000 x 10%) To Dep. on Furniture	5000	By Gross Profit	145000
To Salary	30000		
To Office Expenses	18000		
To Rent	20000		
To Loss by theft of cash	29500		
To Net Profit (B/f)	42500		

Balance sheet as at 31/3/23

Liabilities			Assets	
Capital			Furniture (50000 - 5000)	45000
Opening	505000		Stock	200000
- Drawings	(7500)		Debtors	150000
+ NP	42500	540000	Bank	327500
Creditors		182500		
		722500		722500

Working Notes:

Debtors A/c

Particulars	Amount	Particulars	Amount
To Bal b/d	125000	By Bank (B.f.)	575000
To Sales	600000		
		By Bal c/d	150000

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bank	375000	By Bal b/d	102500
		By Purchases (B.f.)	455000
To Bal c/d	182500		

Cash and Bank A/c

Particulars	Cash	Bank	Particulars	Cash	Bank
To Bal b/d	35000	47500	By Salary (2500 × 12)	30,000	
To Sales A/c	150000		By Office Exp (1500 × 12)	18000	
To Cash A/c		100000	By Drawings (625 × 12)	7500	
To Debtors		575000	By Creditors		375000
			By Rent		20000
			By Bank A/c	100000	
			By Loss by theft (B.f.)	29500	
			By Bal c/d (B.f.)		327500

Sales FY 21-22 = 625000

FY 22-23 = 625000 + 20% = 750000

Cash sales 20% = 150000

Credit sales 80% = 600000

13.

Creditors A/c

To Cash/Bank (B.f.)	1950000	By Bal b/d	190000
To Bal c/d	125000	By Purchases	1885000
~~$1885000 \times \frac{1}{12}$~~			

Debtors A/c

To Bal b/d	365000	By Cash/Bank (B.f.)	2440000
To Sales	2460000	By Bal c/d (210000 + 175000)	385000

Financial Statements of Not for Profit Organisations

FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATIONS

MEANING

NPO is a legal & accounting entity i.e. operated for the benefit of society as a whole rather than for the benefit of a sole proprietor or group of partners or group of shareholders.

FINANCIAL STATEMENTS OF NPO

I. Receipts & Payments Account

- It is a summary of cash book i.e. all the receipts (capital or revenue) are debited & similarly all the payments (capital or revenue) are credited.
- It starts with Opening Cash & Bank balance and also ends with their closing balances
- Items in this account may relate to any year.

Receipts & Payments A/c

Receipts		Payments	
To Bal b/d : Cash Bank		By Bal b/d : Bank	
All Receipts whether Revenue or capital (Any Year)		All Payments whether Revenue or capital (Any Year)	
To Bal c/d : Bank		By Bal c/d : Cash Bank	

II. Income & Expenditure Account:

- It is equivalent to Profit & Loss Account of a business enterprise.
- It is prepared by following accrual principle.
- It may include non-cash items like depreciation, etc. and it related to current year only.
- Only items of revenue nature are included.

Income & Expenditure A/c

Expenditure		Income	
Revenue Nature Accrual Basis Current Year only		Revenue Nature Accrual Basis Current Year only	
To Surplus (B.F.)		By Deficit (B.F.)	

III. Balance Sheet:

Liabilities		Assets	
Capital Fund			

Note:

1) NPO registered under section 8 of Companies Act, 2013 are required to prepare their Income & Expenditure A/c and Balance Sheet as per Schedule III to Companies Act.
2) Until question specifies, always assume that NPO referred in question is not registered u/s 8 of Companies Act, 2013 & therefore financial statements are prepared in normal manner.

GENERAL EXPENSE ITEMS

S.No	Particulars	Journal Entry
1.	Payment during the year	Expense A/c -Dr To Cash & Bank A/c
2.	At the end of the year a) Outstanding b) Prepaid	a) Expense A/c -Dr To O/s Expense A/c b) Prepaid Expense A/c -Dr To Expense A/c
3.	At the beginning of the year a) Outstanding b) Prepaid	a) O/s Expense A/c -Dr To Expense A/c b) Expense A/c -Dr To Prepaid Expense A/c
4.	Transfer to Income & Expenditure A/c	Income & Exp. A/c -Dr To Expense A/c

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Payment during the year	xxx
Add: Outstanding expense at the end of the year	xxx
Less: Outstanding expense at the beginning of the year	(xxx)
Add: Prepaid expense at the beginning of the year	xxx
Less: Prepaid expense at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	xxx

EXAMPLE

Compute the salaries for the year 2022-2023 from the following information:

Particulars	1.4.2022	31.3.2023
Outstanding salaries	7,500	10,000
Prepaid salaries	2,000	6,500
Salaries paid during 2022-2023 ₹1,50,000		

B/s (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23
O/s salaries	7500	10,000	Prepaid salaries	2,000	6,500

Inc. & Exp. A/c

To salaries 148000	

Paid	=	150000
+ closing O/s		10000
− opening O/s		(7500)
− closing Prepaid		(6500)
+ opening Prepaid		2000
		148000

SUBSCRIPTION (INCOME)

S.No	Particulars	Journal Entry
1.	Received during the year	Cash & Bank A/c -Dr To Subscription A/c
2.	At the end of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	a) O/s subscription A/c -Dr To subscription A/c b) Subscription A/c -Dr To Advance subscription
3.	At the beginning of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	a) Subscription A/c -Dr To O/s subscription A/c b) Advance subscription A/c -Dr To Subscription A/c
4.	Transfer to Income & Expenditure A/c	Subscription A/c -Dr To Income & Expenditure A/c

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Subscription received during the year	xxx
Add: Outstanding subscription at the end of the year	xxx
Less: Outstanding subscription at the beginning of the year	(xxx)
Add: Pre received subscription at the beginning of the year	xxx
Less: Pre received subscription at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	xxx

EXAMPLE

Particulars	1.4.2022	31.3.2023
Outstanding subscription	9,500	7,000
Advance subscription	2,800	5,200

Subscription received during 2022-2023, ₹ 1,48,900. Show relevant extracts in financial statements for the year ending 31st March, 2023.

B/s (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23
Advance subsc.	2800	5200	O/s subscription	9500	7000

Inc. & Exp. A/c

	By subscription 144000

Received = 148900
+ closing O/s = 7000
− opening O/s = (9500)
− closing Advance = (5200)
+ opening Advance = 2800
144000

Subscription A/c

To O/s subsc.	9500	By Advance subsc.	2800
To Inc. & Exp. A/c (b/f)	144000	By cash/Bank	148900
To Adv. subsc.	5200	By O/s subsc.	7000

EXAMPLE

A club has 75 members, each paying annual subscription of	1,000
Subscription received during 2022-2023	80,000
Subscription received in advance as at 31.3.2022	15,000
Subscription received in advance as at 31.3.2023	10,000
Subscription outstanding as at 31.3.2022	26,000
Subscription of 12,000 are still in arrears for the year 2021-2022	

Show relevant extracts in financial statements for the year ending 31st March, 2023.

B/S (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23
Advance Subsc.	15000	10000	O/s Subsc.	26000	16000 (incl. 12000)

80000
(14000) LY
(10000) NY
56000 CY

Inc. & Exp. A/c

	By subscription (1000 x 75) 75000

Rec. + Clos. O/s − Open. O/s − Clos. Adv. + Open. Adv. = Income

80000 + Clos. O/s − 26000 − 10000 + 15000 = 75000

Clos. O/s = 75000 − 59000

= 16000

EXAMPLE

Club has 200 members with annual subscription of ₹ 3,600 payable by every member.
An analysis of subscriptions received during accounting year ended on 31st March, 2023:

For the year 2021-22	25,200
For the year 2022-23	6,98,400
For the year 2023-24	7,200
	7,30,800

On 31st March, 2023 it was noted that sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2022. Show extracts in financial statements for year ending 31st March, 2023.

B/S (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23
Advance Subsc.	−	7200	O/s Subsc.	28800 (25200 + 3600)	25200 (incl. 3600)

21600 CY
3600 LY

720000
(698400)
21600 O/s (CY)

Inc. & Exp. A/c

	By Subscription (3600 x 200) 720000

730800 + Clos. O/s − 28800 − 7200 + Nil = 720000

Clos. O/s = 720000 − 694800

= 25200

ENTRANCE FEES / ADMISSION FEES

It's an initial amount payable at the time of seeking admission by a person who intends to become member of a club, association, etc.

Since it is payable by a member only once, it is argued that it should be treated as a capital receipt & transferred to capital fund. However when the amount is small it should be treated as income (or revenue receipt) & credited to Income & Expenditure Account. In case question is silent any treatment can be adopted by giving a suitable note.

TREATMENT

- Question specifies
  - Capital: Added to capital Fund in Balance sheet
  - Revenue: Credited to Income & Exp. A/c
- Question is silent
  - If Amount is large: Assume capital nature
  - If Amount is small: Assume Revenue nature

EXAMPLE

How will you deal the entrance fees while preparing the final accounts for the year ending on 31st March 2023 in each of the following alternative cases.

(a)	During the year 2022-2023, Entrance fees received ₹ 1,00,000	→ Assumed Rev. or Capital
(b)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy of club is to treat entrance fees as of revenue nature.	→ Inc. & Exp. A/c
(c)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy the club is to treat entrance fees as of capital nature.	→ Added to capital Fund in B/S
(d)	During the year 2022-2023 entrance fees received ₹ 1,00,000. According to accounting policy of club, 40% of entrance fees is to be capitalized.	→ Revenue 60%: 60000 → Capital 40%: 40000

DONATIONS

Donations are the amounts which are given to the NPO as gift by the member of the society. It is shown on the receipt side of Receipts & Payments account.

Types	Accounting Treatment
General	When the donor does not lay down any specific condition for using the amount of donation, it is called as general donation. a) <u>Small Amount</u>: Treated as Revenue receipts (credited to Inc. & Exp. A/c) b) <u>Large Amount</u>: Treated as Capital receipts (To be capitalized & added to Capital Fund in Balance Sheet). If nothing is clear any treatment can be adopted by giving a suitable note.
Specific	a) These donations are treated as capital receipts and thus, are transferred to a 'Special Fund A/c' (e.g., building Fund) maintained for the purposes. b) Any Income relating to such 'Special Fund A/c' is added to the respective fund. c) Any revenue expenditure relating to 'Special Fund A/c' is deducted from fund. d) However, any expenditure of capital nature on account of this special fund (e.g., expenditure on the construction of building out of building fund) should be shown on the assets side of the balance sheet and an equal amount should be transferred from that special fund to the capital/general fund.

EXAMPLE

How will you deal with the following items while preparing the final accounts of a club for the year ending on March, 31, 2023

Case a)

Prizes awarded ₹ 3,000, Prize fund as at 31.3.2022, ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900.

Balance sheet

Liabilities			Assets	
Prize Fund				
Opening	15000			
+ Received	4900			
- Prizes Aw.	(3000)	16900		

Case b)

Prizes awarded ₹ 3,000. Prizes Fund as at 31.3.2022 ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900, 10% Prize fund investments as at 31.3.2022 ₹ 15,000.

Balance sheet

Liabilities			Assets	
Prize Fund			10% Prize Fund Inv.	15000
Opening	15000			
+ Received	4900			
- Awarded	(3000)			
+ Int. on Inv.	1500	18400		

EXAMPLE

Building Fund amount received ₹ 30,00,000, Expenditure on Building incurred 25,00,000 and completed on 31.03.2023.

Balance sheet

Liabilities			Assets	
Building Fund	3000000		Building	2500000
- Tfd. to Cap. Fund	(2500000)	500000		
Cap. Fund	xxx			
+ Tfr	2500000			

LIFE MEMBERSHIP SUBSCRIPTION & LEGACIES

Life Membership Subscription	Fees received for life membership is usually treated as capital receipt as it is of non-recurring nature & added to Capital Fund in Balance Sheet
Legacies	It is the amount which a NPO will receive as per will of a deceased person. It is shown on debit side of Receipts & Payment account. It should be capitalized being an item of non recurring nature & should be shown on the liabilities side of the Balance sheet.

SALE OF OLD NEWSPAPERS, etc.

The sale proceeds of old newspapers and periodicals are treated as Revenue Receipts and thus, are credited to the income & expenditure account.

SALE OF OLD FIXED ASSETS

The sale proceeds of old fixed assets are treated as capital receipts and thus, are credited to the respective fixed asset account. However, the profit or loss on sale of fixed assets is shown in the income & expenditure account.

CONSUMABLES

- Sometimes NPO consume some consumable item e.g. stationery, sports material, medicines, etc.
- A separate stock account is prepared for each consumable item to ascertain the amount of consumable item consumed during the year.
- In such a case, sometimes Trade Creditors account is to be prepared to ascertain the credit purchases (if missing).
- Such amount consumed is to be debited to Income & Expenditure account.

Creditors for Consumable Item A/c

Particulars	Amount	Particulars	Amount
R&P To Cash & Bank A/c	✓	By Balance b/d	✓
To Balance c/d	✓	By Purchases (Bal. fig.)	$\boxed{}$

CONSUMPTION

Opening stock	xx
+ Purchases (cash, credit)	xx
– closing stock	(xx)
Consumption	xx → (Inc. & Exp. A/c)

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Sports Materials	2,000	1,200
Stock of Sports Materials	2,100	500

During 2022-2023, the payment made to these creditors was ₹ 10,800.

Creditors A/c

To cash/Bank	10800	By Bal b/d	2000
To Bal c/d	1200	By Purchases (B.f)	10000

Consumption

Opening Stock	=	2100
+ Purchases	=	10000
– clos. stock	=	(500)
		11600 (Inc. & Exp. A/c)

TREATMENT OF PROFIT / LOSS FROM TRADING ACTIVITIES

1. Sometimes NPO carry on trading activities e.g. restaurant/bar run by a club, chemist shop by a hospital, book shop by a library, etc.
2. In such case, separate Trading account for each of the trading activities is prepared to ascertain the Profit/Loss from each of such trading activities.
3. Such Profit/Loss is transferred to Income & Expenditure Account.

Trading Account

Particulars	Amount	Particulars	Amount
To opening stock To Purchases To Profit (Bal. fig.)	(I & E)	By Sales By closing stock	

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Bar Purchases	5,000	8,000
Bar Stock	10,000	18,000

During 2022-2023, payment for bar purchases were 35,000 and total bar receipts / collections were 42,000

Creditors A/c

To Cash/Bank	35000	By Bal b/d	5000
To Bal c/d	8000	By Purchases (B.f.)	38000

Trading A/c

To opening stock	10000	By Sales	42000
To Purchases	38000	By Clos. stock	18000
To Profit (B.f.)	12000		

Alternative

Op. stock = 10000
+ Purchases = 38000
− Clos. stock = (18000)
COGS 30000
Sales 42000
] Profit = 12000

EDUCATIONAL INSTITUTIONS

Educational institutions are quite different from other not-for-profit organisations in terms of sources of finance and items of expenditure.

There are 3 main sources through which amounts are collected by the educational institutions. These are:

(1) Donation from Public;

(2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and

(3) Grants received from the Government. The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

Receipts & Payments Account for the period ending on …

Receipts		₹	Payments		₹
To Balance b/d:			By Balance b/d (Bank overdraft)		xxx
Cash	xxx		By Annual Sports Expenses		xxx
Bank	xxx	xxx	By Salaries & Wages		xxx
To Subscription:			By Rent, Rates &Taxes		xxx
For previous year	xxx		By Insurance		xxx
For current year	xxx		By Furniture		xxx
For next year	xxx	xxx	By Sports Equipments		xxx
To Entrance fees		xxx	By Books & Periodicals		xxx
To Donation for Building		xxx	By Audit Fees		xxx
To General Donations		xxx	By Printing & Stationary		xxx
To Life Membership Fees		xxx	By Honorarium		xxx
To Legacy		xxx	By Bank Charges		xxx
To Gran from Govt.		xxx	By Postage & Telegrams		xxx
To Contribution for Annual Dinner		xxx	By Water & Electricity		xxx
To Dividend		xxx	By Conveyance & Travelling		xxx
To Interest		xxx	By Repairs & Maintenance		xxx
To Rent		xxx	By Sundry Expenses		xxx
To Receipt on Annual Sports		xxx	By Annual Dinner Expenses		xxx
To Sale of Old Sports Materials		xxx	By __% Investments		xxx
To Sale of Old Magazines		xxx	By Balance c/d:		xxx
To Sundry Receipts		xxx	Cash	xxx	xxx
To Balance c/d (Bank overdraft)		xxx	Bank	xxx	xxx
		XXX			XXX

Income and Expenditure Account for the year ending on ….

Expenditure		₹	Income		₹
To Salaries and Wages paid	xxx		By Subscription Received	xxx	
Add: Outstanding at the end	xxx		Add: Outstanding at the end	xxx	
Less: Prepaid at the end	xxx		Less: Advance at the end	xxx	
Add: Prepaid in the beginning	xxx		Add: Advance in the beginning	xxx	
Less: Outstanding in the beg	xxx	xxx	Less: Outstanding in beginning	xxx	xxx
To Rent, Rates and Taxes		xxx	By Entrance Fees (revenue portion)		
To Insurance Premium		xxx	By General Donations/Legacies		xxx
To Depreciation on Furniture and		xxx	By Life membership Fees (revenue		xxx
Sports equipment		xxx	portion)		xxx

To Books and Periodicals	xxx	By Annual Dinner Cont. xxx	
To Audit fees	xxx	Less Expenses <u>xxx</u>	
To Printing & Stationary	xxx	By Profit on Annual sports	xxx
To Honorarium	xxx	(Receipt-expenses)	
To Bank Charges	xxx	By Profit on sale of provisions (Sale	xxx
To Postage & Telegram	xxx	+ closing stock – Purchases-Opening	
To Electricity & Water	xxx	stock)	xxx
To Conveyance & Travelling	xxx	By Dividend & Interest	xxx
To Surplus i.e.,excess of income over exp.	xxx	By Deficit i.e. excess of exp. over income	xxx
	XXX		XXX

Balance Sheet of .. as at…

Liabilities	₹	₹	Assets		₹
Capital Fund:			Fixed Assets:		
Opening Balance	xxx		<u>Building</u>		
Add: Surplus (or Less: Deficit)	xxx		Opening Balance	xxx	
Add: Entrance Fees	xxx		Add: Additions	xxx	
(to the extent capitalized)			Less: Depreciation	<u>xxx</u>	xxx
Add: Life Membership subsc.	xxx		<u>Furniture</u>		
(to the extent capitalized)			Opening Balance	xxx	
Add: Amt. of Capital exp. tfd from			Add: Additions	xxx	
special fund (e.g. Building			Less: Assets sold	xxx	
fund)	<u>xxx</u>	xxx	Less Depreciation	<u>xxx</u>	xxx
Prize Fund:			<u>Sports Equipment</u>	xxx	
Opening Balance	xxx		Less Depreciation	<u>xxx</u>	xxx
Add: Donation for prizes	xxx				
Add: Income from Prize Fund			Investments:		xxx
Investments	xxx		Prize Fund Investments		xxx
Less: Expenses	<u>xxx</u>	xxx	Building Fund Investments		xxx
Building Fund:			10% Govt. Securities		xxx
Add: Donation for Building	xxx		Fixed Deposits		
Add: Income from Building					
Fund Investments	xxx		Current Assets:		xxx
Less: Transfer to Capital Fund	xxx		Sports Materials		xxx
Current Liabilities:			Outstanding Subscriptions		xxx
Subscription received in advance		xxx	Accrued Interest		xxx
Outstanding expenses		xxx	Accrued Rent		xxx
Bank overdraft		xxx	Cash in hand		xxx
Creditors		xxx	Cash at bank		
	XXX		XXX		

Question 1: (CA Foundation June 2023) (15 Marks)

Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.

Receipts and Payments Account for the year ended 31-12-2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To Interest on Investment (10%)	10,000	By Sundry expenses.	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	1,28,500		1,28,500

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount ₹	Amount ₹
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of building	65,000	61,750

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022.

Question 2: (ICAI Study Material) / (RTP May 2018)

Smith Library Society showed the following position on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank 20,000	
		Cash in hand 11,300	31,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2023 and a balance sheet as at 31st, March, 2023 after making the following adjustments:
Membership subscription included ₹ 10,000 received in advance.
Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.
Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate. 75% of the entrance fees is to be capitalized.
Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2022 for ₹ 40,000

Solution

Income & Expenditure A/c

Expenditure	₹	Income	₹
To Electricity charges	7,200	By Entrance Fee A/c (WN 1)	7,500
To Postage & Stationery	5,000	By Membership subscription (WN 2)	1,90,000
To Telephone Charges	5,000	By Sale of old newspapers	1,500
To Depreciation Books 46,000 Elec. Fitting 15,000 Furniture 5,000	66,000	By Hire of Lecture Hall	20,000
To Rent (88,000 + 4,000)	92,000	By Interest (WN 3)	8,500
To Salaries (66,000 + 3,000)	69,000	By Deficit (Bal. Fig.)	16,700
	2,44,200		**2,44,200**

Balance Sheet (As at 31.03.2023)

Liabilities	₹	Assets	₹
Capital Fund 7,93,000	7,76,300	Electrical Fittings	1,35,000
(-) Deficit (16,700)		Furniture	45,000
Entrance fees	22,500	Books	4,14,000
Pre received Membership Subscription	10,000	Cash at Bank	20,000
O/s Expenses		O/s Interest	500
Rent 4,000		Cash in hand	11,300
Salaries 3,000	7,000	Investment	1,90,000
	8,15,800		**8,15,800**

Working Notes:

WN -1 Entrance Fees:

Entrance fees received	30,000
Entrance fees to be capitalized	30,000 x 75% = 22,500
Entrance fees transferred to Income & Expenditure A/c	30,000 x 25% = 7,500

WN-2 Computation of membership subscription belonging to this year

Membership subscription received	2,00,000
Less: Pre received for 2023-24	(10,000)
	1,90,000

WN -3 Computation of Interest for the year 2022-23

Interest on securities as at 31.3.2023	1,50,000 x 5% = 7,500
Interest on additions made on 1.10.2022 for half year = $40{,}000 \text{ x } 5\% \times \frac{6}{12}$	1,000
Total Interest	8,500
(-) Interest received	(8,000)
O/s Interest	500

WN- 4 **Books A/c**

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	4,00,000	By depreciation A/c *	46,000
To Cash A/c	60,000	By Balance c/d	4,14,000
	4,60,000		4,60,000

(*) It is given in question to depreciate books including additions @ 10%

∴ Dep. (₹ 4,00,000 +₹ 60,000) x 10% = 46,000

WN -5: Computation of Depreciation on Electrical Fittings & Furniture:

	Electrical Fittings	**Furniture**
Opening Balances	1,50,000	50,000
(-) Depreciation @ 10%	(15,000)	(5,000)
Closing Balances	**1,35,000**	**45,000**

Question 3: (CA Foundation Nov 2019) (10 Marks)

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 2023:

Income & Expenditure Account for the year 2022-23

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 2023

Liabilities		₹	Assets	₹
Subscription in advance (2023-24)		110	Subscription(outstanding) (2022-2023)	770
Prize fund:			Furniture	9,900
Opening balance	27,500		Ground and Building	51,700
Add: Interest	1,100		Prize Fund Investment	22,000
	28,600		Cash in Hand	2,530
Less: Prizes given	(2,200)	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	(2,387)			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

a) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2021-22 were paid in 2022-23
b) One fourth of entrance fee has been capitalized by transfer to General Fund
c) Subscription outstanding in 2021-22 was ₹ 880 and for 2022-23 ₹ 770.
d) Subscription received in advance in 2021-22 was ₹ 220 & in 2022-23 for 2023-24 was 110
e) Furniture was purchased during the year.

Solution

Receipts & Payment Account for the year ended 31st March,2023

Receipts	Amount	Payment	
To Balance b/d (Bal. Fig)	16,126	By Upkeep of Ground 11,000 Add: Opening O/s 660	11,660
To Subscriptions (W.N. 1)	19,052	By Printing A/c 1,100 Add: Opening O/s 264	1,364
To Sale of News Papers (old)	286	By Salaries A/c	11,100
To Lectures (fee)	1,650	By Rent A/c	1,660
To Entrance fee (715× 4/1)	2,860	By Furniture A/c (9,900+1100)	11,000
To Misc. income	440	By Prizes given	2,200
To Interest on Prize fund Inv.	1,100	By Balance c/d	2,530

	41,514		**41,514**

Subscription Account

Date	Particulars	Amount	Date	Particulars	Amount
2022 April,1	To O/s Subscription A/c	880	2022 April,1	By Advance Subscription A/c	220
2023 March,31	To Income & Expenditure A/c	19,052	2023 March,31	By Cash (Receipts and Payment A/c) (B/F)	19,052
March,31	To Advance Subscription A/c	110	March,31	By O/s Subscription A/c	770
		20,042			**20,042**

Question 4: (RTP May 2019) /(RTP Nov 2021) (Similar)

The Receipts & Payments account of Trustwell Club prepared on 31st March, 23 is as follows.

Receipts and Payments Account

Receipts		₹	Payments	₹
To Balance b/d		450	By Expenses (including payment for sports material ₹ 2,700)	6,300
To Annual income from subscription Add: Outstanding of last year received this year Less: Prepaid of last year	4,590 180 4,770 (90)	4,680	By Loss on sale of furniture (cost price ₹ 450)	180
To Other fees		1,800	By Balance c/d	90,450
To Donation for building		90,000		
		96,930		96,930

Additional information:

Trustwell club had balances as on 1.4.2022:

Furniture ₹ 1,800; investment at 5% ₹ 27,000; Sports material ₹ 6,660;

Balance as on 31.3.2023;

Subscription receivable ₹ 270; Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2023 and balance sheet as on that date.

***Question 5:* (CA Foundation Dec 2021) (10 Marks) / (ICAI Study Material)**

The Income and Expenditure Account of the Women Club for the year ended on December 31, 2023 is as follows:

To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for annual dinner	10,000
To Secretary's Honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationery & Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest & Bank Charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments:

Subscription outstanding at the end of 2022	6,000
Subscription received in Advance on 31st December, 2022	4,500
Subscription received in advance on 31st December, 2023	2,700
Subscription outstanding on 31st Dec., 2023	7,500

Salaries Outstanding at the beginning and the end of 2023 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2023 is as yet unpaid. During 2023 audit fee for 2022 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, 2023 valued at ₹ 26,000. At the end of the year, after depreciation, this equipment amounted to ₹ 27,000. In 2022, the Club has raised a bank loan of ₹ 20,000. This was outstanding throughout 2023. On 31st December, 2023 cash in hand amounting to ₹ 16,000. You are required to:
Prepare the Receipts and Payments Account for the year ended on December 31, 2023 and Balance Sheet as on that date.

Solution

Balance Sheet as at 1st January, 2023

Liabilities	₹	Assets	₹
Capital Fund (Bal. Fig.)	1,15,400	Freehold Land	1,00,000
O/s Salaries	4,000	Sports Equipments	26,000
O/s Audit Fees	2,000	O/s Subscription	6,000
Bank Loan	20,000	Cash	13,900
Pre received Subscriptions	4,500		
	1,45,900		**1,45,900**

Receipts & Payments A/c

Receipts	₹	Payments	₹
To Balance b/d (Bal. Fig)	13,900	By Salaries	47,000
To Subscription	71,700	By General Expenses	5,600
To Entrance Fees	2,500	By Audit Fee	2,000
To Contribution for annual dinner	10,000	By Secretary's Honorarium	10,000
To Annual sports meet Receipts	7,500	By Stationery & Printing	4,500

		By Annual Dinner expenses	15,000
		By Interest & Bank Charges	1,500
		By Equipments	4,000
		By Balance c/d	16,000
	1,05,600		**1,05,600**

Balance Sheet as at 31st December, 2023

Liabilities	**₹**	**Assets**	**₹**
Capital Fund 1,15,400 (+) Surplus 6,000	1,21,400	Freehold Ground	1,00,000
O/s Salaries	4,500	Sports Equipments	27,000
O/s Audit Fees	2,500	O/s Subscriptions	7,500
Bank Loan	20,000	Prepaid Insurance	600
Pre received Subscriptions	2,700	Cash	16,000
	1,51,100		**1,51,100**

<u>Working Notes:</u>

1. Salaries paid during the year

Salaries for the year 2022	47,500
(+) Outstanding salaries as at 31.12.2022	4,000
(-) Outstanding salaries as at 31.12.2023	(4,500)
	47,000

2. General Expenses Paid

General Expenses for 2023	5,000
(+) Prepaid Insurance	600
	5,600

3. Computation of sports equipments purchased during the year

Closing Balance	27,000
(+) Depreciation	3,000
	30,000
(-) Opening Balance	(26,000)
	4,000

26000	3000
4000	27000

4. Subscriptions received during the year

Subscriptions for the year 2023	75,000
(+) O/s Subscription as at 31.12.2022	6,000
(-) O/s Subscription as at 31.12.2023	(7,500)
(+) Pre received subscriptions as at 31.12.2023	2,700
(-) Pre received subscription as at 31.12.2022	(4,500)
	71,700

5. Audit fee for 2023 is not paid. Thus, it will be shown in the balance sheet as at 31.12.2023 as outstanding expenses of ₹ 2,500. In 2023, audit fee for 2022 is paid (which is ₹ 2,000). thus, this amount will stand in the balance sheet as at 31.12.2022 as an O/s expense of ₹ 2,000 (Assuming there is no other outstanding audit fee)

Question 6: (CA Foundation June 2022) (10 Marks)

The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2023:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per PassBook		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary(2021-22)	40,000
Contribution to Club night	10,000	Balance at Bank as per PassBook	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.22	31.03.23
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unpresented being payment for repairs	30,000	25,000
Interest not yet entered in the Passbook	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2023, 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,2023 and the Balance Sheet as at that date.

Solution

Income and Expenditure Account of Mumbai Club for the year ending 31st March, 2023

Expenditure		₹	Income	₹
To Groundsman's fee		75,000	By Donations and Subscription (W.N.2)	2,45,000
To Rent of Ground		25,000	By Receipts from bar room	20,000
To Club night Expenses	38,000		By Proceeds of club night	78,000*
Less: Contribution	(10,000)	28,000*	By Interest (5,000+2,000)	7,000
To Printing & Office Expenses (W.N. 3)		28,000		
To Repairs to Equipment (W.N.4)		45,000		
To Dep. on Machinery (W.N. 5)		52,000		
To Honorarium to Secretary		60,000		
To Bonus to Groundsman		20,000		
To Excess of Income over Expenditure		17,000		
		3,50,000		3,50,000

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

Balance Sheet of Mumbai Club as on 31st March,2023

Liabilities		₹	Assets	₹
Outstanding Expenses:			Cash in hand	25,000
Groundsman Bonus		20,000	Cash in Saving A/c	2,04,000
Printing		8,000	Subscription Receivable	10,000
Honorarium (40,000+20,000)		60,000	Interest Due	2,000
Bank Overdraft (25,000-20,000)		5,000	Machinery & Equipment's	1,75,000
Capital Fund: Opening	2,88,000			
Add: Surplus for the year	17,000			
Add: Entrance Fees	18,000	3,23,000		
		4,16,000		**4,16,000**

Working Note 1

Balance Sheet as on 1st April,2022

Liabilities	₹	Assets	₹
Outstanding Expenses		Cash in hand	20,000
Printing	10,000	Cash in Saving A/c	1,93,000
Honorarium to Secretary	40,000	Cash in Current A/c	30,000
Capital Fund (Balancing Figure)	2,88,000	Subscription Receivable	15,000
		Machinery & Equipment's	80,000
	3,38,000		**3,38,000**

Working Note 2: Calculation of Donations and Subscriptions

Donations and Subscriptions as per Receipt & Payments A/c	2,50,000
Add: Outstanding as on 31.03.23	10,000
Less: Outstanding as on 01.04.22	(15,000)
	2,45,000

Working Note 3: Printing and Office Expenses

Printing and Office Expenses as per Receipt & Payments A/c	30,000
Add: Outstanding as on 31.03.23	8,000
Less: Outstanding as on 01.04.22	(10,000)
	28,000

Working Note 4: Repairs to Equipment

Repairs as per Receipt and Payments	50,000
A/c Add: ~~Outstanding~~ as on 31.03.23 closing cheque	25,000
Less: ~~Outstanding~~ as on 01.04.22 opening cheq..	(30,000)
	45,000

Working Note 5: Depreciation on Machinery and equipment

Balance as on 01.04.22	80,000
Add: Purchases during the year	1,55,000
Less: Sale of Equipment	(8,000)
Less: Balance as on 31.03.23	(1,75,000)
	52,000

Question 7: (CA Foundation Nov 2020) (10 Marks)

From the following balances and particulars of AS College prepare Income & Expenditure Account for the year ended March, 2023 and a Balance Sheet as on the date:

	Dr.	Cr.
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:

(i)	Materials & Supplies consumed (From college stores)	
	Teaching	52,000
	Research	1,45,000
	Students Welfare	78,000
	Games or Sports	24,000
(ii)	Tuition fee receivable from Government for backward class Scholars	82,000
(iii)	Stores selling prices are fixed to give a net profit of 15% on selling price	
(iv)	Depreciation is provided on straight line basis at the following rates:	
	a) Building	5%
	b) Plant & Equipment	10%
	c) Furniture & Fixtures	10%
	d) Motor Vehicle	20%

Solution

Income and Expenditure Account for the year ending 31st March, 2023

Expenditure	₹	₹	Income	₹
To Salaries: Teaching		8,75,000	By Tuition & other fee 810000 + 82000	8,92,000
Research		1,25,000	By Govt. Grants	5,01,000
To Material & Supplies Consumed			By Income from Investments	1,75,000
-Teaching		52,000	By Hostel room Rent	1,65,000
-Research		1,45,000	By Mess Receipts	2,05,000
To Sports & Games Expenses			By Profit-stores sales	1,14,000
-Cash	52,000			
-Materials	24,000	76,000		
To Students Welfare Expenses				
-Cash	37,000			
-Materials	78,000	1,15,000		
To Scholarships		85,000		
To Depreciation:				
-Building 1550000 X 5%		77,500		
-Plant & Equipment 850000 X 10%		85,000		
-Furniture 540000 X 10%		54,000		
-Motor Vehicle 240000 X 20%		48,000		
To Excess of Income over Expenditure (B.f.)		3,14,500		
		20,52,000		**20,52,000**

Balance Sheet as on 31st March, 2023

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of Income over Expenditure	3,14,500	16,22,500	Building Cost	15,50,000	
Building Fund		19,10,000	Less: Dep.	(5,67,500)	9,82,500
Current Liabilities:			Plant & Machinery Cost	8,50,000	
Outstanding Expenses		2,35,000	Less: Dep.	(5,90,000)	2,60,000
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			**39,22,500**

Working Notes:

(1)	**Material & Supplies-Closing Stock**		**₹**	**₹**
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	**Provisions for Depreciation**	**Building**	**Plant & Equipment**	**Furniture & Fitting**
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	77,500	85,000	54,000
	Closing Balance	5,67,500	5,90,000	3,80,000

Question 8:

From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed and (ii) Sale value of sports material during the year 2022-23

	₹
Opening balance of sports material as on 1-4-2022	56,800
Closing balance of sports material as on 31-3-2023	32,900
Sports material purchased in cash	23,500
Payment made to creditors of sports material	64,300
Creditors for sports materials Opening Closing	 23,200 29,400

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% of cost.

Sol. 1

Income and Expenditure A/c

Expenditure		Income	
To Medicine consumed (WN 3)	34750	By Subscription (WN 2)	66000
To Dep. on Equipment (WN 4)	9300	By Donations (assuming Revenue)	25000
To Dep. on Building (65000 − 61750)	3250	By Int. on Investments	10000
To Honorarium to Doctors	15000	By Charity show coll. (net) (16500 − 2750)	13750
To Salaries	36000		
To Sundry Exp.	950		
To Surplus (B/f.)	15500		

Balance sheet as at 31/12/22

Liabilities		Assets	
Advance subscription	1400	O/s subscription	3100
Creditors of Medicine	16500	Stock of Medicine	17250
Capital Fund		Equipment	37200
Opening 199700		Building	61750
+ Surplus 15500	215200	Investments (10000/10%)	100000
		Cash	13800
	233100		**233100**

Working Note:

1) Balance sheet as at 1/1/22 (Opening)

Liabilities		Assets	
Advance subscription	1800	O/s subscription	2500
Creditors for Medicine	12000	Stock of Medicines	12500
Capital Fund (B.f.)	199700	Equipment	21500
		Building	65000
		Cash	12000
		Investments	100000

2) Subscription

Received	=	65000
+ closing o/s	=	3100
− opening o/s	=	(2500)
− closing Adv.	=	(1400)
+ opening Adv.	=	1800
		66000

3) Creditors A/c

To Bank	35000	By Bal b/d	12000
To Bal c/d	16500	By Purchases (B.f.)	39500

op. stock	=	12500
+ Purchases	=	39500
− clos. stock	=	(17250)
		34750

4) Equipment A/c

To Bal b/d	21500	By Dep. (B.f.)	9300
To Bank	25000	By Bal c/d	37200

Sol. 4

Corrected Receipts & Payments A/c

Receipts		Payments	
To Bal b/d	450	By Expenses (6300 - 2700)	3600
To Subscription (WN 2)	4500	By Sports Material	2700
To Other fees	1800		
To Donation for Building	90000		
To Sale of Furniture (450 - 180)	270	By Bal c/d (Bal. fig.)	90720

Income & Expenditure A/c

Expenditure		Income	
To Expenses	3600	By Subscription	4590
To Sports material consumed (6660 + 2700 - 1800)	7560	By Other fees	1800
To Loss on sale of Furn.	180	By Int. on Investments (27000 × 5%)	1350
		By Deficit (B.f.)	3600

Balance sheet as at 31/3/23

Liabilities		Assets	
Advance subscription	90	O/s subscription	270
Building Fund	90000	Stock of sports material	1800
Capital Fund		Furniture (1800 − 450)	1350
Opening 36000		5% Investments	27000
− Deficit (3600)	32400	Accrued Interest	1350
		Cash & Bank	90720
	122490		122490

Working Note: 1)

Balance sheet as at 1/4/22 (Opening)

Liabilities		Assets	
		Cash & Bank	450
Advance subscription	90	O/s subscription	180
Capital Fund (B.f.)	36000	Stock of sports Material	6660
		Furniture	1800
		5% Investments	27000

2) Subscription

Received + clos. o/s − open o/s − clos. Adv + open. Adv. = Income

Received + 270 − 180 − 90 + 90 = 4590

Received = 4590 − 90 = 4500

Solution Q7

Trading A/c

To Opening stock	310000	By Sales	760000
To Purchases	820000	By Consumption	299000
To Profit (760000 × 15%)	114000	By closing stock (B.f.)	185000

Sol. 8

Creditors A/c

(RAP) To Cash & Bank	64300	By Bal b/d	23200
To Bal c/d	29400	By Purchases (B.f.)	70500

Opening stock = 56800

\+ Purchases 94000

(23500 + 70500) (RAP)

− closing stock (32900)

117900

Consumed : 40%

47160

(Income & Exp. A/c)

Sold : 60%

Cost = 70740

\+ Profit 20% 14148 (I&E)

Sale 84888 (RAP)

Entrance Fees

Case 1:

Rec. & Payment A/c

To Entrance fees 100000	

Consider 40% as Revenue

Income & Exp. A/c

	By Entrance fees 40000 (1L × 40%)

Balance Sheet

Capital Fund + Ent. fees 60000	

Case 2.

Income & Exp. A/c

	By Entrance fees (60%) 300,000

Consider 40% as capital nature.

Receipts & Payment A/c

To Entrance fees (3L / 60%) 500000	

Balance Sheet

Capital Fund + Ent fees (5L x 40%) 200000	

Case 3:

Rec. & Payment A/c

To Entrance Donation 1,00,000	

1/4/23: (opening)

Entrance donation received pending membership ₹100000

* 50% of entrance donation to be capitalised. No pending membership on 31/3/24
* Sum of 20000 received in Oct 2023 to be refunded as applicant not fulfilled the requisite qualification. Refund made on 3/6/24.

Entrance Donation

Opening	100000
+ Received	100000
	200000
− To be Refunded	(20000)
	180000

B/S: Liab-side.

50% : 90000 Inc & Exp.

50% : 90000 : Capital Fund

$\boxed{\text{Fixed Assets}}$: Cases discussed in Accounts from Incomplete Records chapter.

Extra case

	1/4/23	31/3/24
Fixed Assets	240000	-

Depreciation shown in Income & Exp. A/c 13000

Dep. rate 5% p.a. & new Fixed Assets purchased on $\boxed{1/10/23}$

Solution

Dep. on Opening Fixed Assets = $240000 \times 5\% = 12000$

Dep. on new Asset = $13000 - 12000 = 1000$

$$x \times 5\% \times \frac{6}{12} = 1000$$

$$x = 1000 \times 2 \times \frac{100}{5} = 40000$$

B/s

$240000 + 40000 - 13000$

$= 267000$

Investments

Case 1:

	1/4/23	31/3/24
10% Investments	500000	500000

Receipts & Payments A/c

To Interest on Investments	20000		

Income & Exp. A/c

		By Int. on Inv. (5L × 10%)	50000

Balance Sheet 31/3/24

Liabilities		Assets	
		10% Investments	500000
		Acc. Interest (50000 − 20000)	30000

Case 2:

	1/4/23	31/3/24
10% Investments	500000	-

Receipts & Payments A/c

To Interest on Investments	20000	Investments Purchased on 1/10/23	200000

Income & Exp. A/c

		By Int. on Inv.	60000

$500000 \times 10\% = 50000$

$2L \times 10\% \times \frac{6}{12} = 10000$

$\underline{60000}$

Balance Sheet 31/3/24

Liabilities		Assets	
		10% Investments	700000
		Acc. Interest (60000 - 20000)	40000

Case 3:

	1/4/23	31/3/24
10% Investments (Face value = 600000)	500000	500000

Receipts & Payments A/c

To Interest on Investments	20000		

Income & Exp. A/c

		By Int. on Investments (6L × 10%)	60000

Balance Sheet 31/3/24

Liabilities		Assets	
		10% Investments	500000
		Acc. Interest (60000 - 20000)	40000

Case 4:

	1/4/23	31/3/24
10% Investments	500000 (Face value = 600000)	250000

$\boxed{50\%}$ Investments sold at 80% of face value on 1/4/23.

Sale

Face value of Inv. sold = 6L × 50% = 3L

Sale proceeds = 3L × 80% = 240000

Cost of Inv. sold = 5L × 50% = 250000

6L → 5L

3L → $\frac{5L}{6L} \times 3L$ = 2.50L

Loss on sale = 10000

(250000 − 240000)

Income & Exp. A/c

To Loss on sale of Inv.	10000	By Int. on Inv. (3L × 10%)	30000

Balance Sheet 31/3/24

Liabilities		Assets	
		10% Investments	250000
		Acc. Interest	30000


THANK YOU