[CA] CA-Foundation

TAXMANN'S

# CRACKER®

PREVIOUS EXAMS SOLVED PAPERS

# Accounting



Dr. S.K. Agrawal
CA Manmeet Kaur

10th Edition

# Chapter-wise Marks Distribution of Previous Examinations

| Chapter No. | List of Contents | Nov-18 | May-19 | Nov-19 | Nov-20 | Jan-21 | Jul-21 | Dec-21 | Jun-22 | Dec-22 | June 23 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Meaning and scope of Accounting | | | | T 4 M [C] | T 4 M [C] | | | | | | T 5 M |
| 2 | Accounting Concepts, Principles and Conventions | | T/F 4 M | T/F 2 M | T/F 2 M | | | T 1 M [C] | T 4 M [C] | T/F 4 M | T/F 2 M T2 M [C] | T 2 M [C] |
| 3 | Accounting Standards | | | | | T/F 2 M | | | | | | |
| 4 | Accounting Policies | | | | | | | | | | | |
| 5 | Accounting as a Measurement discipline-Valuation Principles, Accounting Estimates | | | | | | | | | | | |
| 6 | Capital and Revenue Expenditure | T/F 2 M | T/F 2 M | T/F 2 M | T/F 2 M | T/F 2 M | T 4 M [C] | T/F 4 M | T/F 2 M | T 5 M | T/F 2M | T/F 2 M |
| 7 | Contingent Assets and Contingent Liabilities | | | T 4 M | | | | T 2 M [C] | T/F 2 M | T 4 M [C] | | |
| 8 | Accounting Process (Journal, Ledger, Trial Balance, Cash Book, Subsidiary Books) | | | T/F 2 M P 5 M | P 4 M [C] | T/F 2 M | T/F 2 M P 10 M | T/F 2 M P 5 M T 5 M | T/F 2 M P 4 M T 5 M | P 5 M | P4 M[C] T5M | T/F 2 M P 5 M |

| Chapter No. | List of Contents | Nov-18 | May-19 | Nov-19 | Nov-20 | Jan-21 | Jul-21 | Dec-21 | Jun-22 | Dec-22 | June 23 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 | Bank Reconciliation Statement | P 10 M | P 10 M | P 10 M | P 10 M | P 4 M [C] | P 5 M | P 10 M | P 5 M | P 10 M | P 5 M | P 8 M |
| 10 | Bills of Exchange | | | | | | | | | | | |
| | (a) Trade Bill | | P 5 M | T/F 2 M | | | | P 10 M | P 2 M | | P 5 M | P 10 M |
| | (b) Accommodation Bill | | | | P 10 M | | | | | P 15 M | | |
| 11 | Rectification of Errors | P 10 M | T/F 2 M | P 10 M | T/F 2 M | P 10 M | P 10 M | P 5 M | T/F 2 M | T/F 2 M | T/F 2 M | |
| | | | P 4 M | | P 5 M | | | | | P 10 M | | |
| 12 | Inventory Valuation | | P 5 M | T 5 M | P 10 M | P 5 M | T/F 2 M P 5 M | P 4 M [C] | P 5 M | T/F 2 M | | T 1 M [C] P 4 M [C] |
| 13 | Depreciation | T/F 2 M P 4 M [C] | P 10 M | P 4 M [C] | T 5 M | P 10 M | P 4 M [C] | T 1 M [C] P 5 M | P 10 M | P 4 M [C] | P 10 M | T/F 4 M T 1 M [C] P 5 M |
| 14 | Final Accounts | T/F 2 M P 5 M T 4 M | P 10 M | P 15 M | P 5 M P 10 M | P 5 M | P 10 M P 5 M | T/F 2 M P 15 M | P 20 M | P 10 M | T/F 2 M P 5 M | T/F 4 M P 15 M |
| 15 | Partnership (a) Goodwill | | | T/F 2 M | | T 5 M | | | P 5 M | P 5 M | | |
| | (b) Admission of a New Partner | P 15 M | | | T/F 2 M | | | P 10 M | | P 10 M | | |
| | (c) Retirement of a Partner | | | | P 10 M | | P 5 M | | P 10 M | | | P 10 M |
| | (d) Death of a Partner | | P 10 M | P 10 M | | P 10 M | T/F 2 M P 10 M | | | | P 20 M | |
| | (e) Dissolution of Firms | | | | | | | | | | | |

| Chapter No. | List of Contents | Nov-18 | May-19 | Nov-19 | Nov-20 | Jan-21 | Jul-21 | Dec-21 | Jun-22 | Dec-22 | June 23 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (f) LLP | | T/F 2 M | | | | | | | | | |
| | (g) Miscellaneous | | | | | | | P 5 M | | | P 5 M | P 5 M |
| 16 | Accounting from incomplete records | | | | | | | | | | | |
| 17 | Not for Profit Organisation | T/F 2 M | P 10 M | P 10 M | P 10 M | P 20 M | P 10 M | P 10 M | P 10 M | P 10 M | P 15 M | P 12 M |
| 18 | Shares | | | | | | | | | | | |
| | (a) At Par | | | | P 10 M | T/F 2 M | T/F 2 M | P 15 M | | | | |
| | (b) At Premium | | | P 15 M | T/F 2 M | | | | | P 15 M | | P 15 M |
| | (c) Pro-rata Allotment | | P 10 M | | | P 15 M | P 15 M | | | | P 15 M | |
| | (d) Miscellaneous | P 10 M | | | | | T/F 2 M | T/F 2 M | P 15 M | | | |
| 19 | Debentures | P 5 M | P 5 M | | P 5 M | | | | T/F 2 M | T/F 2 M | T/F 2 M T 1 M [C] | |
| 20 | Financial Statement of Companies | | | T/F 2 M | | | | | | | T 1 M [C] | |
| 21 | Accounting for Bonus issue & Right issue | | | | | | | | | | | |
| 22 | Redemption of preference shares | | | | | | | | | | | |
| 23 | Redemption of Debentures | | | | | | | | | | | |
| | Total | 71 | 89 | 100 | 108 | 96 | 103 | 113 | 105 | 113 | 103 | 110 |

**Note 1:** **P:** Practical Question; **T:** Theoretical Question; **T/F** : True or False; **[C]:** Compulsory; **M:** Marks

**Note 2:** Chapters 16, 21, 22 & 23 are newly added Chapters for May 2024 and onwards Exams for CA Foundation Accounting Paper.

# Contents

CONTENTS

CHAPTER 1

# MEANING & SCOPE OF ACCOUNTING

## DESCRIPTIVE QUESTIONS

### Q.1 What do you mean by Accounting? Give its definition.

**Ans. According to AICPA, "Accounting" is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.**

From the above, it is clear that accounting refers to:

1. A procedure of writing financial transactions and events.
2. A system of recording, classifying, summarizing, analyzing, interpreting and reporting periodically, in terms of money, which provides necessary financial information.

The said financial information is used for taking necessary and proper decisions about the allocation of economic resources and running the organisation successfully.

Accounting accumulates data systematically and supplies the necessary information to the users of financial statements by which the users can take proper economic decisions and also may make proper predictions, *i.e.*, in short, it conveys financial information about an entity for a specified period.

### Q.2 What are the branches of Accounting? Explain.

**Ans.** Accounting has basically three branches:

(a) **Financial Accounting:**

- It is concerned with the maintenance of books of account of an enterprise,
- Recording & classifying all its financial transactions and events with a view to prepare Annual Financial Accounts,
- To be used by various interest groups (*i.e.* General Purpose Financial Statement).

**(b) Management Accounting:**

- It refers to use of accounting data with proper analysis in reporting, so as to serve the need of management.
- To help them in decision making and exercising proper controls.
- It may not have separate books of account but uses the data from financial accounts & cost accounts and
- Properly analyses it, compares it, calculate ratios etc. and present it to management periodically.

**(c) Cost Accounting:**

- Generally manufacturing concerns maintains cost accounts.
- With a view to ascertain the cost of goods manufactured or services rendered with proper break-up of cost.
- Also providing useful data to management for effective cost control and
- Govt. also has prescribed maintenance of cost records by specific industries.

**(d) Social Responsibility Accounting:**

- Concerned with measurement and reporting of the impact of the operations of an organisation on the society.
- Attempts to disclose the costs incurred and
- Benefits accrued to the society as a consequence of the activities of the organization.

**(e) Human Resource Accounting:**

- It is the process of measuring the amount of investments done in the human resource of an enterprise.
- It also reports the information regarding the activities related to human resource performed by the organisation and
- The end results of the human resource related activities to the stakeholders.

**Q.3 Who are the users of Financial Statement and what are their information needs?**

**Ans. The users of financial statement & their information needs :**

| Sr. No. | Users | Their information needs |
|---|---|---|
| 1 | Investors (providers of risk capital and their advisors) | Information to determine whether they should buy, hold or sell, the shares of the company. The owners of proprietary/partnership concerns wants to assess performance & financial health, to decide the continuance of such unit. |



| Sr. No. | Users | Their information needs |
|---|---|---|
| 2 | Employees (Employees and their representative groups *i.e.* unions) | Information that enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.<br>To assess their bonus & other claims. |
| 3 | Lenders | Information that enables them to determine whether their loans and the interest thereon, will be paid when due. |
| 4 | Suppliers and other trade creditors | Information that enables them to determine whether the amounts owing to them will be paid when due. |
| 5 | Customers | Information about the continuance of an enterprise especially when they have a long-term involvement with, or are dependent on the enterprise. |
| 6 | Government and their agencies | Information to regulate the activities of enterprises, to determine taxation policies and as the basis of national income and similar statistics. |
| 7 | Public | Information about the trends and recent developments in the prosperity of the enterprise and the range of its activities. |

**Q.4 Explain qualitative characteristics of financial statement.**

**Ans. Qualitative characteristics of financial statement :**

- Qualitative Characteristics are the attributes (features) that makes the information provided by financial statement useful to the users.
- Qualitative Characteristics are as follows:

There are four main qualities & some sub-qualities:

(*i*) **Understandability :** The information should be readily understandable to those who have reasonable knowledge of business & economic activity.

(*ii*) **Relevance :** Information has relevance when it influences the users decision making. Nature of information & materiality will be considered to decide relevance:

**(a) Materiality :** An information is material (significant) if its misstatement or non-statement can influence decision maker.

**Ex. :** Small expenses are clubbed under one head like Office exp./General exp. etc. or

Stationery, postage such items are treated as expense and generally no stock is ascertained & adjusted.

(*iii*) **Reliability :** Information is reliable if it is error free, it is unbiased (neutrality) & gives faithful representation:

(a) **Neutrality :** If it influences users into predetermined actions, then it is not neutral (then information is biased).

(b) **Faithful Representation :** To be reliable it should give information what it purports to give.

**Ex. :** If an asset is shown in Balance Sheet entity must have it.

(c) **Substance over form :** Substance of transactions & not merely its legal form should be reflected by information.

**Ex. :** Item purchased under hire-purchase system is treated as an asset from the beginning and depreciation charged even though legal ownership will be transferred only when the last instalment is paid.

(d) **Prudence :** Application of prudence will make information neutral & consequently reliable.

(e) **Completeness :** To be reliable information should be complete.

(*iv*) **Comparability :** It should be comparable with its own past data & also with other similar enterprises.

**Q.5 What is the role of Chartered Accountants in the society?**

**OR**

**What services can a Chartered Accountant provide to the society ?**

**[Nov. 2020, 4 Marks]**

**Ans. Role of accountant in the society**

- An accountant with his education, training, analytical mind and experience is best qualified to provide multiple need-based service to the ever-growing society.
- The accountants of today can do full justice not only to matters relating to taxation, costing, management accounting, financial planning, company law and procedures but they can act in the fields relating to financial policies, budgetary policies, information technology, Software development and even economic principles.
- The services rendered by accountants to the society include the following:
  - (*a*) To maintain the books of account in a systematic manner.
  - (*b*) To act as a Statutory Auditor (for example under the Companies Act, Income-tax Act, Co-operative Societies Act).
  - (*c*) To act as an Internal Auditor.
  - (*d*) To act as Social Auditor.
  - (*e*) To act as Taxation Advisor.
  - (*f*) To act as Management Accountant.
  - (*g*) To act as Financial Advisor.
  - (*h*) To provide Management Consultancy Services.
  - (*i*) To act as Company Law Advisor.
  - (*j*) To act as Liquidator.
  - (*k*) To act as Arbitrator.
  - (*l*) To act as Management Information System Consultant.
  - (*m*) To act in the field of software development.



**Q.6 Give the relationship of accounting with other disciplines like :**

(*i*) **Economics**

(*ii*) **Statistics**

(*iii*) **Mathematics**

(*iv*) **Law**

(*v*) **Management**

**Ans. (i) Accounting and Economics:**

- Economics is viewed as a science of rational decision making about the use of scarce resources.
- It is concerned with the analysis of efficient use of scarce resources for satisfying human wants.
- Accounting is viewed as a system which provides data to the users to permit informed judgment and decisions.
- Accounting overlaps economics in many respects and contributes a lot in improving the management decision making process.
- However, there exists a wide gulf between economists' and accountants' concepts of income and capital.
- Accountants got the ideas of value, income and capital maintenance from economists, but brushed suitably to make them usable in practical circumstances.
- Accountants developed the valuation, measurement and decision making techniques which may owe to the economic theorems for origin but these are moulded in the work environment and suitably tempered with reference to relevance, variability, freedom from bias, timelines, comparability, reliability and understandability.
- At the macro-level, accounting provides the data base over which the economic decision models have been developed; micro-level data

arranged by the accounting system is summed up to get macro-level data base.

**(ii) Accounting and Statistics:**

- The use of statistics in accounting can be appreciated better in the context of the nature of accounting records.
- Accounting information is very precise, it is exact to the last paisa.
- But such precision is not essential for making business decisions and hence statistical approximations are sought.
- In accounts all values are important individually because they relate to business transactions.
- As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations.
- Therefore, wherever a need arises for only broad generalizations or the average of relationships, statistical methods have to be applied to accounting data.
- Accounting records generally take a short-term view of events and are confined to a year while statistical analysis is more useful if a longer view is taken for the purpose of decision making.
- Statistical methods are helpful in developing accounting data and in their interpretation & are useful even in valuation.
- Therefore, the study and application of statistical methods would add extra edge to the accounting data.

**(iii) Accounting and Mathematics:**

- Knowledge of arithmetic and algebra is a pre-requisite for accounting computation and measurements.
- The fundamental dual aspect concept of accounting is expressed in the form of a mathematical equation, popularly known as 'accounting equation'.
- With the advent of the computer, mathematics is becoming a vital part of accounting.
- Statistical and econometric models are largely used for developing decision models for the users of accounts.
- The use of the technique of operations research has made accounting all the more mathematical.
- Presently graphs and charts are being extensively used for communicating accounting information.
- In addition to statistical knowledge, knowledge in geometry and trigonometry is also essential to have a better understanding about the accounting communication system.



**(iv) Accounting and law:**

- An economic entity operates within a legal environment.
- Every country has set of economic, fiscal and labour laws.
- All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc.
- The entity itself is created and controlled by laws. For example, a partnership business is controlled by Partnership Act and a company is created and controlled by the Companies Act, etc.
- Very often the accounting system to be followed is prescribed by law. For example, the Companies Act has prescribed the format of financial statements of companies and requires accrual principle to be applied.
- However, legal prescription about the accounting system is the product of developments in accounting knowledge.
- That is to say, a legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline.
- In that way accounting influences law and is also influenced by law.

**(v) Accounting and Management:**

- Management is broad occupational field which comprises many functions and encompasses application of many disciplines including those mentioned above.
- Accountants are well placed in the management and play a key role in the management team.
- A large portion of accounting information is prepared for management decision making.
- In the management team, an accountant is in a better position to understand and use such data.
- In other words, since an accountant plays an active role in management, he understands the data requirements. So the accounting system can be moulded to serve the management purpose.
- 'Management accounting' processes accounting data for management decision making.
- This indicates the linkage between management and accounting.
- Accounting is an essential service function of management.

## SHORT NOTES

### Q.1 Limitations of accounting

**Ans. Limitations of accounting are :**

- Accounting is not an exact science.

- It is based on many assumptions & conventions.
- It involves many estimation which results into subjectiveness.
- There are different alternatives possible for the same item which gives scope for manipulation to get desired result.
- It is a post mortem exercise and the information about entities performance and financial position are available quite late *i.e.* after a year.
- It cannot record the effect of many important events which cannot be measured in terms of money like value of human resources which an enterprise has.
- It does not consider the effect of inflation on income, expense, assets & liabilities (known as Inflation Accounting).

**Q.2 Functions of accounting data**

**Ans.** Accounting data serves the following functions:

(*i*) **Measurement :** Account data helps to measure the performance & financial position of the enterprise. It measures Assets, Liabilities, Expenses & Incomes.

(*ii*) **Forecasting :** On the basis of past accounting data, forecasting about future plans are made.

(*iii*) **Decision Making :** Various decision requires timely & correct information which is provided by accounts.

(*iv*) **Evaluation :** Evaluation of an enterprise's performance & financial health is done from accounting data.

(*v*) **Control :** By adopting various accounting techniques, checks & balances the activity of the enterprise is controlled.

(*vi*) **Stewardship :** The management, manages the money of shareholders/owners, on their behalf.

(*vii*) **Govt. Regulation & Taxation :** Accounting data serves the various requirements of govt. regulations & to assess proper tax liability.

**Q.3 Define the following term:**

**(*i*) Capital Commitment**

**(*ii*) Expired Cost**

**(*iii*) Floating Charge**

**(*iv*) Obsolescence** **[Jan. 2021, 4 Marks]**

**Ans.**

(*i*) **Capital Commitment:**

Capital Commitment is a future Liability for capital expenditure in respect of which contracts have been made.



(*ii*) **Expired Cost:**

Expired Cost means the portion of an expenditure from which no further benefit is expected. It is termed as an Expense.

(*iii*) **Floating Charge:**

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

(*iv*) **Obsolescence:**

Obsolescence is the diminution in the value of an asset by reason of its becoming out of fashion or less useful due to change in technology, improvement in methods of production, change in the demand of market for the product or service output of the asset, or legal or other restrictions.

**TRUE OR FALSE**

**Q.1 Capital is all assets less fictitious assets.**

**Ans. False:** Capital is all assets less fictitious assets less external liabilities.

**Q.2 Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.**

**Ans. False:** Because Accounting Equation is:

Capital + Long Term Liabilities + Current Liabilities = Fixed Assets + Current Assets.

**Q.3 Equity + LTL-CL = FA + CA**

**Ans. False:** The basic accounting equation is: Equity + LTL + CL = FA + CA.

CHAPTER 2

# ACCOUNTING CONCEPTS, PRINCIPLES & CONVENTIONS

## DESCRIPTIVE QUESTIONS

### Q.1 What are Accounting Concepts, Principles & Conventions?

**Ans.** Usually, accounting theories are expressed (referred) as Postulates, Concepts, Principles, Doctrines, Axioms, Rules, Standard, Assumptions, Canon etc. These are basic assumptions & norms on which the whole system of accounting is developed. These gives the basic structure & outline within which the procedures & systems can be varied as per the situation & need of an entity.

**Accounting Concepts:**

***Meaning:***

- Accounting Concepts is generally used to mean a 'Notion' only or mental idea about something.
- It is a principle which is taken to be self-evident or axiomatic (*i.e.*, something which does not require to be proved) which has already been proved to be true.
- In other words, it may be an assumption or axiom constituting the supposed basis of a system.
- It is considered to be of a more fundamental character and universally acceptable which may be applied in all possible cases. It will have greater general applicability.
- These postulates are either descriptive (explanatory) or suggestive (normative).
- There is no authoritative list of these concepts.

**Accounting Principles:**

***Meaning:***

- Accounting principles are the norm or rules which are to be followed in treating various items of Assets, Liabilities, Expenses, Incomes etc.
- **Ex. (i)** Inventory should be valued at lower of cost & net reliable value. **(ii)** Fixed Assets should be depreciated over its useful life, **(iii)** Valuation norms for current & permanent investments etc.

- An accounting principle can have alternative methods to apply it. Like in case of inventory we have methods of cost measurement by FIFO or weighted average.

**Accounting Conventions:**

***Meaning:***

- It refers to the general agreement on the usage and practices in social or economic life, *i.e.*, it is a customary practice, rule, method or usage.
- In other words, it is an accounting procedure followed by the accounting community on the basis of long-standing customs.

**Q.2 What are Fundamental Accounting Assumptions? Explain them in detail.**

**Ans. Fundamental Accounting Assumptions:**

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

  (*i*) Going Concern (*ii*) Consistency (*iii*) Accrual.

## SHORT NOTES

**Q.1 Periodicity concept** **[June 2022, 2 Marks]**

**Ans. Periodicity concept:**

- Accounts are prepared for a fixed period usually a year.
- Only transactions of that period has to come in that year's accounts.
- Period is kept uniform (a period of 12 months) so that results are comparable.
- 1st Accounting period may be usually more or less than 12 months.
- A business entity runs continuously (going concern) hence to assess its performance and see the financial position on regular basis, it is broken up into smaller, uniform time periods known as accounting period.
- Now the Income-tax Act & Companies Act, 2013 both requires the Accounting year to be from 1st April this year to 31st March of next year.



**Q.2 Business Entity Concept**

**Ans. Business Entity Concept:**

- A distinction is made between the concern & its owner.
- Only those transaction which affects the concern is recorded in its books of account *i.e.* transactions affecting owner but not the concern will not be recorded in concerns books.

> Although, we will study accounting of business concerns, but in the same manner personal account books can also be maintained by any individual.

**Q.3 Cost Concept**

**Ans. Cost Concept:**

- The assets & properties are recorded at its cost to the concern & not at its market value.
- Except stock which may be valued at cost or market price whichever is lower.
- As per this concept Fixed assets are recorded at their acquisition cost & then depreciated over its useful life.
- **Ex.:** Building purchased for ₹ 10 lakh. Its market value is ₹ 11 lakh. In account book building will be recorded at cost *i.e.* ₹ 10 lakh.

**Q.4 Dual Aspect Concept**

**Ans. Dual Aspect Concept:**

- Each transaction has double effect of equal amounts on Assets, Liabilities and Capital (Expenses & Income will result in to profit/loss which is part of capital).
- Therefore at any time the accounting equation is: Assets = Liabilities + Capital **or** Capital = Assets - Liabilities
- In other words, capital, *i.e.* the owner's share of the assets of firm, is always what is left out of assets after paying off outsiders.
- Due to this dual aspect, we have double entry system of accounting.

**Q.5 Money Measurement Concept** **[June 2022, 2 Marks]**

**Ans. Money Measurement Concept:**

- Accounting records only those transactions which are expressed in monetary terms.
- Although quantitative records are also kept as subsidiary records but that is not part of financial account books.

- The use of a building (depreciation or rent) and the use of clerical services (salaries) can be added up only through money values and not otherwise.
- **Ex. :** Loss of a Managerial Personnel cannot have a specific monetary value, hence, cannot be recorded in account books although it is significant event.

**Q.6 Realization Concept**

**Ans. Realization Concept:**

- Income is accounted only when it is realised.
- Realised means cash is received or a right to receive is established.
- **Ex. :** A sale is recognised as income even when amount is not yet collected.
- Income recognition (*i.e.* accounting) is postponed, when there is no reasonable certainty of realisability.

**Q.7 Accrual Concept** **[Dec. 2021, 1 Mark]**

**Ans. Accrual Concept:**

- The expenses or income of periodic nature accrues on day to day basis.
- Therefore we make provision for interest etc. up to last date of accounting year although it may become due/payable on a later date.
- Following accrual concept means following mercantile system of accounting.
- Example of such items are Interest, Rent, Salary, Depreciation etc.
- As per accrual concept/Mercantile system, the income & expenses should be recognised (*i.e.* accounted):
- In the accounting period to which they relate (*i.e.* the period in which benefit/goods/services is given or taken)
- Not in the period in which actual money is received or paid.
- **Ex. :** Loan ₹ 10 lakh taken on 1.1.06 @ 15% interest. Interest is payable annually. Accounting year ends on 31.3.2006.

  **Ans.** Interest for 3 months from 1.1.2006 to 31.3.2006 ₹ 37,500 will have to be accounted even though it is neither paid, nor due, but only accrued.

> Accrual is a Fundamental accounting assumption.

**Q.8 Going Concern Concept**

**Ans. Going Concern Concept:**

- It implies that the concern will be continuing the business for foreseeable future.



- It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
- If such an intention or need exist, the financial statements may have to be prepared on a different basis and, if so, the basis is disclosed.
- Because of this, expenditure is divided into capital & Revenue expenditure & the fixed assets are valued at cost less Depreciation.
- Because of this account of the whole life is divided into smaller accounting periods (periodicity concept).

> Going concern is a fundamental accounting assumption.

**Q.9 Matching Principle**

**Ans. Matching Principle:**

- If any income is credited in the P&L A/c then all expenses incurred or to be incurred for earning this income, should also be debited in the same years P&L A/c.
- Similarly if expenses are debited the corresponding income should also be credited in the same P&L A/c.
- To meet this requirement we make provision for closing stock, outstanding/prepaid expenses & outstanding/Advance income.
- Future incomes are not anticipated rather related expenditures are carried forward to future period like prepaid expense & closing stock.
- If income is preponed for matching, it will be violation of realisation Concept & will also be against prudence principle.

**Q.10 Substance over form**

**Ans. Substance over form :**

- As per concept of Substance over form, the transaction should be recognized as per the economic reality of the transaction & not mere legal form.

  **Ex.:** A sales land to 'B' and gives possession of the land to B & receives full consideration. But sale deed is not yet registered for want of NOC from local authority.

  **Ans. :** As per substance over form concept, A should recognize sale of land and consequent profit or loss and B should recognize Land as an asset in its books. Both will make suitable disclosure in notes to accounts.

**Q.11 Convention of Disclosure**

**Ans. Convention of Disclosure:**

- All material information which is relevant for the proper disclosure of true & fair position, should be disclosed prominently in the accounts & financial statements.
- Disclosure of specified information is required by law and by Accounting Standards also, which is the minimum disclosure.

**Q.12 Convention of Materiality** **[June 2023, 1 Mark]**

**Ans. Convention of Materiality:**

- All material *i.e.* important/significant items or information should be properly accounted & disclosed in the accounts & financial statements.
- That means immaterial items can be given a convenient accounting treatment.
- **Ex. :** Stationery, Postage, such items are treated as expense in the period of purchase even though some unconsumed balance may be there.

**Q.13 Convention of Consistency**

**Ans. Convention of Consistency:**

- Consistency means the same Accounting principles & policies are followed, which were followed for preparing previous years accounts.
- Same Accounting principles & policies should be followed consistently from year to year unless change is required:
  - to comply with some legal/statutory requirement or
  - to comply with Accounting Standards or
  - to show better information.
  - this consistency makes the information of different accounting year, comparable.

| It is a fundamental accounting assumption. |
|---|

**Q.14 Convention of Prudence** **[June 2023, 1 Mark]**

**Ans. Convention of Prudence/Conservative approach:**

- An accountant is supposed to be conservative therefore expenses or losses are provided if there is possibility of its occurrence, but incomes are provided only if there is certainty of its earning.
- It is application of a caution while estimating & accounting, such that expense & liabilities are not understated & income & assets are not overstated.



- But it does not justify creation of hidden reserve by deliberate under-statement of assets & incomes & overstatement of Liabilities & expenses.

## DIFFERENCES

**Q.1 Distinguish between Going Concern concept and Cost concept** **[May 2019, 4 Marks]**

**Ans.**

- **Going Concern Concept:**
  - It implies that the concern will be continuing the business for foreseeable future.
  - It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
  - If such an intention or need exist, the financial statements may have to be prepared on a different basis and, if so, the basis is disclosed.
  - Because of this, expenditure is divided into Capital & Revenue Expenditure & the Fixed Assets are valued at cost less Depreciation.
  - Because of this account of the whole life is divided into smaller accounting periods. (periodicity concept)
  - Going concern is a fundamental accounting assumption.
- **Cost Concept:**
  - The assets & properties are recorded at its cost to the concern & not at its market value.
  - Except stock which may be valued at cost or market price whichever is lower.
  - As per this concept Fixed assets are recorded at their acquisition cost & then depreciated over its useful life.
  - **Ex. :** Building purchased for ₹ 10 lakh. Its market value is ₹ 11 lakh. In books of account building will be recorded at cost *i.e.* ₹ 10 lakh.

## TRUE OR FALSE

**Q.1 Prudence is a concept to recognize unrealized profits and not losses.**

**Ans. False:** Prudence is a concept to recognize future or anticipated losses and not profits.

**Q.2 As per AS-1, Fundamental Accounting Assumptions are Going Concern, Full Disclosure and Accrual Concept.**

**Ans. False:** As per AS-1, Fundamental Accounting Assumptions are Going Concern Concept, Consistency and Accrual Concept.

**Q.3 The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.**

**Ans. True:** The financial statement must disclose all the relevant and reliable information to comply with AS-1 Disclosure of Accounting Policies.

**Q.4 Accrual concept implies accounting on cash basis.**

**Ans. False:** Accrual concept implies accounting on 'accrual' basis not on cash basis.

**Q.5 As per Concept of Conservatism, the accountant should provide for all possible losses, but should not anticipate income. [June 2023, 2 Marks]**

**Ans. True:** As per Concept of Conservatism, the accountant should provide for all possible losses, but should not anticipate income.

**Q.6 The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions.**

**Ans. True:** The economic life of an enterprise is artificially split into periodic intervals in accordance with the accounting period concept. The going concern assumption states that an enterprise will continue its operation for indefinite period of time.

**Q.7 Valuation of inventory at cost or net realizable value is based on principle of Conservatism. [Nov. 2019, 2 Marks]**

**Ans. True:** Because under the principle of 'lower of cost or net realizable value', any loss due to decrease in sales price of the inventory below its cost is recognized immediately as it is anticipated that the enterprise will make losses whenever it will sell.

**Q.8 A concern proposes to discontinue its business from December, 2020 and decides to dispose of all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed of after the Balance Sheet date. [Nov. 2020, 2 Marks]**

**Ans. False:** As per going concern concept any business shows its Fixed Assets at its historical cost but in case of discontinuance of business they should be shown at their expected realizable value.

**Q.9 The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. [Dec. 2022, 2 Marks]**

**Ans. False:** The Financial statements are prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.



**Q.10 The provision for discount on creditors is often not provided in keeping with the principle of conservatism. [Dec. 2022, 2 Marks]**

**Ans. True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained for it.

# CHAPTER 3 ACCOUNTING STANDARDS

## SHORT NOTES

### Q.1 Need of Accounting Standards

**Ans. Need of Accounting Standards:**

- Accounts gives information to various groups.
- The financial statement can serve the interest of different interest groups only if there is uniformity and full disclosure of relevant information.
- There are various alternatives regarding accounting treatment and valuation norms which may be used by an entity.
- Hence AS tries to reduce this alternative by allowing only those alternatives which fulfils the basic qualitative characteristics of true and fair financial statements and lays down the minimum information to be disclosed and manner of disclosure.

### Q.2 Objectives & advantages of Accounting Standards

**Ans. Objectives & advantages of Accounting Standards:**

- An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods chosen out of several alternatives.
- The main objectives of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting principles.
- Accounting standard seek to suggest rules and criteria of recognition, measurement & disclosure.
- These standards harmonize the diverse accounting policies and practices at present in use in India.
- The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, compara-

bility and qualitative improvement in the preparation and presentation of financial statements.

## TRUE OR FALSE

**Q.1 Accounting Standards for non-corporate entities in India are issued by the Central Government.** **[Jan. 2021, 2 Marks]**

**Ans. False:** Accounting standards for non-corporate entities in India are issued by Institute of Chartered Accountants of India.

# CHAPTER 4

# ACCOUNTING POLICIES

## DESCRIPTIVE QUESTIONS

**Q.1 What do you mean by Accounting policies? What are the basis of their selection? What are the different areas in which different accounting policies are possible?**

**Ans. Meaning of Accounting Policy:**

- The accounting policies refers to —
  - the specific accounting principles and
  - the methods of applying those principles
- Adopted by the enterprise in the preparation and presentation of financial statements.
- Management has to select, follow & disclose Accounting policies which it followed in preparation & presentation of financial statement, out of the different alternatives which may be permissible.
- **Ex.:** Write off Depreciation by SLM or WDV, Value inventory cost by FIFO or Weighted Av.
- Further Examples of Accounting Policies: (*a*) Recognition of contract revenue by % of completion method (*b*) Treatment of Goodwill (*c*) Valuation of Investments (*d*) Provision for Retirement benefits etc.

| |
|---|
| Preparation of financial statements is the responsibility of the management of an enterprise. This includes selecting appropriate accounting policies and applying them consistently from one period to another. |

**Requirements of AS-1 Disclosure of Accounting Policies:**

For proper understanding of financial statements, all *significant* accounting policies adopted in the preparation and presentation of financial statements should be disclosed,

- **Disclose all significant policies** adopted in the preparation & presentation of financial statements preferably at one place.

- The **primary consideration** in the selection of accounting policies by an enterprise is that:
  - the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the financial position & performance.
- The **major considerations** governing the selection and application of accounting policies are:
  - **prudence, substance over form and materiality. (Refer Chapter 2)**
- If any fundamental accounting assumption is not followed - Going concern, Consistency or Accrual **Refer Chapter 2. Disclosure of the same in financial statements is required.**

Areas in which differing accounting policies are encountered:

| Areas | Differing Accounting Policies possible |
|---|---|
| Methods of depreciation, depletion and amortization. | Straight line method, Written down value method. |
| Treatment of expenditure during construction. | Capitalize, expense, treat as deferred revenue expenditure. |
| Valuation of inventories. | Different cost formulas FIFO, Weighted average cost, etc. |
| Treatment of goodwill. | Amortize, do not amortize. |
| Valuation of investments. | Cost, lower of cost and fair value, fair value. |
| Recognition of profit on long-term contracts. | Percentage of completion method, completed contract method, different ways of measuring percentage of completion. |
| Valuation of fixed assets. | Costs less depreciation, costs, Costs less depreciation less impairment. |
| Treatment of contingent liabilities. | Make provision, disclosures only. |

**Q.2 When changes in accounting policies are permitted? What disclosures are to be made whenever change takes place?**

**Ans. Changes in accounting policies:**

***Changes are permitted:***

(As per AS-5: Net Profit or loss for the period, Prior period items & Changes in accounting policy)

- To comply with law
- To comply with an accounting standard
- To give better information and true & fair picture



***Disclosure to be made whenever change takes place:***

- Any change in an accounting policy which has a material effect should be disclosed.
- Reason for change, which can be any of the above.
- The amount by which any item in the financial statements is affected by such change should also be disclosed.
- This disclosure is necessary as change in accounting policy violates the fundamental accounting assumption of consistency.
- Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- If such change has no material effect on the financial statements for the current period but is reasonably expected to do so in the later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

***Examples of change in accounting policy:***

1. Change from straight line method of depreciation to WDV method.
2. Making provision for doubtful debts on the basis of age analysis rather than *ad hoc* provision.
3. Change from completed contract method to percentage of completion method to account for construction to comply with AS-7 (Revised).
4. Changes in the method of measurement of percentage of completion as at balance sheet date.
5. Change in method of amortization of intangible asset to reflect the revised pattern benefits from it.
6. Re-estimating residual value of leased asset.
7. Change from LIFO to FIFO method of ascertaining cost of inventory when AS-2 was revised.

# 5 CHAPTER ACCOUNTING AS A MEASUREMENT DISCIPLINE - VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

## SHORT NOTES

### Q.1 Historical Cost

**Ans. Historical Cost:**

- It means acquisition price.
- According to this base, assets are recorded at an amount of cash or cash equivalent paid or the fair value of consideration given at the time of acquisition.
- Liabilities are recorded at the amount of proceeds received in exchange for the obligation. In some circumstances a liability is recorded at the amount of cash or cash equivalent expected to be paid to satisfy it in the normal course of business.

**Example:**

**(1)** On 1.1.2005, a businessman 'Ram' paid ₹ 5,00,000 to purchase the building, its acquisition price ₹ 5,00,000 is the historical cost of building.

**(2)** Loan taken from Bank ₹ 4,00,000 @ 15%, the liability will be recorded at the proceeds received ₹ 4,00,000.

**(3)** Services received for which it is expected that ₹ 20,000 will be paid, hence liability will be recorded at ₹ 20,000.

| |
|---|
| This base is most commonly followed in accounting. |



### Q.2 Current Cost

**Ans. Current Cost:**

- Current cost gives an alternative measurement base (for existing assets and liabilities).
- Assets are carried at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently.
- Liabilities are carried at the un-discounted amount of cash or cash equivalents that would be required to settle the obligation currently.

**Example:**

**(1)** Take that as on 1.1.16, 'Ram' found that it would cost ₹ 15,00,000 to purchase that building. So as per current cost base the machine value is ₹ 15,00,000.

**(2)** Take also that as on 1.1.16 the bank announces a discount @10% on the loan amount if it is paid by 15 days starting from that day. So as per current cost base the value of bank loan is ₹ 3,60,000 (₹ 4,00,000 less 10% discount).

> At foundation level of study you may not use it anywhere in Accounting.

**Q.3 Realisable Value**

**Ans. Realisable Value:**

- As per realisable value, assets are carried at the amount of cash or equivalent that could currently be obtained by selling the assets in an orderly disposal. Haphazard disposal may yield something less.
- Liabilities are carried at their settlement values; *i.e.*, the undiscounted amounts of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

**Example:**

**(1)** Suppose 'Ram' found that he can get ₹ 14,00,000 if he would sell the building purchased on 1.1.2005. So the building should be recorded at ₹ 14,00,000 the realisable value in an orderly sale.

**(2)** Take also that 'Ram' found that he had no money to pay off the bank loan currently and will pay in the normal course. So the bank loan should be recorded at ₹ 4,00,000 the settlement value in the normal course of business.

> You may find use of it only in Inventory Valuation which is valued at cost or net realisable value whichever is lower.

**Q.4 Present Value**

**Ans. Present Value:**

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

**Example:**

**(1)** Suppose we were talking as on 1.1.16 take it as time of reference. Now think the building purchased by 'Ram' on 1.1.05 can work for another 10 years and is supposed to generate cash @ ₹ 75,000 p.a. and scrap value ₹ 50,000.

Present value of building = 75,000 × 5.019 + 50,000 × .247 = 3,76,425 + 12,350 = ₹ 3,88,775

**(2)** Also that bank loan taken by 'Ram' is to be repaid as on 31.12.2020, annual interest is ₹ 60,000.

Present value of loan = 60,000 × 5.019 + 4,00,000 × .247 = 3,01,140 + 98,800 = ₹ 3,99,940

(For above discounting 15% rate has been assumed)

> This also you may not use in your foundation study except small reference in goodwill valuation. The above used Present value factors (@ 15%) are available from Statistical tables. The calculation thereof is covered in Intermediate syllabus.



**Q.5 Accounting Estimate**

**Ans. Accounting Estimate:**

***Meaning:***

- Accounting estimates are an essential part of accounting.
- Accounting is a process of recording, classifying and analyzing transactions and events with reference to an accounting period usually a year, whereas transactions and events may occur at different point of time and may have impact on longer periods hence requiring estimations.
- **Ex:** Estimating life of fixed asset for depreciation, Estimating bad & doubtful debts etc.

***Change in Accounting Estimate:***

- An estimate may have to be revised if—
  - changes occur regarding the circumstances on which the estimate was based, or
  - as a result of new information, more experience or subsequent developments.
- The revision of the estimate is not an extraordinary item or a prior period item.
- If sometimes, it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate, the change should be treated as a change in an accounting estimate, with appropriate disclosures.
- The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:
  - the period of the change, if the change affects the period only; or
  - the period of the change and future periods, if the change affects both.

- A change in an accounting estimate may affect the current period only or both the current period and future periods.
- For example, a change in the estimate of the amount of bad debts is recognised immediately and therefore affects only the current period.
- However, a change in the estimated useful life of a depreciable asset affects the depreciation in the current period and in each period during the remaining useful life of the asset.
- In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period.
- The effect, if any, on future periods, is recognised in future periods.
- The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to do so in subsequent periods, should be disclosed.
- If it is impracticable to quantify the amount, this fact should be disclosed.
- The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

***Examples of changes in accounting estimates:***

1. Change in useful life of fixed assets.
2. Actual bad debts turning out to be more or less than the provision.
3. Actual liability turning out to be more than or less than the provision.
4. Actual gratuity liability/retirement benefits turns out to be more than the provision.

# 6 CHAPTER CAPITAL AND REVENUE EXPENDITURE

## SHORT NOTES

**Q.1 Capital Expenditure** **[July 2021, 2 Marks]**

**Ans. Capital Expenditure:**

- Any amount spent by actual payment or for which a liability is incurred is known as an expenditure.
- Capital Expenditure is that expenditure which results in the acquisition of an asset (tangible or intangible) which can be later sold and converted into cash or which results in an increase in the earning capacity of the business or which affords some other advantage to the firm.
- In a nutshell, if the benefits of an expenditure are expected to accrue for a long time, the expenditure is capital expenditure.
- Obvious examples of capital expenditure are land, building, machinery, patents, etc.
- All these things stay with the business and can be used over and over again.
- Expenditure which does not result in increase in capacity or in reduction of day-to-day expenses is not capital expenditure, unless there is a tangible asset to show for it.
- All amounts spent upto the point an asset is ready for use should be treated as capital expenditure.
- Examples are: Fees paid to a lawyer for drawing up the purchase deed of land, overhauling expenses of second-hand machinery, interest paid on loans raised to acquire the assets but only for the period before the asset is ready for use.
- Any expenditure incurred to bring such asset into usable condition for the 1st time is also a capital expenditure like installation expenses etc.
- Additional expenditure on such assets in future will be capitalised only if it result into significant improvement over and above its originally assessed performance.

**Q.2 Revenue Expenditure** **[July 2021, 2 Marks]**

**Ans. Revenue Expenditure:**

- An item of expenditure whose benefit expires within the year or expenditure which merely seeks to maintain the business or keep assets in good working conditions is revenue expenditure.
- Examples are: Salaries and Wages, power used to drive machinery, electricity used to light the factory or offices, etc.
- Such expenditure does not increase the efficiency of the firm, nor does it result in any acquisition of fixed asset.
- Diminution in the value of assets due to wear and tear or passage of time is revenue expense.
- For instance, a piece of machinery is bought in the beginning of the year for ₹10,000. At the end of the year its value to the business may only be ₹ 9,000. This diminution in value ₹1,000 is a revenue loss.
- Stocks of materials bought will be an asset unless consumed, to the extent the materials are used up, they will be revenue expenditure.
- Capital expenditure are shown in the Balance Sheet as assets whereas revenue expenditures are debited to P&L A/c.

**Q.3 "The cost of Property, Plant and Equipment comprises of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise". Give any five examples of such 'directly attributable costs'.** **[Dec. 2022, 5 Marks]**

**Ans. Examples of directly attributable costs to assets are:**

(*a*) Cost of employee benefits arising directly from acquisition or construction of an item of property, plant & equipment.

(*b*) Cost of site preparation.

(*c*) Initial delivery and handling costs.

(*d*) Installation and assembly costs.

(*e*) Cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing).

(*f*) Professional fees *e.g.* engineers hired for helping in installation of a machine.



## DIFFERENCES

**Q.1 Deferred Revenue Expenditure & Prepaid Expenses**

**Ans. Deferred Revenue Expenditure & Prepaid Expenses:**

- The Guidance Note on 'Terms used in Financial Statement', issued by the Institute of Chartered Accountants of India, defines "deferred revenue expenditure as those expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods."
- In short, it refers to that expenditure that is, for the time being, deferred from being charged against income.
- So long as deferred revenue expenditure is not written off, this is shown on the assets side of the balance sheet under the head "Miscellaneous Expenditure."
- Deferred revenue expenditure should be revenue expenditure by nature in the first instance, for example, advertisement. But its matching with revenue may be deferred considering the benefit to be accrued in future.
- A thin line of difference exists between deferred revenue expenses and prepaid expenses.
- The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses.
- Heavy advertising to launch a new product is a deferred expenses since the benefit from it will be available over the next three to five years but one cannot say precisely how long.
- On the other hand, insurance premium paid, say, for the year ending 30th June, 2016, when the accounting year ends on 31st March, 2016 will be an example of prepaid expense to the extent of premium relating to three months' period *i.e.* from 1st April, 2016 to 30th June, 2016.
- Thus the insurance protection will be available precisely for three months after close of the year and the amount of the premium to be carried forward can be calculated exactly.

As per Accounting Standard 26 only those expenditures should be deferred which are expected to give future benefits. While solving problem, student should defer an expense item only if specifically so required by the question.

**Q.2 Capital Receipts and Revenue Receipts**

**Ans. Capital Receipts and Revenue Receipts:**

- Receipts which are obtained in the course of normal trading operations are revenue receipts (*e.g.* sale of goods, interest income etc.).

- On the other hand, receipts which are not revenue in nature are capital receipts (*e.g.* sale of fixed assets, secured or unsecured loans, owners' contribution etc.).
- Subscriptions by shareholders towards share capital of a company or for purchasing its debentures are considered by the company as capital receipts.
- By the same criterion, contributions by partners or proprietors to capital of their business are capital receipts.
- Sale value of fixed assets is also a capital receipts since these are distinguishable from revenue receipts, *e.g.*, those from sale of merchandise, rent on property, interest on investment, professional fee for services rendered, etc.
- It will be evident that capital receipts emanate out of a fund already held or arise on conversion of an asset, whereas revenue receipts flow from personal exertion, use of a capital asset or from sale or transfer of floating assets like goods.
- Revenue and capital receipts are recognized on accrual basis as soon as the right of receipt is established.
- Revenue receipts are credited to the Profit and loss account.
- On the other hand, capital receipts are not directly credited to Profit and loss account.
- For example, when a fixed asset is sold, the entire capital receipts is not credited to Profit and Loss Account. Profit or loss on sale of fixed assets is calculated and recorded in Profit and Loss Account.

**Q.3 Discuss the basic considerations in distinguishing between capital and revenue expenditure. [July 2021, 4 Marks]**

**Ans. Refer Q.1 & Q.2, Page Nos. 6.1 & 6.2**

## TRUE OR FALSE

**Q.1 Lease premium will be treated as revenue expenditure.**

**Ans. False:** Lease premium is a capital expenditure.

**Q.2 Amount received by the issue of debentures is a capital receipt.**

**Ans. True:** Money received by way of issue of shares or debentures by a company is a capital receipt.

**Q.3 Capital expenditure is done to restore the efficiency of an asset.**

**Ans. False:** Capital expenditure is done to improve the efficiency of an asset.



**Q.4 Revenue loss is not the same thing as Revenue expenditure.**

**Ans. True:** Revenue expenditure is incurred to receive a benefit during a current year. Revenue loss occurs in the normal course of business and provides no benefit.

**Q.5 Any expenditure which increases the value of fixed assets is termed as capital expenditure.**

**Ans. True:** Expenditure that is done in connection with the acquisition of fixed assets or which leads to the increment in the value of fixed assets are classified under capital expenditure.

**Q.6 Preliminary expenses are classified under deferred revenue expenditure.**

**Ans. True:** Preliminary expenses are treated as deferred revenue expenditure as these can be written off over a maximum of 4-5 years. Though according to AS 26, Preliminary expenses spent in the incorporation of a company should be written off in the year it is incurred.

**Q.7 Wages paid to workers for erecting machines will be treated as revenue expenditure.**

**Ans. False:** Expenditure done in connection with the erection of machines is an example of capital expenditure.

**Q.8 Any heavy expenditure of revenue nature the benefit of which will be availed over a numbers of years can be classified as capital expenditure.**

**Ans. False:** The expenditure of this kind will be termed as Deferred revenue expenditure.

**Q.9 Capital receipts are either shown as an increase in liabilities or as a reduction in the value of assets.**

**Ans. True:** Capital receipts are shown in the balance sheet as an increase in liabilities or as reduction in the value of assets.

**Q.10 Money spent to reduce working expenses is treated as capital expenditure.**

**Ans. True:** Any expenditure that reduces the working expenses will be treated as capital expenditure.

**Q.11 Interest paid on purchase of an asset in all cases, will be treated as capital expenditure.**

**Ans. False:** Such expenditure is classified under the head of capital expenditure if it is paid during the production/construction period. The expenditure will be treated as revenue after the asset is put to use.

**Q.12 Amount spent on experimenting which did not result in success will be treated as capital loss.**

**Ans. False:** It will be considered as a deferred revenue expenditure so that the burden of loss is shifted over a number of years.

**Q.13 A building of book value ₹ 45,000 got demolished and a new building having a book value ₹ 17,00,000 was constructed. Thus, ₹ 45,000 is a revenue loss and ₹ 17,00,000 is a capital receipt.**

**Ans. False:** ₹ 45,000 is a revenue loss but ₹ 17,00,000 is a capital expenditure.

**Q.14 Repairs amount spent on second hand machine, purchased recently, before using it will be treated as capital expenditure.**

**Ans. True:** Overhaul expenses (repairs) incurred to put a second hand machine in useable condition to derive its benefit for future periods is a capital expenditure.

**Q.15 ₹ 10 lakhs were spent on the construction of a mess hall for the welfare of the employees. ₹ 6 lakhs were received from the Government as a grant. In this case ₹ 4 lakhs will be treated as capital expenditure and ₹ 6 lakhs as capital receipt.**

**Ans. False:** ₹ 10,00,000 will be treated as capital expenditure since it is spent on the construction of the mess hall, though the amount has been received as a grant.

**Q.16 Amount spent in connection with the issue of capital should be considered as a capital expenditure, but legal expenses spent in connection with the issue of capital shall be considered as revenue expenditure.**

**Ans. False:** Legal expenses incurred on the issue of capital will be treated as capital expenditure.

**Q.17 Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure. [May 2018, June 2023, 2 Marks]**

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

**Q.18 Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. [Nov. 2018, 2 Marks]**

**Ans. False:** Overhauling expenses incurred for the engine of a motor car to derive better fuel efficiency will reduce the running cost, so this is a capital expenditure.

**Q.19 Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure. [May 2019, 2 Marks]**

**Ans. True:** Amount spent for the construction or acquisition of a capital asset (here, Cinema house), in whatever form, will be treated as Capital Expenditure.

**Q.20 M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. [Nov. 2019, 2 Marks]**



**Ans. False:** This expenditure should be treated as Capital expenditure since it will increase profitability of the business.

**Q.21 Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt. [Nov. 2020, 2 Marks]**

**Ans. True:** It is a Capital receipt because it is received against a Capital expenditure.

**Q.22 Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt. [Jan. 2021, 2 Marks]**

**Ans. True:** Subsidy received from Government for working capital by a manufacturing concern is treated as revenue receipt because it is received for working expenses of manufacturing concern.

**Q.23 Any amount spent to minimize the working expenses is revenue expenditure. [Dec. 2021, 2 Marks]**

**Ans. False:** Expenditure which result in increase in capacity or in reduction of day to day expenses are treated as capital expenditure.

**Q.24 Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure. [Dec. 2021, 2 Marks]**

**Ans. True:** All amounts spent upto the point an asset is ready for use should be treated as capital expenditure, whether it is new or old asset.

**Q.25 Any amount spent for replacement of worn out part of a machine is capital expenditure. [June 2022, 2 Marks]**

**Ans. False:** Any amount spent for replacement of worn part of a machine is treated as revenue expenditure.

# CHAPTER 7
# CONTINGENT ASSETS AND CONTINGENT LIABILITIES

## SHORT NOTES

### Q.1 Contingent liability [Dec. 2021, 1 Mark]

**Ans. Contingent liability:**

(*a*) A contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Possible obligation - An obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable **or**

(*b*) A contingent liability is a present obligation that arises from past events but is not recognised because:

(*i*) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(*ii*) a reliable estimate of the amount of the obligation cannot be made.

It is said to be 'probable' if chances of its happening are more than not happening *i.e.* probability is more than half.

### Q.2 Contingent Assets [Dec. 2021, 1 Mark]

**Ans. Contingent Assets:**

- A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
- An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.

- An enterprise should not recognise a contingent asset.
- However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
- A contingent asset is not disclosed in the financial statements.
- It is usually disclosed in the report of the approving authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable.

## TRUE OR FALSE

**Q.1 Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as contingent liability.**

**Ans. False:** Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as provision.

**Q.2 In the financial statement, contingent liability is recognized.**

**Ans. False:** In the financial statement, contingent liability is not recognized.

**Q.3 If an inflow of economic benefits is probable then a contingent asset is disclosed in the financial statements.**

**Ans. False:** If an inflow of economic benefits is probable then a contingent asset is disclosed in the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).

**Q.4 Contingent asset usually arises from unplanned or unexpected events that give rise to the possibility of an outflow of economic benefits to the business entity.**

**Ans. False:** Contingent asset usually arises from unplanned or unexpected events that give rise to the possibility of an inflow of economic benefits to the business entity.

**Q.5 A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.** **[June 2022, 2 Marks]**

**Ans. False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is treated as a Contingent Asset.



## DIFFERENCES

**Q.1 Provision and Contingent liability**

**[May 2018] [Nov. 2019, 4 Marks]**
**[Dec. 2022, 4 Marks]**

**Ans.** Provision and Contingent liability

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

# 8 CHAPTER ACCOUNTING PROCESS (JOURNAL, LEDGER, TRIAL BALANCE, CASH BOOK, SUBSIDIARY BOOKS)

## SHORT NOTES

### Q.1 Double Entry System

**Ans. Double Entry System:**

- This system was invented by an Italian merchant named Fra Luca Pacioli in 1494 A.D.
- According to this system, every transaction has got a two-fold aspect (dual aspect), *i.e.*, one party giving the benefit and the other receiving the benefit and it has effect of opposite nature on two financial items.
- Information of one financial nature at one place is known as an account which is divided into two sides, debit and credit.
- In short, one account is to be debited and another account is to be credited for every transaction in order to have a complete record of the same.
- Therefore, every transaction affects two accounts in opposite direction.
- For example, if goods are sold to Mr. A on credit, the same will affect goods/sales account and A's account and entries will be made in opposite direction in these two accounts.
- This system is called Double Entry System since it keeps records for every transaction in two accounts.
- Therefore, the basic principle, under this system, is that for every debit there must be a corresponding credit or *vice versa.*
- Before going to discuss the double entry principle it becomes necessary to explain certain terms which are frequently used in accounting. They are discussed in later questions.

### Q.2 Meaning of Transactions and events

**Ans. Meaning of Transactions :**

- A business dealing, which can be measured and expressed in terms of money and must be recorded in the books of account, is called a 'transaction'.

- In a transaction, there must be some monetary change between the parties.
- In other words, the meaning of a transaction is to 'receive' and 'give', *viz*, one party receive and the other party gives, *e.g.* if X gives ₹ 400 to Y, Y is receiving ₹ 400 whereas X is giving the same and there is a monetary change between the parties.
- This give and take can be of Cash, Property, Goods, Services and benefits etc. which has monetary value.
- So, a transaction also means a change in affairs that alters the financial state of parties in any way.
- *There are always two parties in a transaction of which one must be the entity in whose books, accounting is being done.*

**TRANSACTION**

**(Transaction is a give & take which has some financial effect on entity)**

Cash/Property/Goods/Services/Benefits

Entity | ⟶ / ⟵ | Other person

| Cash/Property | Goods/Services/Benefits | |
|---|---|---|
| ↓ | ↓ | |
| Real Account | Nominal Account | Personal Account |
| ↓ | ↓ | ↓ |
| Assets | Expense or Income | Asset or Liability |

1. Goods A/c if prepared is treated as a real A/c but instead of preparing Goods A/c, we prepare Purchase A/c, Sale A/c etc. to get full information, which are treated as nominal A/c.
2. In the above analysis you can observe:
   (*a*) There are two persons of which one is the entity.
   (*b*) Something (*i.e.* cash, property, goods, service or benefits) is given & in return something else is taken.
   (*c*) These both the arrows indicating give & take may take place at the same point of time (known as cash transaction) or at different point of time (known as credit transactions).
   (*d*) Irrespective of whether both give & take is done at same time or at different point of time (*i.e.* indicating only one arrow at a time), there are always two accounts involved in a transaction (dual aspect concept).
   (*e*) These accounts can be classified according to function into Real, Nominal & Personal A/c or according to nature into Expense, Income, Asset or liability.



**Meaning of Events:**
- Event is happening of something, which has financial effect on the entity.
- **Ex.** A fire destroys furniture, Stock Balance at the end of the year etc.

**Q.3 Petty Cash Book** **[June 2022, 5 Marks]**

**Ans. Petty Cash Book:**
- This is to be prepared to record the petty (small) expenses, which are incurred frequently.
- On the payment side the amount is classified into various columns depending upon the account to which it has to be debited.
- The columns can be for conveyance expenses, postage, repairs & maintenance, printing & stationery, salary, wages and so on.
- It is also known as analytical cash book.
- In petty cash book receipt will be from main cash book.

**Posting:**
- The total of this column is debited to respective expense accounts in the ledger after a specific period may be monthly, weekly etc.
- The Balance of petty cash book (*i.e.* receipts (-) payments) shows the balance of cash in hand which will be shown in Trial balance.

**Q.4 Imprest System**

**Ans. Imprest System:**
- An amount is fixed which is given to petty cashier who meets expenses out of it & periodically or when the amount is spent, he takes reimbursement from main Cashier exactly equal to amount spent hence his cash balance again becomes equal to fixed imprest amount.
- This is the upper limit of cash which petty cashier can have.
- It is a version of Petty cash book only.
- **Ex.** Imprest amount is fixed at ₹ 1,000. Petty cashier has spent ₹ 785 in that period, thus he has balance of ₹ 215. Now he will get reimbursement from main cashier ₹ 785, thus his balance will again become ₹ 1000.

**Q.5 Sales Book**

**Ans. Sales Book:**
- The Sales Day-Book is a register specially kept to record credit sales of goods dealt in by the firm.
- Cash sales are entered in the Cash Book and not in the Sales Day Book.
- Credit sales of things other than the goods dealt in by the firm are not entered in the Sales Day Book; they are journalised.
- For accounting, Goods means only those items in which the particulars concern is doing business *i.e.* purchasing & selling it.

- It is a subsidiary book/subsidiary journal & posting is made from it to the sales account and accounts of the customers.

**Posting:**

- The total of sales register is credited to sales A/c periodically say monthly.
- And individual amounts are debited to respective parties (debtors) A/c.

> Sales Account is a final record and postings are made to it from Cash Book (cash sales) and Sales Day Book (credit sales).
>
> Sales Account is maintained in the ledger in the manner, the other accounts are maintained.
>
> Sales Account is a nominal account and its balance is used for ascertaining gross profit or gross loss.

## Q.6 Purchase Book

**Ans. Purchase Book:**

- All credit purchases of goods are recorded in Purchase Book.
- Cash purchases are entered in the Cash Book and not in the Purchases Day Book.
- Credit purchases of things other than the goods dealt in by the firm are not entered in the Purchases Day Book; they are journalised.
- It is a subsidiary book/subsidiary journal & posting is made from it to the purchases account and accounts of the suppliers.

**Posting:**

- The total of purchase register is debited to purchase A/c periodically say monthly &
- Individual amounts are credited to respective parties (suppliers) A/c.

> Cash Sales & Cash Purchases will be recorded in Cash Book and credit sales & credit purchase of Assets will be recorded in Journal. Comments for sales account made above equally apply to purchase account.

## Q.7 Principal Book (Ledger) [Dec. 2021, 5 Marks]

**Ans. Principal Book (Ledger):**

- **All accounts** are opened in a separate register known as a ledger
- **Only exception** is cash & Bank A/c which are not prepared in ledger **because cash** & Bank book itself is Cash & Bank account also (when **Cash-cum-Bank** Book is prepared).
- **All other books** are only books of entry they are not ledger accounts.
- Hence when we enter a transaction in a book of entry, we decide/write which account should be debited & which account should be credited.



- But actual debit & credit gets completed only when we write the amount from this book to respective accounts in ledger on debit or credit side as the case may be.
- This process of writing the amount from books of entry to ledger account is known as 'posting'.

**Posting:**

- Each account will have two sides, left hand side is known as debit side & right hand side as credit side.
- If the amount is written on debit side that means that account is debited
- If written on credit side means that account is credited.
- All these accounts are then totalled & balanced.
- All the accounts which are having balances either debit or credit are listed on a statement known as Trial Balance.
- With the help of this Trial Balance, Final accounts namely Trading & P&L A/c and Balance Sheet is prepared.

> Instead of one ledger, concern can maintain multiple ledgers like Debtors ledger, Creditors ledger, General ledger etc.

**Ledger Account**

Dr. Cr.

| Date | Particulars | F | Amount ₹ | Date | Particulars | F | Amount ₹ |
|---|---|---|---|---|---|---|---|
| | To | | | | By | | |
| | To | | | | By | | |
| | Total | | | | Total | | |

## Q.8 Mercantile System of Accounting and Cash System of Accounting [Dec. 2021, 5 Marks]

**Ans. Mercantile System of Accounting (Accrual basis of accounting) and Cash System of Accounting:**

- A transaction is recognized when either a liability is created (*i.e.* when goods/services/benefits or properties are received) and/or an asset is created (*i.e.* when goods/services/benefits or properties are given).
- Whether payment is made or received is immaterial in accrual basis accounting.
- Accrual basis of accounting is also known as **mercantile** basis of accounting.
- On the other hand, cash basis of accounting **is system of accounting** by which a transaction is recognized only if **cash is received or** paid, no entry is being made when a payment or receipt **is merely due.**

- Accrual basis accounting is the only generally accepted accounting method for business entities which are supposed to operate for long period.
- Cash basis accounting is suitable for short duration ventures.
- All the chapters which you will study are on accrual basis only exception may be joint venture.

**Q.9 Journal proper**

**Ans. Journal proper:**

If there is no special book meant to record a transaction, it is recorded in the Journal (proper):

*(i)* **Opening entries:** When books are started for the new year, the opening balance of assets and liabilities are journalised.

*(ii)* **Closing entries:** At the end of the year nominal accounts are transferred to the profit and loss account. This is done through journal entries called closing entries.

*(iii)* **Rectification entries:** If an error has been committed, it is rectified through a journal entry.

*(iv)* **Transfer entries:** If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.

*(v)* **Adjusting entries:** At the end of the year the amount of expenses or income may have to be adjusted for amounts received in advance or for amounts not yet settled in cash. Such an adjustment is also made through journal entries. Usually, the entries relating to Outstanding expenses, Prepaid expenses, Interest on Capital and Depreciation are necessary.

*(vi)* **Entries on dishonour of Bills:** If someone who accepted a promissory note (or bill) is not able to pay it on the due date, a journal entry will be necessary to record the non-payment or dishonour.

*(vii)* **Miscellaneous entries:** The following entries will also be shown in Journal proper:

(a) Credit purchase of things other than goods dealt in or materials required for production of goods *e.g.* credit purchase of asset will be journalised.

(b) An allowance to be given to the customers.

(c) Receipt of promissory notes or issue to them if separate bill books have not been maintained.

(d) On an amount becoming irrecoverable, because of the customer becoming insolvent.

(e) Effects of accidents such as loss of property by fire etc.



**DIFFERENCES**

**Q.1 Trade discount and Cash discount**

**Ans. Trade discount and Cash discount:**

**Trade Discount:**

- Trade discount is a discount on the selling price for bulk purchase or for purchasing above a minimum quantity or is offered generally to regular customers.
- It is also called quantity discount.
- This is a technique of sales promotion.
- It is generally determined at the stage of sale itself & is deducted from the sale/purchase value & hence doesn't appear separately in the Books of account & Final A/cs.

**Cash Discount:**

- Cash discount is the discount offered by the supplier in consideration of early or timely payment.
- It may vary with the period of payment.
- It is accounted as a separate item & appears in the Profit & loss a/c.
- Cash discount is usually given at the time of payment/receipt as against trade discount is given at the stage of sale/purchase.

**Q.2 Debit Note and Credit Note**

**Ans. Debit Note and Credit Note:**

***Debit Note :***

- A debit note is a statement sent by one party to the other stating/informing him that his account has been debited with a specified amount and the reason for debit.
- A debit note is sent to the supplier when the goods purchased from him are returned (purchase return) or for discount to be received from him or for any expenses incurred for him.

| Entry: | In the books of sender of Debit note | In the books of receiver of Debit note |
|---|---|---|
| | Party (to whom it is sent) A/c Dr. | Sales return/Discount allowed etc. A/c Dr. |
| | To Purchase return/Discount received etc. | To Party (who sent it) A/c |

***Credit Note:***

- A Credit note is a statement/letter sent by one party to the other stating/informing him that his account has been credited with a specified amount and the reason for credit.
- A credit note is sent to the customer when we receive good returned by them or for discount to be allowed to him or for any expenses incurred for us by him.

| Entry: | In the books of sender of Credit note | In the books of receiver of Credit note |
|---|---|---|
| | Sales return/Discount allowed etc. A/c Dr. | Party (who sent it) A/c Dr. |
| | To Party (to whom it is sent) A/c | To Purchase return/Discount received etc. |

## TRUE OR FALSE

**Q.1 Wages paid for erection of machinery is debited to Profit and Loss Account.**

**Ans. False:** Wages paid for erection is a capital expenditure, so it should be debited to the machinery account.

**Q.2 The balance in the cash book shows net income.**

**Ans. False:** The balance in the cash book shows cash in hand at the end of the period.

**Q.3 The debts written off as bad, if recovered subsequently are credited to Debtors Account.**

**Ans. False:** The debts written off as bad, if recovered subsequently, shall be credited to Bad Debts Recovered Account.

**Q.4 The sales day book is a part of the ledger.**

**Ans. False:** The sales day book is a book of prime entry and so it is part of journal.

**Q.5 Patent right is in the nature of nominal account.**

**Ans. False:** Patent right is an intangible asset, so it is a real account.

**Q.6 Goods costing ₹ 600 taken by the proprietor for personal use should be credited to Sales Account.**

**Ans. False:** Goods taken by the proprietor for personal use should be credited to Purchase Account at a cost price of ₹ 600.

**Q.7 If a cheque received is further endorsed, it must be entered on both sides of the cash book.**

**Ans. True:** The cash book is debited in cash column when the cheque is received and it is credited when it is endorsed.

**Q.8 Rent paid account is Nominal Account whereas, rent received account is a Real Account.**

**Ans. False:** Rent paid and rent received-both are nominal accounts because they are expenses and incomes of the business.

**Q.9 A tallied Trial balance is a conclusive proof of accuracy of books of account.**

**Ans. False:** Agreement of trial balance is not a conclusive proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not affect the total of trial balance.



**Q.10 Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper.**

**Ans. True:** All the Opening, Closing, Rectifying and Adjusting entries are recorded in journal proper because these are not recorded in any other subsidiary book.

**Q.11 Sale of office furniture should be credited to Sales Account.**

**Ans. False:** Sale of office furniture is a capital receipt, so it should be credited to Furniture Account.

**Q.12 The balance in the Petty Cash Book represents expenses.**

**Ans. False:** The balance in the Petty Cash Book represents petty cash balance lying with the Petty cashier. It is treated as an asset of the business.

**Q.13 The purchase day book is a part of the ledger.**

**Ans. False:** Purchase day book is a book of original entry and so it is a part of journal.

**Q.14 In a Cash Book, Discount Columns may show either debit balance or credit balance.**

**Ans. False:** Discount Columns of a Cash Book are totalled but never balanced. These are totalled and transferred to Discount Allowed and Discount Received Account respectively.

**Q.15 Purchase book records all purchases of goods.**

**Ans. False:** Purchase book records only credit purchases of goods.

**Q.16 The Sales book is kept to record all sales.**

**Ans. False:** The Sales book is kept to record only the credit sales of goods.

**Q.17 The debit notes issued are used to prepare sales return book.**

**Ans. False:** The credit notes are used to prepare sales return book.

**Q.18 Bank column of the cash book will show only a debit balance.**

**Ans. False:** Bank column of the cash book may show debit or credit balance.

**Q.19 Trade Discount is a reduction granted by a supplier from the list price of goods/or services on business considerations for prompt payment.** **[Nov. 2019, 2 Marks]**

**Ans. False:** Trade discount is a reduction granted by a supplier from the list price of goods or services on business considerations for increasing the sales of the business or as trade practice other than for prompt payment.

**Q.20 The Sale Book is kept to record both the cash and credit sales.** **[Jan. 2021, 2 Marks]**

**Ans. False:** Sales book is kept to record credit sale of goods only.

**Q.21 Cash book is a subsidiary book as well as a principal book.** **[July 2021, 2 Marks]**

**Ans. True:** Cash book is treated as subsidiary book as well as a principal book of accounting.

**Q.22 Discount column of the cash book is never balanced.** **[Dec. 2021, 2 Marks]**

**Ans. True:** Discount column of cash book is never balanced as individual totals of discount allowed & discount received columns are transferred to their respective accounts.

**Q.23 At the end of the accounting year, all the nominal accounts of the ledger book are balanced.** **[June 2022, 2 Marks]**

**Ans. False:** At the end of the accounting year, all the Nominal Accounts of the ledger book are transferred to P/L A/c.

## DESCRIPTIVE QUESTIONS

**Q.1** What are the advantages of subsidiary books ? **[July 2021, 5 Marks]**

**Ans. Following are the uses & advantages of subsidiary book:-**

1. **Division of work:** In place of one journal, there will be multiple subsidiary books & therefore the accounting work can be easily divided amongst a number of clerks.
2. **Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handing it. Thus division of work results in advantage of specialization of efficiency.
3. **Saving of the time:** Various accounting process can be undertaken simultaneously because of the use of multiple subsidiary. This result in the work being completed quickly.
4. **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place, in a comprehensive manner.
5. **Facility in checking:** When the trial balance does not match, the locating of the error or errors is facilitated by the maintenance of separate subsidiary books. Even the commission of errors and frauds will be checked by the use of multiple subsidiary books.

**Q.2** What are the importance of Journal? **[June 2023, 5 Marks]**

**Ans.** Journal is the primary book of accounts in which financial transactions are recorded in a chronological order, *i.e.,* in the sequence they are entered into from the accounting voucher which is prepared on the basis of source documents, *i.e.,* cash memo, invoices, etc.

**Importance of Journal:**

(*i*) **Provides an information of the transaction** - Along with the entry in the Journal, narration is written so that it is made easy to understand the entry properly.



(*ii*) **Records a chronological order of all transactions** - Transactions are entered in the Journal in a chronological order, *i.e.,* in the sequence of date or order they are entered.

(*iii*) **Reduces the possibility of error** - The possibility of errors is reduced as the amounts to be debited and credited are written side by side and the two can be compared to see that the total of two sides of the transaction recorded are equal.

## PRACTICAL QUESTIONS

**Q.1 Classify the following accounts into Personal, Real and Nominal:**

(*a*) **Cash Account**
(*b*) **Wages Account**
(*c*) **Building Account**
(*d*) **Calcutta Tramway Co. Account**
(*e*) **East Bengal Club Account**
(*f*) **Rent Account**
(*g*) **Capital Account**
(*h*) **Drawings Account**
(*i*) **Interest Account**
(*j*) **Trade Mark Account**
(*k*) **Dividend Account**
(*l*) **Land Account**
(*m*) **Goodwill Account**
(*n*) **Patent Account**
(*o*) **Bad Debts Account**
(*p*) **Bank Account**
(*q*) **Discount Allowed Account**
(*r*) **Interest Received Account**
(*s*) **Discount Received Account**
(*t*) **Salary Payable**
(*u*) **Bills Receivable**

**Solution:** Personal Accounts - d, e, g, h, p, t, u
Real Accounts - a, c, j, l, m, n
Nominal Accounts - b, f, i, k, o, q, r, s

**Q.2 From the following transactions prepare the Cash Book with cash and discount columns:**

*Aug. 2016*

| | | ₹ |
|---|---|---|
| 1 | Opening cash balance | 2500.00 |
| 3 | Received from D & Co. ₹ 1,350 in full settlement of ₹ 1,400 | |
| 4 | Received for cash sales | 1250.00 |
| 5 | Paid to Rajesh & Co. ₹ 775 in full settlement of his account for | 800.00 |
| 7 | Purchased office furniture | 670.00 |
| 13 | Paid for postal stamps | 25.00 |
| 15 | Paid for office rent for month of July, 2016 | 125.00 |
| 17 | Used office cash for meeting personal expenses | 150.00 |
| 19 | Sold goods on credit to Mr. Faithful | 1700.00 |
| 20 | Paid to Rajnikant ₹ 670 in full settlement of his account for ₹ 700 | |
| 20 | Deposited in the Bank all cash in excess of ₹ 1,200. | |

**Solution:**

**Double Column Cash Book**

Dr. Cr.

| Date | Particulars | LF | Dis | Cash | Date | Particulars | LF | Dis | Cash |
|---|---|---|---|---|---|---|---|---|---|
| 1-8-2016 | To Opening b/f | | | 2500 | 5-8-2016 | By Rajesh & Co. | | 25 | 775 |
| 3-8-2016 | To D & Co. A/c | | 50 | 1350 | 7-8-2016 | By Furniture A/c | | | 670 |
| 4-8-2016 | To Sales A/c | | | 1250 | 13-8-2016 | By Postage exp. A/c | | | 25 |
| | | | | | 15-8-2016 | By Rent payable A/c* | | | 125 |
| | | | | | 17-8-2016 | By Drawings A/c | | | 150 |
| | | | | | 20-8-2016 | By Rajnikant A/c | | 30 | 670 |
| | | | | | 20-8-2016 | By Bank A/c | | | 1485 |
| | | | | | 20-8-2016 | By Balance c/f | | | 1200 |
| | | | 50 | 5100 | | | | 55 | 5100 |

* It is assumed that in July month provision for rent payable was made, hence now on payment rent payable account is debited.

◆ Credit sale of 19.08.16 will be entered in sales book or in Journal, if sales book is not maintained.

**Triple Column Cash book**

**Q.3 Write up a three column cash book from the following:**

*Sept. 2016*

| | | ₹ |
|---|---|---|
| 1 | Cash balance | 1,700.00 |
| | Bank overdraft | 5,600.00 |



| | | |
|---|---|---|
| 5 | Received from Dinanath cash ₹ 750 and a cheque of ₹ 860 in full settlement of ₹ 1650 | |
| 7 | Paid for office rent by cheque | 500.00 |
| 8 | Paid for wages in cash | 250.00 |
| 9 | Sold goods for cash ₹ 1500 and received half the amount in cash and half by cheque which is deposited in the bank | |
| 10 | Bank pass book states that the bank has collected interest on investment | 660.00 |
| 12 | Cheque received on 5th paid into bank | |
| 15 | Transferred ₹ 3000 from fixed deposit to Current account | |
| 20 | Drew for personal use cash ₹ 250 and a cheque of ₹ 375 | |
| 25 | Made cash purchase and paid by cheque ₹ 1595 | |
| 30 | Paid Dinesh ₹ 800 by cheque | |

**Solution:**

**Triple Column Cash Book**

Dr. Cr.

| Date | Particulars | LF | Dis | Cash | Bank | Date | Particulars | LF | Dis | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Sept. 16 | To Opening Balance | | | 1700 | — | 1 Sept. 16 | By Opening bal. (O.D.) | | | — | 5600 |
| 5 | To Dinanath A/c (cash+cheque) | | 40 | 1610 | — | 7 | By Rent A/c | | | | 500 |
| | | | | | | 8 | By Wages A/c | | | 250 | |
| 9 | To Sales A/c | | | 750 | 750 | 12 | By Bank (ch deposit) | C | | 860 | |
| 10 | To Interest A/c | | | | 660 | 20 | By Drawings A/c | | | 250 | 375 |
| 12 | To Cash (ch. Deposited) | C | | | 860 | 25 | By Purchase A/c | | | | 1595 |
| 15 | To Fixed deposit A/c | | | | 3000 | 30 | By Dinesh A/c | | | | 800 |
| 30 | To Balance c/f. (OD) | | | | 3600 | 30 | By Balance c/f | | | 2700 | |
| | | | 40 | 4060 | 8870 | | | | — | 4060 | 8870 |

**Cheque received but not deposited in bank** - The usual practice in the books on accounting is to show such amount as cash and when the same is deposited in bank then cash A/c is credited and bank A/c debited (As done for ₹ 860 in above problem). I (author) don't consider it appropriate and suggest the following -

a. In real life it will be a daily routine to receive cheque and deposit it next day hence to obviate unnecessary confusion and complication, it should be debited to bank A/c on receipt itself.

b. When it is a year end situation, debit such cheque to cheques in hand A/c rather than in cash A/c. So that in balance sheet we will show cash balance (which is actual cash), cheques in hand and bank balance (which does not include cheque received but not deposited).

**Q.4 Enter the following transactions in a three column cash book of M/s. Barket & Co.**

**April, 2016**

1 Cash on hand ₹ 237; Balance at bank ₹ 6,594.

2 Received from K. Agrawal cash ₹ 590, allowed him discount ₹ 10.
4 Paid salaries for March by cash ₹ 200. Cash sales, ₹ 134.
5 Paid B.K. Bose by cheque ₹ 300. Cash Purchases ₹ 60.
7 Paid Q. Ahmad by cheque ₹ 585; discount received 2.5%.
8 Cash Sales ₹ 112. Paid cartage and coolie ₹ 6.
10 Paid rent in cash ₹ 50
14 Cash Sales ₹ 212. Received from G.C. Dhar ₹ 194 by cheque discount 3%.
16 Deposited into Bank ₹ 600. Purchased a motor car for ₹ 5,800 and drawn a cheque for the amount.
23 Received a cheque from Robert & Co. for ₹ 291; discount received 3%.
28 Cash Sales ₹ 298.
29 Bank notifies that Robert & Co.'s cheque has been dishonoured.
30 Deposited with Bank ₹ 300. Paid wages ₹ 72. Bank charges as shown in Pass Book ₹ 5.

**Solution:**

**Triple Column Cash Book**

| Date | Particulars | LF | Dis | Cash | Bank | Date | Particulars | LF | Dis | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.4.16 | To Bal. b/d | | | 237 | 6594 | 4.4.16 | By Salary payable A/c | | | 200 | |
| 2.4. | To Agrawal A/c | | 10 | 590 | | 5.4. | By B.K. Bros. A/c | | | | 300 |
| 4.4. | To Sales A/c | | | 134 | | 5.4. | By Purchase A/c | | | 60 | |
| 8.4. | To Sales A/c | | | 112 | | 7.4. | By Q. Ahmad A/c $\frac{585}{97.5}\times 2.5 = 15$ | | 15 | | 585 |
| 14.4. | To Sales A/c | | | 212 | | | | | | | |
| 14.4. | To G.S. Dhar A/c | | 6 | | 194 | 8.4. | By Cartage & coolie | | | 6 | |
| 16.4. | To Cash A/c | C | | | 600 | 10.4 | By Rent A/c | | | 50 | |
| 23.4. | To Robert & Co. | | 9 | | 291 | 16.4. | By Bank A/c | C | | 600 | |
| 28.4. | To Sales A/c | | | 298 | | 16.4. | By Motor car A/c | | | | 5800 |
| 30.4. | To Cash A/c | C | | | 300 | 29.4. | By Robert & Co. A/c | | 9 | | 291 |
| | | | | | | 30.4. | By Bank A/c | C | | 300 | |
| | | | | | | 30.4. | By Wages A/c | | | 72 | |
| | | | | | | 30.4. | By Bank charges | | | | 5 |
| | | | | | | 30.4. | By balance c/d | | | 295 | 998 |
| | | | *25 | 1583 | 7979 | | | | *24 | 1583 | 7979 |
| 1.5 | To balance b/d | | | 295 | 998 | | | | | | |

*Posted to discount account in ledger

**Q.5 Enter the following transactions in a columnar Petty Cash Book kept on the Imprest System and balance the cash book. Also post the transaction to the respective ledger accounts.**



| Jan. 2016 | | ₹ |
|---|---|---|
| 1 | The Petty Cash received by cheque | 300.00 |
| 2 | Carriage | 4.00 |
| 3 | Coolie charges | 5.50 |
| 6 | Postal stamps | 17.75 |
| 8 | Revenue stamps | 4.50 |
| 10 | Bought stationery for office use | 14.90 |
| 13 | Bought envelopes | 9.40 |
| 17 | Safety pin box | 5.00 |
| 19 | Printing bill | 25.00 |
| 23 | Travelling expenses to salesman | 45.25 |
| 25 | Subscription to Economic Times | 10.50 |
| 26 | Paid to Waikar on account | 17.00 |
| 27 | Railway fare for sale executive | 35.60 |
| 28 | Tea to office staff | 31.40 |
| 30 | Paid advertising bill | 10.25 |

**Solution:**

**Petty Cash Book (Analytical Cash Book)**

| Date | Particulars | Receipt | Payment | Carriage & Coolie | Postage | Office exp. | Stationery | Travelling exp. | Advertisement | Advance |
|---|---|---|---|---|---|---|---|---|---|---|
| Jan. 2016 | | | | | | | | | | |
| 1 | To Main cash/Bank A/c | 300.00 | | | | | | | | |
| 2 | By Carriage | | 4.00 | 4.00 | | | | | | |
| 3 | By Coolie charges | | 5.50 | 5.50 | | | | | | |
| 6 | By Postage exp. | | 17.75 | | 17.75 | | | | | |
| 8 | By Revenue stamp | | 4.50 | | | 4.50 | | | | |
| 10 | By Stationery | | 14.90 | | | | 14.90 | | | |
| 13 | By Stationery (envelop) | | 9.40 | | | | 9.40 | | | |
| 17 | By Stationery (Pins) | | 5.00 | | | | 5.00 | | | |
| 19 | By Stationery (Printing) | | 25.00 | | | | 25.00 | | | |
| 23 | By Travelling exp. | | 45.25 | | | | | 45.25 | | |
| 25 | By Office exp. | | 10.50 | | | 10.50 | | | | |
| 26 | By Advance (Waikar) | | 17.00 | | | | | | | 17.00 |
| 27 | By Travelling exp. | | 35.60 | | | | | 35.60 | | |
| 28 | By Office exp. (Tea) | | 31.40 | | | 31.40 | | | | |
| 30 | By Advertisement | | 10.25 | | | | | | 10.25 | |
| | Total | | 236.05 | 9.50 | 17.75 | 46.40 | 54.30 | 80.85 | 10.25 | 17.00 |
| | By Balance | | 63.95 | | | | | | | |
| | | 300.00 | 300.00 | | | | | | | |

**Posting from above petty cash book to ledger accounts will be made as follows:**

**Carriage and Coolie Charges Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | 9.50 | | | |

**Postage Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | 17.75 | | | |

**Office Expenses Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | 46.40 | | | |

**Stationery Expenses Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | 54.30 | | | |

**Travelling Expenses Account**

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | | 80.85 | | | | |

**Advertisement Account**

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | | 10.25 | | | | |

**Advance Account**

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 31.1.2016 | To Petty Cash | | 17.00 | | | | |

## Sales Book

**Q.6 From the transactions given below prepare the Sales Book of Amin Chand, a furniture dealer:**

**June, 2016**

| | | |
|---|---|---|
| 5 | Sold on credit to Ideal College : | 10 tables @ ₹ 25 less 10%<br>10 chairs @ ₹ 15 |
| 8 | Sold Mohan Bros. : 5 stools @ ₹ 10 | |
| 10 | Sold on credit M/s. Golchand & Co.: 3 tables @ ₹ 75, 5 chairs @ ₹ 30 | |
| 20 | Sold to M/s. Ram Lal & Sons for cash 5 tables @ ₹ 40 | |
| 27 | Sold on credit to Anand Pal & Co. old type-writer for ₹ 400 | |



**Solution:**

**Sales Book of Amin Chand** page No.-11

| Date | Particulars | Invoice No. | L.F. | Details | ₹ Net Invoice |
|---|---|---|---|---|---|
| 5.6.2016 | Ideal College | | 28 | | |
| | 10 tables @ ₹ 25 | | | 250 | |
| | 10 chairs @ ₹ 15 | | | 150 | |
| | | | | 400 | |
| | Less : 10% Trade Discount | | | 40 | 360 |
| 8.6.2016 | Mohan Bros. | | 17 | | |
| | 5 stools @ ₹ 10 | | | | 50 |
| 10.6.2016 | M/s Golchand & Co. | | 35 | | |
| | 3 tables @ ₹ 75 | | | 225 | |
| | 5 chairs @ ₹ 3 | | | 150 | 375 |
| | Total | | | | 785 |

1. Cash transaction of 20.6 will not be entered in sales book. Asset sale will not be recorded in sales book. Cash sale will be recorded in cash book & sale of Asset on credit will be recorded in Journal.
2. Additional columns to note other details, can be made as per requirement.

Posting from sales book will be done as follows: (hypothetical folio numbers have been used)

**Ideal College account** page No.-28

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 5.6 | To Sales A/c | 11 | 360 | | | | |

**Mohan Bros. Account** page No.-17

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 8.6 | To Sales A/c | 11 | 50 | | | | |

**Golchand & Co. Account** page No.-35

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| 10.6 | To Sales A/c | 11 | 375 | | | | |

**Sales Account** page No.4

| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | | 20.6 | By Cash A/c | | 200 |
| | | | | 30.6 | By Sundry debtors | 11 | 785 |

1. Balancing of accounts is not done because these are not yet complete.
2. Folio numbers have been hypothetically given to explain the concept of folio number.

**Q.7 From the following transactions prepare the purchase book of Admas for July, 2016 and prepare ledger accounts connected with this book.**

| | |
|---|---|
| **1.7.16** | **Purchased on credit from Paul & Co. : 50 Electric Irons @ 25, 10 Toasters @ ₹ 30** |
| **6** | **Purchased for Cash from John & Bros. : 25 Table Lamps @ ₹ 15** |
| **10** | **Purchased from Harsh & Sons on credit : 20 Electric Stoves @ ₹ 20, 10 Heaters @ ₹ 30.** |
| **16** | **Purchased on credit from More & Co. : 15 Heaters @ ₹ 20.** |
| **20** | **Purchased on credit one typewriter from Remington and for 1,500** |

**Solution:** Purchase Book of Admas

| Date | Particulars | Invoice No. | L.F. | Details | ₹ Net Invoice |
|---|---|---|---|---|---|
| 1.7.2016 | Paul & Co. | | | | |
| | 50 Electric Irons @ ₹ 25 | | | 1,250 | |
| | 10 Toasters @ ₹ 30 | | | 300 | 1,550 |
| 10.7.2016 | Harsh & Sons | | | | |
| | 20 Electric Stoves @ ₹ 20 | | | 400 | |
| | 10 Heaters @ ₹ 30 | | | 300 | 700 |
| 16.7.2016 | More & Co. | | | | |
| | 15 Heaters @ ₹ 20 | | | | 300 |
| | Total | | | | 2,550 |

**Posting:** Total ₹ 2,550 shall be debited to purchase A/c & individual figures will be credited to respective parties A/c.

**Note:** Cash purchase of 6.7 will be entered in Cash Book & Purchase of Asset (Typewriter) on Credit will be recorded in Journal.

**Q.8 An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.**

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

**Draw up a corrected Trial Balance by debiting or crediting any residual errors to a Suspense account.** **[Nov. 2019, 5 Marks]**



**Solution:**

**Trial Balance as on 31st March, 2019**

| S. No. | Name of accounts | L.F. | Dr. Bal. | Cr. Bal. |
|---|---|---|---|---|
| 1. | Provision for Doubtful Debts | | | 250 |
| 2. | Cash Credit Account | | | 1654 |
| 3. | Capital | | | 4591 |
| 4. | Trade Payables | | | 1637 |
| 5. | Due from Customers | | 2983 | |
| 6. | Discount Received | | | 252 |
| 7. | Discount Allowed | | 733 | |
| 8. | Drawings | | 1200 | |
| 9. | Office Furniture | | 2155 | |
| 10. | Carriage Inward | | 829 | |
| 11. | Purchases | | 10,923 | |
| 12. | Returns Inward | | 330 | |
| 13. | Rent & Rates | | 314 | |
| 14. | Salaries | | 2520 | |
| 15. | Sales | | | 16,882 |
| 16. | Inventory | | 2418 | |
| 17. | Provision for Depreciation on Furniture | | | 364 |
| 18. | Suspense A/c (bal. Fig.) | | 1225 | |
| | **Total** | | **25,630** | **25,630** |

**Q.9 The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.**

(*i*) **Sold to M/s. Ashok & Mukesh on Credit:**

**40 Shirts @ ₹ 900 per shirt**

**30 trousers @ ₹ 1,000 per trouser**

***Less*: Trade discount @ 10%**

(*ii*) **Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000**

(*iii*) **Sold 15 shirts to Aman @ ₹ 750 each for cash.** **[Nov. 2020, 4 Marks]**

**Solution:**

**In the books of M/s. Kamal & Sons**

**Sales Book**

| Date | Particulars | Invoice No. | L.F | Details (₹) | Amount (₹) |
|---|---|---|---|---|---|
| 2020 | M/s. Ashok & Mukesh | | | | |
| | 40 Shirts @ ₹ 900 | | | 36,000 | |
| | 30 Trousers @ ₹ 1000 | | | 30,000 | |
| | | | | 66,000 | |
| | **Less:** 10% Trade discount | | | (6600) | 59,400 |
| | **Total** | | | | **59,400** |

**Note:-**

1. Furniture sold on credit is not sale of goods, so it will not be recorded in Sales Book.
2. Goods sold in cash are not recorded in Sales Book.

**Q.10 From the following information prepare the Purchase Book of M/s. Shyam & Company :**

**(i) Purchased from Red & Company on credit:**

- **10 pair of black shoes @ ₹ 800 per pair**
- **5 pair of brown shoes @ 900 per pair**

***Less :* Trade Discount @ 10%**

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

**(iii) Purchased from Blue & Company in cash :**

- **5 pair of black shoes @ ₹ 700 per pair**
- **15 pair of brown shoes @ 100 per pair**

***Less :* Trade Discount @ 15%** **[July 2021, 5 Marks]**

**Solution :**

**In the Books of M/s. Shyam & Co.**

**Purchase Book**

| Date | Particulars | L.F. | Details | Amount (₹) |
|---|---|---|---|---|
| (i) | Red and Company | | | |
| | 10 pair of Black Shoes @ ₹ 800 per pair | | 8,000 | |
| | 5 pair of Brown shoes @ ₹ 900 per pair | | 4,500 | |
| | | | 12,500 | |
| | *Less:* 10% Trade Discount | | (1,250) | 11,250 |
| | **Total** | | | **11,250** |

**Note:** (a) Purchase of Computer is not recorded in Purchase book.

(b) Purchase of Goods in cash is not recorded in Purchase book.



**Q.11 From the following information, draw up a Trial Balance in the books of Shri M as on 31st March, 2021:**

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

**[Dec. 2021, 5 Marks]**

**Solution :**

**In the Books of Shri M**

**Trial Balance as on 31st March, 2021**

| Name of Accounts | L.F. | Debit Bal. (₹) | Credit Bal. (₹) |
|---|---|---|---|
| Capital | | -- | 1,40,000 |
| Purchases | | 36,000 | -- |
| Discount Allowed | | 1,200 | -- |
| Carriage Inward | | 8,700 | -- |
| Carriage Outward | | 2,300 | -- |
| Sales | | -- | 60,000 |
| Return Inward | | 300 | -- |
| Return Outward | | -- | 700 |
| Rent & Taxes | | 1,200 | -- |
| Plant & Machinery | | 80,700 | -- |
| Stock on 1st April, 2020 | | 15,500 | -- |
| Sundry Debtors | | 20,200 | -- |
| Sundry Creditors | | -- | 12,000 |
| Investments | | 3,600 | -- |
| Commission Received | | -- | 1,800 |
| Cash in Hand | | 100 | -- |
| Cash at Bank | | 10,100 | -- |
| Motor Cycle | | 34,600 | -- |
| **Total** | | **2,14,500** | **2,14,500** |

**Information** : Closing Stock as on 31st March, 2021 is ₹ 20,500.

**Q.12 One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement:**

| | Dr. (₹) | Cr. (₹) |
|---|---|---|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold Premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | | 1,590 |
| Purchases | 3,777 | |
| Purchase Return | 792 | |
| Loan from Bank | | 768 |
| Trade Expense | 2,100 | |
| Trade Payable | 1,584 | |
| Bills Payable | 300 | |
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Opening Inventory | | 792 |
| Rent and Rates | 1,389 | |
| Sales Return | | 294 |
| | 16,362 | 16,362 |

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

**[June 2022, 4 Marks]**

**Solution :**

**In the Books of Mr. X**

**Corrected Trial Balance as on 31st March, 2022**

| Name of Accounts | Dr. (₹) | Cr. (₹) |
|---|---|---|
| X's Capital | -- | 4,668 |
| X's Drawings | 1,692 | - |
| Leasehold Premises | 2,250 | - |
| Sales | - | 8,250 |
| Due from customers | 1,590 | -- |
| Purchases | 3,777 | -- |



| Name of Accounts | Dr. (₹) | Cr. (₹) |
|---|---|---|
| Purchase return | - | 792 |
| Loan from Bank | - | 768 |
| Trade Expense | 2,100 | -- |
| Trade Payable | -- | 1,584 |
| Bills Payable | -- | 300 |
| Salaries and Wages | 1,800 | -- |
| Cash at Bank | 678 | -- |
| Opening Inventory | 792 | -- |
| Rent and Rates | 1,389 | -- |
| Sales Return | 294 | |
| Total | 16,362 | 16,362 |

**Reasons:-**

1. Due from customer & opening inventory are treated as assets of the business so they are recorded in the debit side of trial balance.
2. Trade payable & Bills Payable are treated as liabilities so they are recorded on a credit side of trial balance.
3. Purchase return & Sales return always show the credit balance & debit balance respectively.

**Q.13 Prepare a Triple Column Cash book from the following transactions of M/s. Raj Agencies and bring down the balance for the start of next month :**

| 2022 | | | (₹) |
|---|---|---|---|
| March | 1 | Cash in hand | 30,000 |
| | 1 | Cash at bank | 1,20,000 |
| | 2 | Paid into bank | 10,000 |
| | 5 | Bought furniture and issued cheque | 15,000 |
| | 8 | Purchased goods for cash | 5,000 |
| | 12 | Received cash from Mohan | 9,800 |
| | | Discount, allowed to him | 200 |
| | 14 | Cash sales | 50,000 |
| | 16 | Paid to Lata by cheque | 14,500 |
| | | Discount received | 500 |
| | 19 | Paid into Bank | 5,000 |
| | 23 | Withdrawn from Bank for Private expenses | 6,000 |
| | 24 | Received cheque from Gupta | 14,300 |
| | | Allowed him discount | 200 |

| 2022 | | | (₹) |
|---|---|---|---|
| | 26 | Deposited Gupta's cheque into Bank | |
| | 28 | Withdrew cash from Bank for Office use | 20,000 |
| | 30 | Paid rent by cheque | 8,000 |

**[Dec. 2022, 5 Marks]**

**Solution :**

**In the books of M/s Raj Agencies**

**Triple Column Cash Book**

| Date | Particulars | L.f. | Dis-count | Cash | Bank | Date | Particulars | L.f. | Dis-count | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | | | | | | 2022 | | | | | |
| Mar 1 | To Balance b/d | | – | 30,000 | 1,20,000 | Mar 2 | By Bank (c) | | | 10,000 | – |
| " 2 | To Cash (c) | | – | – | 10,000 | " 5 | By Furniture | | | – | 15,000 |
| " 12 | To Mohan | | 200 | 9,800 | – | " 8 | By Purchases | | | 5,000 | – |
| " 14 | To Sales | | – | 50,000 | – | " 16 | By Lata | | 500 | – | 14,500 |
| " 19 | To Cash (c) | | – | – | 5,000 | " 19 | By Bank (c) | | | 5,000 | – |
| " 24 | To Gupta | | 200 | 14,300 | – | " 23 | By Drawings | | | – | 6,000 |
| " 26 | To Cash (c) | | – | – | 14,300 | " 26 | By Bank (c) | | | 14,300 | – |
| " 28 | To Bank (c) | | – | 20,000 | – | " 28 | By Cash (c) | | | – | 20,000 |
| | | | | | | " 30 | By Rent | | | – | 8,000 |
| | | | | | | " 31 | By Balance c/d | | – | 89,800 | 85,800 |
| | Total | | 400 | 1,24,100 | 1,49,300 | | Total | | 1,24,100 | 1,24,100 | 1,49,300 |
| April 1 | To Balance b/d | | – | 89,800 | 85,800 | | | | | | |

**Q. 14 Enter the following transactions in Sales Book of Gurgaon Engineers. Gurgaon for January, 2022:**

| 2022 January | |
|---|---|
| 5 | Sold to Praneet Electricals 10 pieces of microwaves @ ₹ 8,500/- each less trade discount 15% |
| 10 | Sold to Ajanta plaza 8 pieces of Mixer grinders @ ₹ 12,500/- each less trade discount 10% |
| 20 | Sold to Naveen traders, 15 pieces of juicers @ ₹ 5,500/- each less trade discount 5% |

**[June 2023, 4 Marks]**



**Solution :**

**In the Books of Gurgaon Engineers**

**Sales Book**

| Date 2022 | Name of customers | Invoice No. | L/F. | Details (₹) | Amount (₹) |
|---|---|---|---|---|---|
| Jan. 5 | Praneet Electricals | | | | |
| | 10 pieces of microwaves @ ₹ 8,500 each | | | 85,000 | |
| | Less: @ 15% Trade discount | | | (12,750) | 72,250 |
| 10 | Ajanta plaza | | | | |
| | 8 pieces of Mixer grinders @ ₹ 12,500 each | | | 1,00,000 | |
| | Less: @10% Trade discount | | | (10,000) | 90,000 |
| 20 | Naveen Traders | | | | |
| | 15 pieces of juicers @ ₹ 5,500 each | | | 82,500 | |
| | Less: @ 5% Trade discount | | | (4,125) | 78,375 |
| | **Total** | | | | **2,40,625** |

# 9 CHAPTER BANK RECONCILIATION STATEMENT

## SHORT NOTES

### Q.1 Meaning of Bank Reconciliation Statement

**Ans. Meaning of Bank Reconciliation Statement**

A bank A/c or bank book is maintained by us to record the transactions with bank. Similarly bank maintains our A/c in their books. A copy of which is given to us known as bank statement or passbook. All the transactions recorded by us will be recorded by bank also, therefore normally the balance shown by the two books must be same and should be opposite balance. But practically this balances at a particular time (*i.e.* on a particular date) doesn't tally because there is always some time gap between recording of the same transaction by us and by bank.

To find out the causes of difference, we prepare a **Bank Reconciliation Statement (BRS)**. The items which comes in Reconciliation statement, can be grouped in following 4 categories:

(1) Items recorded by bank but not recorded in our books.

**Ex.: a.** Bank charges charged by Bank **b.** Interest credited by Bank

(2) Recorded by us but not recorded by bank. (Bank will record at a latter date).

**Ex. a.** Cheque deposited but not yet realised **b.** Cheque issued but not yet paid by Bank

(3) Errors committed in our books (*i.e.* in cash book - bank column).

**Ex. a.** Totalling, balancing error **b.** Cheque deposited & returned dis-honoured but not yet reversed.

(4) Errors committed by bank (*i.e.* in pass book).

**Ex. a.** Totalling, balancing error **b.** An item of some other person debited or credited to our A/c.

## TRUE OR FALSE

**Q.1 The interest charged by Banker to customer on overdrawn account is called Red ink interest.**

**Ans. False:** Interest charged by banker to customer on overdrawn account is called 'interest on overdraft'.

**Q.2 Bank reconciliation statement is prepared to arrive at the bank balance.**

**Ans. False:** Bank reconciliation statement is prepared to reconcile the differences between bank balance as per cash book and balance in bank statement.

**Q.3 Interest charged by the bank will be deducted, when the overdraft as per the cash book is the starting point for making the bank reconciliation statement.**

**Ans. False:** Interest charged by the bank will be added because it will increase the overdraft as shown by the cash book.

**Q.4 If the balance as per cash book and pass book are the same, there is no need to prepare a reconciliation statement.**

**Ans. False:** Bank reconciliation statement is prepared to find out the reasons of difference in cash book and pass book even if the balance as per cash book and pass book are same.

## PRACTICAL QUESTIONS

**Q.1 From the following particulars prepare a Bank Reconciliation Statement as on 31st December, 2015:**

**(1) On 31st December, 2015 the Cash-book of a firm showed deposit with bank Dr. balance of ₹ 6,000.**

**(2) Cheques had been issued for ₹ 5,000, out of which cheques worth ₹ 4,000 only were presented for payment.**

**(3) Cheques worth ₹ 1,400 were deposited in the bank on 28th December, 2015 but had not been credited by the bank. In addition to this, one cheque for ₹ 500 was entered in the Cash-book on 30th December, 2015 but was banked on 3-1-2016.**

**(4) A cheque from Susan for ₹ 400 was deposited in the bank on 26th December, 2015 but was dishonoured and the advice was received on 2-1-2016.**

**(5) Pass-book showed bank charges of ₹ 20 debited by the bank.**

**(6) One of the debtors deposited a sum of ₹ 500 in the bank account of the firm on 20th December, 2015 but the intimation in this respect was received from the bank on 2-1-2016.**

**(7) Bank Pass-book showed a credit balance of ₹ 5,180 on 31st December, 2015.**



**Solution:**

**BRS in Add less form**

| | | | |
|---|---|---|---|
| Balance as per Cash Book (deposit) | | | 6,000 |
| *Add:* | Cheques issued but not yet paid | 1,000 | |
| | Cheques directly deposited in Bank | 500 | 1,500 |
| | | | 7,500 |
| *Less:* | Cheques deposited but not yet realized | 1,400 | |
| | Cheques received & entered but not yet deposited | 500 | |
| | Cheques deposited & dishonoured | 400 | |
| | Bank charges charged by Bank | 20 | 2,320 |
| Balance as per Pass book (deposit) | | | 5,180 |

**Q.2 The cash book of a firm showed an overdraft (Cr) of ₹ 30,000 on 31st March, 2016. A comparison of the entries in the cash book and pass book revealed that -**

**(*i*) On 22nd March, 2016, cheques totalling ₹ 6,000 were sent to bankers for collection. Out of these, a cheque for ₹ 1,000 was wrongly recorded on the credit side of the cash book and cheques amounting to ₹ 300 could not be collected by bank before 1st April, 2016.**

**(*ii*) A cheque for ₹ 4,000 was issued to a supplier on 28th March, 2016. The cheque was presented to bank on 4th April, 2016.**

**(*iii*) There were debits of ₹ 2,600 in the pass book for interest on overdraft and bank charges, but the same had not been recorded in the cash book.**

**(*iv*) A cheque for ₹ 1,000 was issued to a creditor on 27th March, 2016 but by mistake the same was not recorded in the cash book. The cheque was, however, duly encashed by 31st March, 2016.**

**(*v*) As per standing instructions, the banker collected dividend of ₹ 500 on behalf of the firm and credited the same to its account by 31st March, 2016. The fact was, however, intimated to the firm on 3rd April, 2016.**

**You are required to prepare a bank reconciliation statement as on 31st March, 2016.**

**Solution:**

**Bank Reconciliation Statement as on 31.3.16**

| Particulars | Debit | Credit |
|---|---|---|
| Balance as per Cash Book (Overdraft) | | 30,000 |
| Cheques deposited but not realised | | 300 |
| Cheques deposited wrongly credited in Cash book | 2,000 | |
| Cheques issued but not yet paid | 4,000 | |

| Particulars | Debit | Credit |
|---|---|---|
| Bank charges & interest charged by Bank | | 2,600 |
| Cheques issued but not recorded | | 1,000 |
| Dividend directly collected by Bank | 500 | |
| Balance as per Pass book (Overdraft) | 27,400 | |
| | 33,900 | 33,900 |

**Alternatively Bank Reconciliation Statement can be made in Add-Less form**

| | | |
|---|---|---|
| Balance as per Cash Book (O.D.) | | 30,000 |
| *Add:* Cheque deposited but not realised | 300 | |
| Bank charges & interest charged by Bank | 2,600 | |
| Cheque issued but not recorded | 1,000 | 3,900 |
| | | 33,900 |
| *Less:* Cheque deposited but wrongly credited in cash book | 2,000 | |
| Cheques issued but not yet paid | 4,000 | |
| Dividend directly collected by Bank | 500 | 6,500 |
| Balance as per Pass book (O.D.) | | 27,400 |

**Note:** While converting BRS in add-less form see that starting balance is credit hence add all credit items & deduct all debit items.

**Q.3 From the following information (as on 31.3.2016), prepare a Bank Reconciliation Statement after making necessary amendments in the Cash-book:**

| | ₹ |
|---|---|
| **Bank balance as per Cash Book (Dr.)** | **3,25,000** |
| **Cheques deposited, but not yet credited** | **4,47,500** |
| **Cheques issued but, not yet presented for payment** | **3,56,200** |
| **Bank charges debited by Bank but not recorded in Cash-book** | **1,250** |
| **Dividend directly collected by bank** | **12,500** |
| **Insurance premium paid by bank as per standing instruction not intimated** | **15,900** |
| **Cash sales wrongly recorded in the bank column of the Cash-book** | **25,500** |
| **Customer's cheque dishonoured by bank not recorded in Cash-book** | **13,000** |
| **Wrong Credit given by bank** | **15,000** |

**Also show the bank balance that will appear in the Trial Balance as on 31.3.2016.**



**Solution:**

**Cash Book as on 31.3.2016 (Bank Column)**
**(after making necessary amendments)**

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 3,25,000 | By Bank charges A/c | 1,250 |
| To Dividend income A/c | 12,500 | By Insurance premium A/c | 15,900 |
| | | By Cash Sales (wrongly recorded) A/c | 25,500 |
| | | By Debtors (cheque dishonoured) A/c | 13,000 |
| | | By Balance c/d (corrected/final balance) | 2,81,850 |
| | 3,37,500 | | 3,37,500 |

**Bank Reconciliation Statement as on 31.3.2016**

| Particulars | ₹ | ₹ |
|---|---|---|
| Bank balance as per Cash Book (deposit balance) | | 2,81,850 |
| *Add:* Cheques issued, not yet presented for payment | 3,56,200 | |
| Wrong credit given by bank | 15,000 | 3,71,200 |
| | | 6,53,050 |
| *Less:* Cheques deposited, not yet credited by bank | | 4,47,500 |
| Balance as per Pass Book | | 2,05,550 |

**Note:** The bank balance of ₹ 2,81,850 will appear in the trial balance as on 31st March, 2016 & consequently in Balance sheet.

**Alternatively Bank Reconciliation Statement can be made in Add-Less form.**

**BRS as on 31.3.2016**

| Particulars | Dr. | Cr. |
|---|---|---|
| Corrected Balance as per Cash Book (Deposit) | 281850 | |
| Cheques deposited by not yet realised by bank | | 447500 |
| Cheques issued but not yet paid by Bank | 356200 | |
| Wrong Credit given by Bank | 15000 | |
| Balance as per Pass book (deposit) | | 205550 |
| | 653050 | 653050 |

**Q.4 Perfect Pvt. Ltd., has two accounts with Ever Bank Ltd. The account were known as 'Account-I' and 'Account-II'. As at December, 31, 2015 the balance as per A/c books reflected the following :**

**Account-I ₹ 1,25,000 Regular balance. Account-II ₹ 1,11,250 Overdraft balance.**

**The accountant failed to tally the balance with the Pass Book and the following information was available:**

1. **The Bank has charged Interest on Account-II, ₹ 11,375 and credited Interest on Account-I, ₹ 1,250. These were not recorded by the accountant.**
2. **₹ 12,500 drawn on Dec.10, 2015, from Account-I was recorded in the books of Account-II.**
3. **Bank charges of ₹ 150 and ₹ 1,125 for Account-I and Account-II were not recorded in the books.**
4. **A deposit of ₹17,500 in Account-I was wrongly entered in Account-II in the books.**
5. **Two cheques of ₹ 12,500 and ₹ 13,750 deposited in Account-I, but entered in Account-II in books, were dishonoured. The entries for dishonoured cheques were entered correctly in Account-II.**
6. **Cheques issued for ₹ 1,50,000 and ₹ 15,000 from Accounts-I and II respectively, were not presented till 5th January, 2016.**
7. **Cheques deposited ₹ 1,25,000 and ₹ 1,17,500 in Accounts-I and II respectively, were credited by bank only on February, 2, 2016.**

**You are required to prepare the Bank Reconciliation Statement for Accounts-I and II.**

**Solution:**

**Bank reconciliation statement : Account - I**

| Particulars | Amount (Dr.) | Amount (Cr.) |
|---|---|---|
| **Balance as per cash book (Deposit)** | 1,25,000 | |
| Interest credited by bank | 1,250 | |
| Withdrawal from bank not yet recorded by us | | 12,500 |
| Bank charges charged by bank | | 150 |
| Cheque deposited but not yet entered in our book | 17,500 | |
| Cheque issued but not yet paid | 1,50,000 | |
| Cheque deposited but not yet realised | | 1,25,000 |
| **Balance as per pass book (Deposit)** | | 1,56,100 |
| | 2,93,750 | 2,93,750 |

**Bank reconciliation statement: Account - II**

| Particulars | Amount (Dr.) | Amount (Cr.) |
|---|---|---|
| **Balance as per cash book (O.D.)** | | 1,11,250 |
| Interest charged by bank | | 11,375 |
| Withdrawal from A/c-I wrongly recorded in A/c-II | 12,500 | |
| Bank charges charged by bank | | 1,125 |
| Deposit in A/c- I is wrongly entered in A/c- II | | 17,500 |
| Cheque issued but not yet paid | 15,000 | |
| Cheque deposited but not yet realised | | 1,17,500 |
| **Balance as per pass book (O.D.)** | 2,31,250 | |
| | 2,58,750 | 2,58,750 |



**Note:** In both the BRS no effect has come for item (e) because entry for deposit as well as its dishonour both has come in A/c-II. That means it has *nil* effect every where.

Entry in our books for items (b) & (d) will be as follows, at the time of finalization:

| **Entry for (b)** | | | **Entry for (d)** | | |
|---|---|---|---|---|---|
| Bank A/c II Dr. | 12500 | | Bank A/c I Dr. | 17500 | |
| To Bank A/c I | | 12500 | To Bank A/c II | | 17500 |

**Q.5 Based on the following extracts from the Cash Book and the Pass Book for the month of January, 2016, prepare the Bank Reconciliation Statements as on 31st Jan., 2016.**

**Cash Book (Bank Columns Only)**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Jan 3 | To Cash | 300 | Jan 1 | By Balance b/d | 5,000 |
| Jan 4 | To Ram | 1,300 | Jan 16 | By Cash | 300 |
| Jan 5 | To Shyam | 250 | Jan 17 | By Bharat | 1,350 |
| Jan 6 | To Krishna | 500 | Jan 18 | By Charat | 500 |
| Jan 10 | To Bill of Exchange (Discount of ₹ 100) | 1,900 | | | |
| Jan 31 | To Balance c/d | 2,900 | | | |
| | | 7,150 | | | 7,150 |

**Pass Book**

| Date | Particulars | Withdrawal | Deposits | Dr./Cr. | Balance |
|---|---|---|---|---|---|
| 2016 | | ₹ | ₹ | | ₹ |
| Jan 1 | To Balance b/d | — | — | Dr. | 5,000 |
| Jan 3 | By Cash | — | 300 | Dr. | 4,700 |
| Jan 8 | By Shyam | — | 250 | Dr. | 4,450 |
| Jan 9 | By Krishna | — | 500 | Dr. | 3,950 |

| Date | Particulars | Withdrawal | Deposits | Dr./Cr. | Balance |
|---|---|---|---|---|---|
| 2016 | | ₹ | ₹ | | ₹ |
| Jan 10 | To Krishna's Cheque Dishonoured | 500 | — | Dr. | 4,450 |
| | By Bills of Exchange (Discounted) | 100 | 2,000 | Dr. | 2,550 |
| | To Bills of Exchange (Dishonoured) | 2,000 | — | Dr. | 4,550 |
| Jan 16 | To Cash | 300 | — | Dr. | 4,850 |
| Jan 18 | To Bharat | 500 | — | Dr. | 5,350 |
| Jan 31 | To Bank Charges | 20 | — | Dr. | 5,370 |
| Jan 31 | To Life Insurance premium as per instruction | 250 | — | Dr. | 5,620 |
| Jan 31 | By Dividend and interest collected as per instruction | — | 1,050 | Dr. | 4,570 |

**Solution :**

**Bank Reconciliation Statement as on 31st January, 2016**

| Particulars | Dr. ₹ | Cr. ₹ |
|---|---|---|
| (A) Overdraft as per Cash Book | | 2,900 |
| (B) *Less:* (*a*) Cheques issued but not yet presented for payment (To Bharat) | 1,350 | |
| (*b*) Dividend and Interest Collected by Bank | 1,050 | |
| (C) *Add :* (*a*) Cheques deposited but not yet cleared (From Ram) | | 1,300 |
| (*b*) Bank Charges debited | | 20 |
| (*c*) Insurance Premium as per instruction | | 250 |
| (*d*) Cheques dishonoured not entered in cash book | | 500 |
| (*e*) Bill of Exchange dishonoured | | 2,000 |
| | 2,400 | 6,970 |
| (D) Overdraft as per Pass Book | 4,570 | |
| | 6970 | 6970 |

**Q.6 The Bank Pass Book of Account No. 5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:**

**(*i*) A Cheque of ₹ 1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.**

**(*ii*) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.**



**(*iii*) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.**

**(*iv*) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.**

**(*v*) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No. 8765.**

**(*vi*) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.**

**(*vii*) A Bill Receivable for ₹ 5,200 previously discounted (Discount ₹ 200) with the Bank had been dishonoured but advice was received on 1st April, 2018.**

**(*viii*) A Bill for ₹ 10,000 was retired/paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.**

**(*ix*) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.**

**Prepare Bank Reconciliation Statement as on 31st March, 2018.**
**[May 2018, 10 Marks]**

**Solution :**

**Bank Reconciliation Statement as on 31st March, 2018**

| Particulars | ₹ |
|---|---|
| **Bank balance (Debit i.e. overdraft) as per Bank Pass book** | **33,575** |
| (*i*) No adjustment required as there would be no difference on 31.3.18 | |
| (*ii*) *Add:* No entry in Cash book for interest collection by Bank | 2,800 |
| (*iii*) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book | (7,500) |
| (*iv*) *Add:* Cheque credited in cash book but not debited in pass book | 2,500 |
| (*v*) *Add:* Reversal of wrong Credit | 500 |
| *Less:* Reversal of wrong debit | (300) |
| (*vi*) *Less:* Cheque of ₹ 1,000 entered in cash book but omitted to be banked | (1,000) |
| (*vii*) *Less:* Discounted bill dishonoured but no entry in Cash book | (5,200) |
| (*viii*) *Add:* Rebate on bill retired not entered in cash book | 175 |
| (*ix*) *Add:* Cheques deposited in bank not yet recorded in cash book | 2,400 |
| **Balance (Cr. *i.e.* overdraft) as per Cash book** | **27,950** |

**Note:** A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.

**Q.7 Prepare a bank reconciliation statement from the following particulars as on 31st March 2018:** **[Nov. 2018, 10 Marks]**

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

**Solution :**

**Bank Reconciliation Statement**

**(as on March 31, 2018)**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| **Debit balance as per cash Book** | | 18,60,000 |
| *Add:* Cheque Issued but not yet presented | 3,60,000 | |
| Dividend received by the Bank | 2,50,000 | |
| Interest Allowed by the Bank | 6,250 | 6,16,250 |
| | | 24,76,250 |
| *Less:* Cheques deposited but not collected | 7,70,000 | |
| Bank charges not entered in cash book | 1,000 | |
| Cheque deposited into bank but dishonoured | 1,60,000 | |
| House Tax Paid By Bank | 1,75,000 | 11,06,000 |
| **Credit Balance as per Pass Book** | | **13,70,250** |

**Q.8 Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June, 2018 from the particulars given below :**

(*i*) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2018.

(*ii*) A cheque worth ₹ 400 directly deposited into Bank by a customer but no entry was made in the Cash Book.

(*iii*) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2018.

(*iv*) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(*v*) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under :



(1) Cheques collected before 30th June, 2018, ₹ 14,000

(2) Cheques collected on 10th July, 2018, ₹ 4,000

(3) Cheques collected on 12th July, 2018, ₹ 2,000.

(*vi*) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.

(*vii*) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.

(*viii*) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.

(*ix*) The credit side of bank column of Cash Book was undercast by ₹ 2,000.

**[May 2019, 10 Marks]**

**Solution :**

**Bank Reconciliation Statement of M/s R.K. Brothers as on 30th June, 2018**

| | ₹ | ₹ |
|---|---|---|
| **Debit Balance as per Pass Book (overdraft )** | | **25,000** |
| **Add:** Cheque directly deposited into Bank, but not entered in Cash Book | 400 | |
| Cheque issued but not presented for payment till 30th June, 2018 | 14,000 | |
| Bank charges charged by Bank, recorded twice. | 80 | 14,480 |
| | | 39,480 |
| **Less:** Cheque entered in Cash Book but not sent to the Bank | 4,000 | |
| Cheques sent but not collected by Bank (4,000+2,000) | 6,000 | |
| Direct payment made by Bank, not recorded in Cash Book | 600 | |
| Interest on Overdraft charged by Bank, not recorded in Cash Book | 1,600 | |
| Insurance Charges directly paid by Bank | 70 | |
| Credit side of bank column of Cash Book undercasted | 2,000 | 14,270 |
| **Credit Balance as per Cash Book (overdraft)** | | **25,210** |

**Q.9** On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

(*i*) A cheque for ₹ 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.

(*ii*) A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.

**(iii)** On 29th September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.

**(iv)** Bank charges amounting to ₹ 280 had not been entered in the cash book.

**(v)** On 6th September, 2018, the bank credited ₹ 30,000 to XYZ in error.

**(vi)** A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.

**(vii)** Cheques issued upto 30th September, 2018 but not presented for payment upto that date totalled ₹ 13,46,000.

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

***You are required:***

***To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date.*** **[Nov. 2019, 10 Marks]**

**Solution :**

### Adjusted Cash Book (Bank Column only)

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| | | | 2018 | | |
| | To Amount wrongly entered twice | 18000 | 30 Sept. | By Bal. b/d | 8062 |
| | To Customer (Direct Deposit) | 115400 | | By Bank charges | 280 |
| | To Bills receivable | 59000 | | By Customer | 160000 |
| | (60000-1000) | | | (B/R dishonoured) | |
| | To Bal. c/d | 175942 | | By Bills payable | 200000 |
| | | | | | |
| | **Total** | **368342** | | **Total** | **368342** |

### Bank Reconciliation Statement as on 30th September, 2018

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Cr. Balance as per adjusted cash book | | 175942 |
| *Add:* (1) Cheque deposited but not credited by bank | 1114000 | 1114000 |
| | | 1289942 |
| *Less:* (1) Amount wrongly credited by bank | | |
| (2) Cheque issued but not presented for payment | 30000 | |
| Cr. Balance as per pass book | 1346000 | 1376000 |
| | | **86058** |



**Q.10 On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :**

**(1)** Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

**(2)** Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

**(3)** Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

**(4)** A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

**(5)** A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

**(6)** A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

**(7)** The bank allowed interest on deposit ₹ 1,000.

**(8)** A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

**Prepare Bank Reconciliation Statement as on 31-3-2020.** **[Nov. 2020, 10 Marks]**

**Solution:**

### Bank Reconciliation Statement as on 31st March, 2020

| Particulars | Details (₹) | Amount (₹) |
|---|---|---|
| Cr. Balance as per Cash Book | | 98,700 |
| **Add:** 1. Cheques deposited with bank but not credited [₹ 2,600 + ₹ 500] | 3100 | |
| 2. Bank charges & Bank interest not entered in the Cash Book [₹ 35 + ₹ 2,860] | 2895 | |
| 3. Cheque returned 'out of date' | 3500 | |
| 4. Discount allowed wrongly entered in bank column | 4000 | 13,495 |
| | | 1,12,195 |
| **Less:** 1. Cheques issued but not presented [₹ 7400 + ₹ 1500] | 8900 | |
| 2. Cheque wrongly credited to account by Bank | 1550 | |

| Particulars | Details (₹) | Amount (₹) |
|---|---|---|
| 3. Interest allowed by bank | 1000 | |
| 4. Cheque wrongly debited by bank to another account | 800 | 12,250 |
| Dr. Balance as per Pass Book | | 99,945 |

**Q.11 Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020:**

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

**[Jan. 2021, 4 Marks]**

**Solution :**

**Bank Reconciliation Statement as at 31st December, 2020**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| **Dr. Balance as per Cash Book** | | 1,98,000 |
| **Add:** 1. Received from Debtors *vide* RTGS | 1,00,000 | |
| 2. Cheque issued but not presented | 45,000 | |
| 3. Instructions given to bank for payment on 31st but bank made payment on 1st January, 2021 | 4,000 | 1,49,000 |
| | | 3,47,000 |
| **Less:** 1. Bank Charges debited by bank | 34,000 | |
| 2. Cheque deposited but not cleared | 25,000 | |
| 3. Dishonour of cheque not recorded in Cash book | 5,000 | (64,000) |
| **Cr. Balance as per Pass Book** | | **2,83,000** |

**Q.12 From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:**

(*i*) Debit balance as per Bank Pass Book ₹ 3,500.

(*ii*) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.



(*iii*) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.

(*iv*) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonoured. The Bank debited the account, but no entry was passed in the Cash Book.

(*v*) A Cheque for ₹ 1,500 was debited twice in the cash book.

**[July 2021, 5 Marks]**

**Solution :**

**Bank Reconciliation Statement as on 31st March, 2021**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Dr. Balance as per Pass Book | | 3,500 |
| **Add:** (*a*) Bills collected by bank but not entered in the Cash Book [₹ 2500 + ₹ 500] | 3,000 | 3,000 |
| | | 6,500 |
| **Less:** (*a*) Cheque deposited but returned, not entered in Cash Book | 2,500 | |
| (*b*) Bill discounted earlier but dishonoured, not entered in Cash Book | 5,000 | |
| (*c*) A Cheque wrongly debited twice in the Cash Book | 1,500 | 9,000 |
| Dr. Balance as per Cash Book | | 2,500 |

**Q.13 According to the cash book of G, there was a balance of ₹ 4,45,000 in his bank on 30th June, 2021. On investigation you find that:**

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

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

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

(*iv*) Insurance premium (upto 31st December, 2021) paid by the bank ₹ 2,700 not entered in the cash book.

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

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

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

You are required:

(1) To make the appropriate adjustments in the cash book, and

**(2) To prepare a statement reconciling it with the bank passbook.** **[Dec. 2021, 10 Marks]**

**Solution :**

**In the Books of G**

**Adjusted Cash Book (Bank Column only)**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 4,45,000 | By Insurance premium A/c | 2,700 |
| To Dividend A/c | 4,000 | By Undercasting of payment side | 500 |
| To Rent A/c | 60,000 | By Bank charges A/c | 150 |
| To Bills receivable A/c | 5,900 | By Bill payable A/c | 20,000 |
| | | By Balance c/d | 4,91,550 |
| **TOTAL** | **5,14,900** | **TOTAL** | **5,14,900** |

**Bank Reconciliation Statement as on 30th June, 2021**

| Particulars | ₹ |
|---|---|
| Balance as per Adjusted Cash book (Dr.) | 4,91,550 |
| *Add :* Cheque issued but not presented for payment till 30th June, 2019 | 60,000 |
| | 5,51,550 |
| *Less :* Cheque paid into bank for collection but not collected till 30th June, 2021 (₹ 1,10,500 - ₹ 55,000) | (55,500) |
| Balance as per Pass book (Cr.) | **4,96,050** |

**Q.14 From the following particulars, prepare a Bank Reconciliation Statement on 31st March, 2021:**

| Particulars | Amount (₹) |
|---|---|
| Bank balance as per Passbook | 25,00,000 |
| Bills discounted dishonoured not recorded in Cash Book | 12,50,000 |
| Cheque received entered twice in Cash Book | 25,000 |
| Bank charges entered twice in Cash Book | 5,000 |
| Insurance premium paid directly by Bank under standing instruction | 1,50,000 |
| Cheque issued but not presented to Bank for payment | 12,50,000 |
| Cheque received, but not sent to Bank | 28,00,000 |
| Cheque deposited in Bank, but no entry passed in the Cash Book | 12,50,000 |
| Credit side of the Bank column cast short | 5,000 |

**[June 2022, 5 Marks]**



**Solution :**

**Bank Reconciliation Statement as on 31st March, 2021**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Cr. balance as per Passbook | | 25,00,000 |
| **Add:** | | |
| 1. Bill discounted, dishonoured not recorded in Cash book | 12,50,000 | |
| 2. Cheque received entered twice in the Cash book | 25,000 | |
| 3. Insurance premium paid not recorded in Cash Book | 1,50,000 | |
| 4. Cheque received but not sent to Bank | 28,00,000 | |
| 5. Credit side of bank column cast short | 5,000 | 42,30,000 |
| | | 67,30,000 |
| **Less:** | | |
| 1. Bank charges recorded twice in cash book | 5,000 | |
| 2. Cheque issued but not presented | 12,50,000 | |
| 3. Cheque deposited but not recorded in cash book | 12,50,000 | 25,05,000 |
| **Dr. Balance as per Cash Book** | | **4,22,5000** |

**Q.15 The cash book of Mr. Karan shows ₹ 2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank passbook. On analysis, you found the following discrepancies:**

**(i)** On 15th December, 2021 the payment, side of the cash book was over-cast by ₹ 10,000.

**(ii)** A Cheque for ₹ 1,18,000 issued on 6th December, 2021 was not taken in the bank Column.

**(iii)** On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.

**(iv)** Of the total cheques amounting to ₹ 12,370 drawn in the last week of December, 2021, cheques aggregating ₹ 9,360 were encashed in December, 2021.

**(v)** Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.

**(vi)** A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.

**(vii)** Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.

**(viii) A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.**

**You are required to prepare the bank reconciliation statement as on 31st December, 2021. [Dec. 2022, 10 Marks]**

**Solution :**

**Bank Reconciliation Statement as on 31st Dec., 2021**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Dr. Balance as per Cash Book | | 2,60,400 |
| **Add:** | | |
| 1. Payment side of Cash book overcasted | 10,000 | |
| 2. Debit balance of Cash Book wrongly brought forward as credit balance [₹ 8460 × 2 ] | 16,920 | |
| 3. Cheque drawn but not encashed (₹ 12370 – ₹ 9360) | 3,010 | |
| 4. Dividend collected by Bank | 35,000 | |
| 5. Cheque issued to creditor recorded twice in the Cash Book | 1,75,000 | |
| 6. Bill for collection credited by Bank but not recorded in Cash Book | 53,000 | 2,92,930 |
| | | 5,53,330 |
| **Less:** | | |
| 1. Cheque issued but not recorded in Bank column of Cash Book | 1,18,000 | |
| 2. Insurance Premium paid by Bank | 7,900 | |
| 3. Discount to customer erroneously recorded | 1,800 | 1,27,700 |
| **Cr. balance as per Cash Book** | | **4,25,630** |

**Q.16 From the following information prepare a Bank Reconciliation statement as on 31st March, 2022 for A Ltd.**

| | | ₹ |
|---|---|---|
| | **Bank overdraft as per cash book as 31st March, 2022** | **15,50,750** |
| 1 | **Cheques deposited on 15th February, 2022 credited on 5th April, 2022** | **12,50,000** |
| 2 | **Interest debited by bank on 31st March, 2022** | **1,75,500** |
| 3 | **Cheques issued before 31st March, 2022 but not yet presented** | **7,75,000** |
| 4 | **On 10th March, 2022 bank credited to A Ltd. in error** | **1,50,000** |
| 5 | **Draft deposited in bank but not credited till 31st March, 2022** | **12,75,000** |
| 6 | **Bills for collection credited by bank but no advice received by the company** | **9,45,000** |



| | | |
|---|---|---|
| 7 | **Bank charges charged by bank not entered in Cash Book** | **2,85,000** |
| 8 | **Transport subsidy received from the State Government directly by the bank not advised to the company** | **17,50,000** |

**[ June 2023, 5 Marks]**

**Solution :**

**In the Books of A Ltd.**

**Bank Reconciliation Statement as on 31 March, 2022**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Cr. Balance (Over draft) as per Cash book | | 15,50,750 |
| **Add:** | | |
| *i.* Cheque deposited but not credited upto 31st March, 2022 | 12,50,000 | |
| *ii.* Interest debited by the Bank | 1,75,500 | |
| *iii.* Draft deposited but not credited by Bank | 12,75,000 | |
| *iv.* Bank charges not entered in Cash Book | 2,85,000 | 29,85,500 |
| | | **45,36,250** |
| **Less:** | | |
| *i.* Cheque issued but not presented | 7,75,000 | |
| *ii.* Bank credited to A Ltd. in error | 1,50,000 | |
| *iii.* Bill for collection credited by Bank | 9,45,000 | |
| *iv.* Transport subsidy not recorded in cash book | 17,50,000 | (36,20,000) |
| **Dr. Balance (Overdraft) as per Pass Book** | | **9,16,250** |

10
CHAPTER

# BILLS OF EXCHANGE

## SHORT NOTES

### Q.1 Meaning of Bills of exchange

**Ans. Meaning of Bills of exchange :**

A bill of exchange has been defined as:

- an "instrument in writing
- containing an unconditional order
- signed by the maker/drawer
- directing a certain person (drawee)
- to pay a certain sum of money only
- to a certain person or to the *order of a certain person or to the bearer of the instrument".* (payee)

**Draft of a Bill of Exchange**

To,
Mr. B
Gokulpeth
Nagpur

| Accepted Signed B | Stamp |
|---|---|

Pay ₹ 5000 (Rupees five thousand only) to me or my order, 30 days after the date of bill, for value received.

15th April 2016 — Signed by 'A'
Nagpur

- When such an order is accepted by writing on the face of the order itself, it becomes a valid bill of exchange.
- A cheque is a bill of exchange but all bill of exchanges are not cheque.
- In above bill of exchange 'A' is drawer as well as payee and 'B' is drawee

## Q.2 Meaning of Promissory Note

**Ans. Meaning of Promissory Note :**

A Promissory note is:

- an instrument in writing,
- not being a bank note or currency note,
- containing an unconditional undertaking (promise)
- signed by the maker (promisor)
- to pay a certain sum of money only to a certain person or to the order of a certain person.

*Under section 31(2) of the Reserve Bank of India Act a promissory note cannot be made payable to bearer except by RBI &/or Central Government.*

**Draft of a Promissory Note**

To,
Mr. A
Sitabuldi
Nagpur

Stamp

I hereby promise (undertake) to pay you or your order a sum of ₹ 5000 (Rupees five thousand only) one month after the date of this note, for value received.

20th April 2016 — Signed by 'B'
Nagpur

## Q.3 Renewal of a bill

**Ans. Renewal of a bill :**

- On the due date, if acceptor is unable to pay the amount of bill, then he can approach the Drawer, for renewal of the bill.
- Renewal means giving further time for the payment of bill.
- For this delay the Drawer will/may collect Interest from acceptor on the delayed amount [total amount (-) amount if any paid at the time of renewal] for delayed/extended period.
- Renewal will involve cancellation of the old bill, accruing the interest and preparing a new bill for balance amount with interest. (Some part amount may be paid immediately)

**Model Entry for renewal which can be passed in three parts**

| Transaction | In the books of Drawer (Mr. A) | In the books of Acceptor (Mr. B) |
|---|---|---|
| (*a*) Cancel the old bill | B's A/c Dr. ...<br>To B.R. A/c ... | B.P. A/c Dr. ...<br>To A's A/c ... |



| Transaction | In the books of Drawer (Mr. A) | In the books of Acceptor (Mr. B) |
|---|---|---|
| (*b*) Interest due to A from B | B's A/c. Dr. ...<br>To Interest A/c ... | Interest A/c Dr. ...<br>To A's A/c ... |
| (*c*) Settlement of the dues partly cash and partly bill or full amount in bill | B.R. A/c Dr. (Amt. of new bill) ...<br>Cash A/c Dr. (Cash received) ...<br>To B's A/c (total amt. due) ... | A's A/c Dr. (total dues) ...<br>To B.P. A/c (Amt. of new bill) ...<br>To Cash A/c (cash paid) ... |

- Entry for cancellation of the old bill given above is assuming bill was retained.
- Entry for renewal can be passed in any other combination giving same net effect as in above three entries.

## Q.4 Noting of bill

**Ans. Noting of Bill and Noting charges :**

- When a bill is dishonoured the holder of the bill (holder can be drawer, endorsee or bank) may present it to notary public (A Government appointed Authority).
- Notary public will present the bill to the acceptor of the bill and if he doesn't pay, the notary public will note the fact of dishonour on the bill.
- This (Noting) becomes a final evidence for court cases.
- The charges charged by notary for this service is called noting charges.
- Noting charges will be paid by the holder of the bill but ultimately it will be recovered from the drawee/acceptor (Party which dishonours the bill).
- Hence, noting charges will be an expense for the drawee (acceptor) of the bill & income for the Notary Public.

## Q.5 Retirement of bill

**Ans. Retirement of the bill :**

- Retirement of the bill means that payment is made before the due date.
- Therefore, normally the receiver will allow some rebate/discount to the payer.
- Entry for payment/receipt will be recorded net of rebate.
- Thus retirement is the opposite of renewal. In retirement payment is made early whereas in renewal payment is delayed.

**Model entry for retirement of the bill**

| Transaction | In the books of Drawer (Mr. A) | | | | In the books of Acceptor (Mr. B) | | | |
|---|---|---|---|---|---|---|---|---|
| Bill retired | Cash/Bank A/c | Dr. | 950 | | B. P. A/c | Dr. | 1000 | |
| | Rebate A/c | Dr. | 50 | | To Cash/ Bank A/c | | | 950 |
| | To B.R. A/c | | | 1000 | To Rebate A/c | | | 50 |

## Q.6 Accommodation Bill

**Ans. Accommodation Bill:**

Accommodation bill is the bill drawn for financial accommodation (help) of one or both the parties. Thus it is not backed by any trade transactions. Parties involved will be related to each other. Either one bill may be drawn or both may draw bill on each other. Such bills are discounted, proceeds are used & on maturity amount is returned to Bank.

Alternatively both parties may draw bill on each other & get them discounted respectively.

**Meaning & Purpose of Accommodation Bill**

- Bills of exchange are usually drawn to facilitate trade transactions, that is, bills are meant to finance actual purchase and sale of goods.
- But the mechanism of bill can be utilized to raise finance also.
- Therefore, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.
- It is not a genuine trade bill.
- Suppose A needs finance for three months. In that case he may persuade his friend B to accept his bill. The bill of exchange may then be taken by A to his bank and discounted there. Thus, A will be able to make use of funds. When the three months period draws to a close A will send the requisite amount to B and B will meet the bill. Thus, A is able to raise money for his use.
- If both A and B need money, the same device can be used. Either A accepts a bill of exchange or B does. In either case, the bill will be discounted with the bank and the proceeds divided between the two parties according to their needs. The proportionate discount will also be transferred. On the due date the acceptor will receive from the other party of his share. The bill will then be met.
- When bills are used for such a purpose, these are known as accommodation bills. If bill is dishonoured the first party (*i.e.* drawer) will have to pay to the Bank.
- Entries are passed in the books of two parties exactly in the same way as for ordinary bills. The only additional entry to be passed is for sending the remittance to the other party and also for debiting the other party with the requisite amount of discount.



## DIFFERENCES

### Q.1 Bill of Exchange and Promissory Note

**Ans. Distinction between a Bill of Exchange & a Promissory Note**

Important points of comparison are:

- A promissory note needs no acceptance as required for a bill of exchange, as the debtor himself writes the document promising to pay the stated amount.
- In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.
- In case of bill of exchange the drawee and payee cannot be same. But if such situation arises, due to subsequent endorsements then bill will get cancelled. Similarly promissory note will get cancelled if due to endorsement maker/promisor and promisee becomes same, because person liable to pay and person entitled to receive both are same.
- Both are negotiable instruments, and can be transferred by endorsement.
- For accounting purposes both will be treated alike & both will be classified as bills payable & bills receivable.

## TRUE OR FALSE

**Q.1 Salary paid to Ram will be debited to Ram's Personal account.**

**Ans. False:** Because salary paid to Ram will be debited to Salaries account as an expense of the business.

**Q.2 A promissory note can be made payable to the bearer.**

**Ans. False:** A promissory note cannot be made payable to the bearer. It is payable to or to the order of a certain person.

**Q.3 No cancellation entry is required when a bill is renewed.**

**Ans. False:** When the bill is renewed, entries are passed for cancellation of the old bill and for recording of the new bill.

**Q.4 At the time of Renewal of a bill, Interest account is debited in the books of a drawee.**

**Ans. True:** At the time of Renewal of a bill, interest account is debited in the books of a drawee as it represents an expense for him.

**Q.5 A bill given to a creditor is called bills payable.**

**Ans. True:** A bill given to a creditor is called Bills Payable.

**Q.6 A has drawn a bill on B. B accepts the same and endorses the bill to C.**

**Ans. False:** B cannot endorse the bill to C because he is a drawee. Only A, the drawer can do it.

**Q.7 Refusal by the acceptor to make payment of the bill on the maturity date is called Retirement of the bill.**

**Ans. False:** Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill. Early payment of the bill is known as the Retirement of the bill.

**Q.8 Promissory Note requires acceptance.**

**Ans. False:** Promissory note does not require acceptance, only bills receivable require acceptance.

**Q.9 Cancelling old bill and drawing new bill is called renewal of bill.**

**Ans. True:** When the acceptor of a bill fails to pay on the due date, a new bill may be drawn on him after cancellation of the old bill. This is known as renewal of a bill.

**Q.10 Discount at the time of retirement of a bill is a gain for the drawee.**

**Ans. True:** Discount at the time of retirement of a bill is a gain for the drawee.

**Q.11 In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. [Nov. 2019, 2 Marks]**

**Ans. False:** In case of a promissory note, maker is the person who is absolutely liable to pay the amount mentioned therein whereas the payee is the person who is entitled to receive the payment. Thus both can never be same.

**Q.12 The specific due date excludes the addition of grace days to arrive at the due date. [June 2022, 2 Marks]**

**Ans. True:** The specific due date excludes the addition of grace days to arrive at the due date.

## PRACTICAL QUESTIONS

**Q.1 B owes C a sum of ₹ 600. On 1st April, 2016 he gives promissory note for the amount for 3 months to C who gets it discounted with his bankers for ₹ 590. On the due date the bill is dishonoured the bank paying ₹ 5 as noting charges. B then pays ₹ 200 in cash and accepts a bill of exchange drawn on him for the balance together with ₹ 10 as interest. This bill of exchanges is for 2 months and on the due date the bill is again dishonoured, C paying ₹ 5 for noting charges. Draft the journal entries to be passed in the books of B and C.**

**Solution :**

| Date | Transaction | Journal of C | Dr. | Cr. | Journal of B | Dr. | Cr. |
|---|---|---|---|---|---|---|---|
| 1.4 | Promissory note given by B to C | B.R. A/c Dr.<br>To B A/c | 600 | <br>600 | C A/c Dr.<br>To B.P. A/c | 600 | <br>600 |
| | Bill discounted with bank | Bank/cash A/c Dr.<br>Discount A/c Dr.<br>To B.R. A/c | 590<br>10 | <br><br>600 | No entry | | |



| Date | Transaction | Journal of C | Dr. | Cr. | Journal of B | Dr. | Cr. |
|---|---|---|---|---|---|---|---|
| 4.7 | Bill dishonoured, bank recovers from 'C' bill amount + noting charges | B A/c Dr.<br>To Bank A/c | 605 | <br>605 | B.P. A/c Dr.<br>Noting charges A/c Dr.<br>To C A/c | 600<br>5 | <br><br>605 |
| | Interest due | B A/c Dr.<br>To Int. A/c | 10 | <br>10 | Interest A/c Dr.<br>To C A/c | 10 | <br>10 |
| | Settlement partly in Cash & balance by new bill. | Cash/Bank A/c Dr.<br>B.R. A/c Dr.<br>To B A/c | 200<br>415 | <br><br>615 | C A/c Dr.<br>To B.P. A/c<br>To Cash A/c | 615 | <br>415<br>200 |
| 7.9 | Second bill dishonoured & noting charges paid by 'C' | B A/c Dr.<br>To B.R. A/c<br>To cash A/c | 420 | <br>415<br>5 | B. P. A/c Dr.<br>Noting charges A/c Dr.<br>To C A/c | 415<br>5 | <br><br>420 |

**Q.2 B sends his promissory note for 3 months to C for ₹ 600 on May 1, 2016. C gets it discounted with his bankers at 6 per cent per annum. On the due date the bill is dishonoured, the bank paying ₹ 10 as noting charges. C agrees to accept ₹ 225 in cash (₹ 25 for noting charges and interest) and another promissory note for ₹ 400 for 2 months. On the due date B approaches C again and asks for renewal of the bill for a further period of 3 months. C agrees to the request, provided B pays ₹ 20 as interest in cash. This last bill is paid on maturity. Draft journal entries in the books of B and C.**

**Solution :**

| Date | Transaction | Journal of C | Dr. | Cr. | Journal of B | Dr. | Cr. |
|---|---|---|---|---|---|---|---|
| 1.5 | Promissory note given by B to C | B.R. A/c Dr.<br>To B A/c | 600 | <br>600 | C A/c Dr.<br>To B. P. A/c | 600 | <br>600 |
| | Discounted with Bank | Bank A/c Dr.<br>Discount A/c Dr.<br>To B.R. A/c | 591<br>9 | <br><br>600 | No entry | | |
| | **Dishonour and Renewal** | | | | | | |
| 4.8 | Bill gets dishonoured (Bank recovers 'from 'C' including noting charges) Interest due (out of 25, 10 is noting charges & balance is interest) Settlement by interest amt. in cash & balance by bill. | B A/c Dr.<br>To Bank A/c<br>B A/c Dr.<br>To Int. A/c<br>(25-10=15)<br>B.R. A/c Dr.<br>Cash A/c Dr.<br>To B A/c | 610<br><br>15<br><br><br>400<br>225 | <br>610<br><br>15<br><br><br><br>625 | B. P. A/c Dr.<br>Noting charges A/c Dr.<br>To C A/c<br>Interest A/c Dr.<br>To C A/c<br>C A/c Dr.<br>To B. P. A/c<br>To Cash A/c | 600<br>10<br><br>15<br><br>625 | <br><br>610<br><br>15<br><br>400<br>225 |

| Date | Transaction | Journal of C | | Dr. | Cr. | Journal of B | | Dr. | Cr. |
|---|---|---|---|---|---|---|---|---|---|
| | **Renewal of Bill** | | | | | | | | |
| 7.10 | (*i*) Cancellation of Bill | B<br>To B.R. A/c | Dr. | 400 | 400 | B. P. A/c<br>To C | Dr. | 400 | 400 |
| | (*ii*) Interest due | B<br>To Interest A/c | Dr. | 20 | 20 | Interest A/c<br>To C | Dr. | 20 | 20 |
| | (*iii*) Settlement | B.R. A/c<br>Cash A/c<br>To B | Dr.<br>Dr. | 400<br>20 | 420 | C<br>To B. P. A/c<br>To Cash A/c | Dr. | 420 | 400<br>20 |
| | **On due date** | | | | | | | | |
| 10.1. | Bill Honoured | Cash A/c<br>To B.R. A/c | Dr. | 400 | 400 | B. P. A/c<br>To Cash A/c | Dr. | 400 | 400 |

**Q.3 Mr. David draws two bills of exchange on 1-1-2016 for ₹6,000 and ₹10,000. The bills of exchange for ₹6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4-3-2016 Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20-3-2016 Mr. Thomas retires the acceptance for ₹10,000, the interest rebate *i.e.* discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate. You are to give the journal entries in the books of Mr. David.**

**Solution:**

| Transaction | Books of David | | | | Books of Thomas | | | |
|---|---|---|---|---|---|---|---|---|
| 1.1.2016 | | | | | | | | |
| Bills Drawn | B.R. A/c<br>B.R. A/c<br>To Thomas' A/c | Dr.<br>Dr. | 6,000<br>10,000 | 16,000 | David A/c<br>To B.P. A/c<br>To B.P. A/c | Dr. | 16,000 | 6,000<br>10,000 |
| Renewal of 1st bill, old bill cancelled | Thomas A/c<br>To B.R. A/c | Dr. | 6,000 | 6,000 | B.P. A/c<br>To David's A/c | Dr. | 6,000 | 6,000 |
| Interest due $\frac{18}{100}\times\frac{2}{12}\times 6000$ | Thomas' A/c<br>To Int. A/c | Dr. | 180 | 180 | Int. A/c<br>To David A/c | Dr. | 180 | 180 |
| Settlement by net will (3rd bill) | B.R. A/c<br>To Thomas A/c | Dr. | 6,180 | 6,180 | David A/c<br>To B.P. A/c | Dr. | 6,180 | 6,180 |
| 20.3.2016 | | | | | | | | |
| Retirement of 2nd bill | Cash/Bank A/c<br>Rebate A/c<br>To B.R. A/c | Dr.<br>Dr. | 9,900<br>100 | 10,000 | B.P. A/c<br>To Cash/Bank A/c<br>To Rebate A/c | Dr. | 10,000 | 9,900<br>100 |



| Transaction | Books of David | | | | Books of Thomas | | | |
|---|---|---|---|---|---|---|---|---|
| Thomas declared insolvent hence 3rd bill dishonoured | Thomas A/c<br>To B.R. A/c | Dr. | 6,180 | 6,180 | B.P. A/c<br>To David A/c | Dr. | 6,180 | 6,180 |
| Full and final settlement at 50% | Cash/Bank A/c<br>Bad Debts A/c<br>To Thomas A/c | Dr.<br>Dr. | 3,090<br>3,090 | 6,180 | David A/c<br>To Cash/Bank A/c<br>To Deficiency A/c | Dr. | 6,180 | 3,090<br>3,090 |

**Q.4 Journalise the following transactions in the books of J. Jaggi:**

**(*a*) Our acceptance to M. Madan for ₹ 5,000 retired before due date, rebate allowed ₹ 10.**

**(*b*) K. Kaku's acceptance for ₹ 400 renewed for a further period of 3 months, interest charged at 15 per cent.**

**(*c*) Our acceptance to P. Swamy for ₹ 800 renewed for 3 months on the condition that ₹ 200 is paid in cash immediately and the remaining balance to carry interest at 12 per cent.**

**(*d*) D. Dutt's promissory note for ₹ 700 which we had endorsed in favour of P. Mukherjee dishonoured. P. Mukherjee paid ₹ 10 as noting charges. We pay P. Mukherjee by cheque and accept from D. Dutt another bill for the amount due *plus* interest ₹ 15.**

**(*e*) Our promissory note for ₹ 500 in favour of A. Alam returned unpaid due to lack of instructions to the bank. A. Alam claim ₹ 510 which we pay by cheque.**

**(*f*) Our promissory note for ₹ 500 in favour of Patel settled by sending him Tanna's acceptance of ₹ 500.**

**Solution:** **Books of J. Jaggi**

| | Transaction | | Dr. | Cr. |
|---|---|---|---|---|
| **(*a*) Our B.P. retired** | B. P. A/c<br>To Rebate<br>To Cash/Bank A/c | Dr. | 5,000 | 10<br>4990 |
| **(*b*) Renewal of our B.R.**<br>Old bill (cancelled) | K. Kaku's A/c<br>To B.R. A/c | Dr. | 400 | 400 |
| Interest due | K. Kaku's A/c<br>To Int. A/c | Dr. | 15 | 15 |
| Settlement by new bill | B.R. A/c<br>To K. Kaku's A/c | Dr. | 415 | 415 |
| **(*c*) Renewal of our B.P.**<br>Old bill cancelled | B.P. A/c<br>To P. Swamy A/c | Dr. | 800 | 800 |
| Part cash payment | P. Swamy A/c<br>To Cash/Bank A/c | Dr. | 200 | 200 |

| | Transaction | | Dr. | Cr. |
|---|---|---|---|---|
| Interest due | Int. A/c<br>To P. Swamy A/c | Dr. | 18 | 18 |
| 2nd bill accepted for balance amount | P. Swamy A/c<br>To B.P. A/c | Dr. | 618 | 618 |
| **(d) B.R. which was endorsed renewed**<br>Old bill cancelled | D. Dutt's A/c<br>To Mukherjee's A/c | Dr. | 710 | 710 |
| We pay Mukherjee | Mukherjee's A/c<br>To Bank A/c | Dr. | 710 | 710 |
| Interest due | D. Dutt's A/c<br>To Int. A/c | Dr. | 15 | 15 |
| 2nd bill drawn on Dutta | B.R. A/c<br>To D. Dutt's A/c | Dr. | 725 | 725 |
| **(e) B. P. dishonoured** | B.P. A/c<br>To A. Alam A/c | Dr. | 500 | 500 |
| Bank charges due | Bank charges A/c<br>To A. Alam A/c | Dr. | 10 | 10 |
| Paid | A' Alam A/c<br>To Bank A/c | Dr. | 510 | 510 |
| **(f) B. P. settled by giving B.R.** | B.P. A/c<br>To Bill Receivable A/c. | Dr. | 500 | 500 |

**Q.5 X draws on Y a bill of exchange for ₹ 1500 on 1st April, 2015 for 3 months. Y accepts the bill and send it to X who gets it discounted for ₹ 1470. X immediately remits ₹ 490 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹ 2100 for three months which is discounted by Y for ₹ 2055. Y sends ₹ 370 to X. Before the maturity of the bill X becomes bankrupt his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y. Also show X's account in Y's books.**

**Solution :**

| Date | Transaction | Journal of X | | Dr. | Cr. | Journal of Y | | Dr. | Cr. |
|---|---|---|---|---|---|---|---|---|---|
| 1.4 | X draws on Y a bill of exchange | B.R. A/c<br>To Y A/c | Dr. | 1500 | 1500 | X A/c<br>To B.P. A/c | Dr. | 1500 | 1500 |
| | Bill was discounted with bank | Bank/Cash A/c<br>Discount A/c<br>To B.R A/c | Dr.<br>Dr. | 1470<br>30 | 1500 | No entry | | | |



| Date | Transaction | Journal of X | | Dr. | Cr. | Journal of Y | | Dr. | Cr. |
|---|---|---|---|---|---|---|---|---|---|
| | Remittance by X to Y With proportionate discount | Y A/c<br>To Cash A/c<br>To Discount A/c | Dr. | 500 | 490<br>10 | Cash A/c<br>Discount A/c<br>To X A/c | Dr.<br>Dr. | 490<br>10 | 500 |
| 4.7. | 2nd bill drawn by Y on X | Y A/c<br>To B.P. A/c | Dr. | 2100 | 2100 | B.R. A/c<br>To X A/c | Dr. | 2100 | 2100 |
| | Second bill discounted | No entry | | | | Bank/Cash A/c<br>Discount A/c<br>To B.R. A/c | Dr.<br>Dr. | 2055<br>45 | 2100 |
| | 1st bill is honoured from the proceeds of 2nd bill | No entry | | | | B.P. A/c<br>To Cash A/c | Dr. | 1500 | 1500 |
| | Remittance to X by Y<br>*Dis = 45/2055 × 1370 = 30 | Cash A/c<br>Discount A/c<br>To Y A/c | Dr.<br>Dr. | 370<br>30 | 400 | X A/c<br>To Cash A/c<br>To discount A/c | Dr. | 400 | 370<br>30 |
| 7.10 | Second bill dishonoured & Y pays the bank | B.P. A/c<br>To Y A/c | Dr. | 2100 | 2100 | X A/c<br>To Cash/Bank A/c | Dr. | 2100 | 2100 |
| | Final Settlement | Y A/c<br>To Cash/Bank A/c<br>To deficiency A/c | Dr. | 1400 | 700<br>700 | Cash/Bank A/c<br>Bad debts A/c<br>To X A/c | Dr.<br>Dr. | 700<br>700 | 1400 |

*Out of the proceeds of 2nd bill ₹ 370 is used for X (₹ 1000 for honouring 1st bill which 'X' could not contribute & further ₹370 remitted to him) hence proportionate discount debited to him.

**Q.6 On 1st July, 2015 G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange.**

**G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement.**

**On 1st September, 2015 J purchased goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H.**

**On 1st October, 2015 H purchased goods worth ₹ 1,00,000 from G. He paid the amount due to G by cheque. Give the necessary Journal Entries in the books of H and prepare necessary accounts in the books of H, G & J.**

**Solution :**

**Journal Entries**

| Date | Books of H | | | Books of J | | | Books of G | | |
|---|---|---|---|---|---|---|---|---|---|
| 1.7.2015 | G A/c Dr.<br>To B.P. A/c | 80000 | 80000 | — | | | B.R. A/c Dr.<br>To H A/c | 80000 | 80000 |

| Date | Books of H | | | Books of J | | | Books of G | | |
|---|---|---|---|---|---|---|---|---|---|
| 1.7. | — | | | G A/c Dr.<br>To Sale A/c | 81000 | 81000 | Purchase Dr. A/c<br>To J A/c | 81000 | 81000 |
| 1.7. | — | | | B.R. A/c Dr.<br>Discount Dr.<br>To G A/c | 80000<br>1000 | 81000 | J A/c Dr.<br>To B.R. A/c<br>To Dis-count A/c | 81000 | 81000<br>1000 |
| 1.9. | J. A/c Dr.<br>To Sale A/c | 90000 | 90000 | Purchase Dr. A/c<br>To H A/c | 90000 | 90000 | — | | |
| 1.9. | B. P. A/c Dr.<br>Bank A/c Dr.<br>Discount Dr. A/c<br>To J A/c (Our B.P. is endorsed in our favour hence cancelled) | 80000<br>9000<br>1000 | 90000 | H A/c Dr.<br>To B.R. A/c<br>To Bank A/c<br>To Dis-count A/c | 90000 | 80000<br>9000<br>1000 | — | | |
| 1.10. | Purchase A/c Dr.<br>To G A/c | 100000 | 100000 | — | | | H A/c. Dr.<br>To Sale A/c | 100000 | 100000 |
| 1.10. | G. A/c Dr.<br>To Bank A/c | 20000 | 20000 | — | | | Bank A/c Dr.<br>To H A/c | 20000 | 20000 |

## IN THE BOOKS OF 'H'

### G's A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.7. 2015<br>9.10.2015 | To B.P. A/c<br>To Cash/Bank A/c | 80,000<br>20,000 | 1.10.2015 | By Purchases A/c | 1,00,000 |
| | | 1,00,000 | | | 1,00,000 |

### B.P. A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.9.2015 | To J's A/c | 80,000 | 1.7.2015 | By G A/c | 80,000 |
| | | 80,000 | | | 80,000 |

### J's A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.9.2015 | To Sales A/c | 90,000 | 1.9.2015 | By B P A/c<br>By Bank/Cash A/c<br>By Discount A/c | 80,000<br>9,000<br>1000 |
| | | 90,000 | | | 90,000 |



## IN THE BOOKS OF J

### G's A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.7.2015 | To Sales A/c | 81,000 | 1.7.2015 | By B' R A/c<br>By Discount A/c | 80,000<br>1,000 |
| | | 81,000 | | | 81,000 |

### BR A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.7.2015 | To G's A/c | 80,000 | 1.9.2015 | By H's A/c | 80,000 |
| | | 80,000 | | | 80,000 |

### H's A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.9.2015 | To B.R. A/c<br>To Cash/Bank A/c<br>To Discount A/c | 80,000<br>9,000<br>1,000 | 1.9.2015 | By Purchases A/c | 90,000 |
| | | 90,000 | | | 90,000 |

## IN THE BOOKS OF G

### H's A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.10.2015 | To Sales A/c | 1,00,000 | 1.7.2015<br>1.10.2015 | By B.R. A/c<br>By Cash/Bank A/c | 80,000<br>20,000 |
| | | 1,00,000 | | | 1,00,000 |

### B.R. A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.7. 2015 | To H' A/c | 80,000 | 1.7.2015 | By J's A/c | 80,000 |
| | | 80,000 | | | 80,000 |

### J A/c

| | | | | | |
|---|---|---|---|---|---|
| 1.7. 2015 | To B.R A/c<br>To Discount A/c | 80,000<br>1,000 | 1.7.2015 | By Purchases A/c | 81,000 |
| | | 81,000 | | | 81,000 |

**Q.7 On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest @ 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.**

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

**[May 2019, 5 Marks]**

**Solution :**

**In the Books of Akshay**

**Journal Entries**

| Date | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| **2018** | | | | |
| Jan. 1 | Bill Receivable A/c (I) | Dr. | 16,000 | |
| | Bill Receivable A/c (II) | Dr. | 25,000 | |
| | To Vishal | | | 41,000 |
| | (Being two bills accepted by Vishal of 2 months & 3 months, respectively) | | | |
| Mar. 4 | Vishal | Dr. | 16,000 | |
| | To Bill Receivable A/c (I) | | | 16,000 |
| | (Being bill receivable of ₹ 16,000, drawn in favour of Vishal, cancelled) | | | |
| | Vishal | Dr. | 400 | |
| | To Interest A/c (16000 × 15% × 2/12) | | | 400 |
| | (Being interest receivable from Vishal on the outstanding balance due from him) | | | |
| | Bill Receivable A/c (III) | Dr. | 16,400 | |
| | To Vishal | | | 16,400 |
| | (Being new bill of ₹ 16,400 accepted by Vishal for a period of 2 months ) | | | |
| Mar. 25 | Cash A/c | Dr. | 24,750 | |
| | Rebate A/c | Dr. | 250 | |
| | To Bank Receivable A/c (II) | | | 25,000 |
| | (Being payment received and rebate allowed to Vishal) | | | |
| | Vishal | Dr. | 16,400 | |
| | To Bills Receivable A/c (III) | | | 16,400 |
| | (Being IIIrd bill of ₹ 16,400 dishonoured on account of Vishal's insolvency) | | | |
| | Cash A/c | Dr. | 8,200 | |
| | Bad Debts A/c | Dr. | 8,200 | |
| | To Vishal | | | 16,400 |
| | (Being 50 paisa in a rupee recovered from Vishal's estate) | | | |

**Q.8 Suresh draws a bill for ₹ 15,000 on Anup on 15th April, 2020 for 3 months, which Anup returns to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts a bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October, 2020.**

**Pass necessary Journal entries for the above transactions in the books of Suresh.**

**[Nov. 2020, 10 Marks]**



**Solution :**

**In the books of Suresh**

**Journal Entries**

| Date | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| 2020 | | | | |
| 15 April | Bills receivable A/c | Dr. | 15,000 | |
| | To Anup's A/c | | | 15,000 |
| | (Being accommodation bill drawn on Anup of ₹ 15,000) | | | |
| 18 " | Bank A/c | Dr. | 14,700 | |
| | Discounting Charges A/c | Dr. | 300 | |
| | To Bills Receivable A/c | | | 15,000 |
| | (Being bill discounted with bank) | | | |
| | Anup's A/c | Dr. | 5,000 | |
| | To Bank A/c | | | 4,900 |
| | To Discounting Charges A/c | | | 100 |
| | (Being 1/3rd amount remitted to him) | | | |
| 18 July | Anup's A/c | Dr. | 17,500 | |
| | To Bills payable A/c | | | 17,500 |
| | (Being bill accepted in favour of Anup for 3 months) | | | |
| | Bank A/c | Dr. | 2,825 | |
| | Discounting Charges A/c[1] | Dr. | 300 | |
| | To Anup's A/c | | | 3,125 |
| | (Being amount received with discount charges from Anup) | | | |
| 21 Oct | Bills payable A/c | Dr. | 17,500 | |
| | To Anup's A/c | | | 17,500 |
| | (Being bills payable accepted earlier, now dishonoured) | | | |
| 31 " | Anup's A/c[2] | Dr. | 13,125 | |
| | To Bank A/c | | | 6,562.50 |
| | To Deficiency A/c | | | 6,562.50 |
| | (Being amount paid as full and final settlement) | | | |

**Working Note:-**

1. Share of Suresh in discounting charges of Second Bill

$$= 400 \times \left(\frac{10000 + 2825}{17100}\right) = ₹\ \mathbf{300}$$

**2.** **Anup's A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 18 April | To Bank A/c | 4,900 | 15 April | By Bills Receivable A/c | 15,000 |
| | To Discounting charges | 100 | 18 July | By Bank A/c | 2,825 |
| 18 July | To Bills Payable A/c | 17,500 | | By Discounting charges | 300 |
| 31 Oct | To Bank A/c | 6,562.50 | 21 Oct | By Bills Payable A/c | 17,500 |
| | To Deficiency A/c | 6,562.50 | | | |
| | | **35,625** | | | **35,625** |

**Q.9 On 12th May, 2020 A sold goods to B for ₹ 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.**

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

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

**You are required to pass journal entries of all the above transactions in the books of A.** **[Dec. 2021, 10 Marks]**

**Solution :**

**In the books of A**

**Journal Entries**

| Date 2020 | Particulars | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|
| 12 May | B's A/c Dr. | | 36,470 | |
| | To Sales A/c | | | 36,470 |
| | (Being goods sold to B on credit) | | | |
| 12 May | B/R No.1 A/c Dr. | | 16,470 | |
| | B/R No. 2 A/c Dr. | | 20,000 | |
| | To B's A/c | | | 36,470 |
| | (Being 2 bills receivables received of 1 month & 3 month respectively from him) | | | |



| Date 2020 | Particulars | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|
| 5 June | Bills sent for collection A/c Dr. | | 36,470 | |
| | To B/R No. 1 A/c | | | 16,470 |
| | To B/R No. 2 A/c | | | 20,000 |
| | (Being both Bills sent to bank for collection) | | | |
| 15 June | Bank A/c Dr. | | 16,470 | |
| | To Bills sent for collection A/c | | | 16,470 |
| | (Being the First bill sent for collection earlier, now collected) | | | |
| 14 Aug. | B's A/c Dr. | | 20,020 | |
| | To Bills sent for collection A/c | | | 20,000 |
| | To Bank A/c | | | 20 |
| | (Being the Second bill dishonoured by B & noting charges incurred ₹ 20) | | | |
| 16 Aug. | B's A/c Dr. | | 480 | |
| | To Interest A/c (1) | | | 480 |
| | (Being interest charged from him) | | | |
| | Cash A/c Dr. | | 8,020 | |
| | To B's A/c | | | 8,020 |
| | (Being part payment received from B) | | | |
| | B/R No. 3 A/c Dr. | | 12,480 | |
| | To B's A/c | | | 12,480 |
| | (Being new bill accepted by B including interest) | | | |
| | Bills sent for Collection A/c Dr. | | 12480 | |
| | To B/R No. 3 A/c | | | 12480 |
| | (Being bill sent to bank for collection) | | | |
| 1 Oct. | Bank A/c Dr. | | 12,240 | |
| | Rebate A/c Dr. | | 240 | |
| | To Bill sent for collection A/c | | | 12,480 |
| | (Being early payment made by B before due date) | | | |

1. Interest = Cash ₹ 8,020 + B/R ₹ 12,480
= ₹ 20,500 - Amount due ₹ 20,020
= ₹ 480

**Q.10 T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his**

**banker for ₹ 1,72,800. T immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee.**

**Give the journal entries in the books of T and J. [Dec. 2022, 15 Marks]**

**Solution :**

**In the books of T**

**Journal Entries**

| Date 2022 | Particulars | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|
| 1 April | B/R A/c Dr. | | 1,80,000 | |
| | To J A/c | | | 1,80,000 |
| | (Being bill on exchange drawn on J ) | | | |
| | Bank A/c Dr. | | 1,72,800 | |
| | Discounting charges A/c Dr. | | 7,200 | |
| | To B/R A/c | | | 1,80,000 |
| | (Being Bill discounted with the Bank) | | | |
| | J A/c Dr. | | 60,000 | |
| | To Bank A/c | | | 57,600 |
| | To Discounting charges A/c | | | 2,400 |
| | (Being amount remitted to J along with his share of discounting charges) | | | |
| 4 July | J A/c Dr. | | 2,52,000 | |
| | To B/P A/c | | | 2,52,000 |
| | (Being bill accepted due to non payment of earlier bill) | | | |
| | Bank A/c Dr. | | 40,440 | |
| | Discounting charges A/c Dr. | | 7,560 | |
| | To J A/c | | | 48,000 |
| | (Being amount received from J) | | | |
| 7 Oct | B/P A/c Dr. | | 2,52,000 | |
| | To J A/c | | | 2,52,000 |
| | (Being bill dishonoured due to bankruptcy) | | | |



| Date 2022 | Particulars | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|
| | J A/c Dr. | | 1,68,000 | |
| | To Bank A/c | | | 84,000 |
| | To Deficiency A/c | | | 84,000 |
| | (Being the amount due to J discharged by payment of 50 paise in a rupee) | | | |

**In the books of J**

**Journal Entries**

| Date 2022 | Particulars | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|
| 1 April | T A/c Dr. | | 1,80,000 | |
| | To B/P A/c | | | 1,80,000 |
| | (Being bill accepted and sent to T ) | | | |
| | Bank A/c Dr. | | 57,600 | |
| | Discounting charges A/c Dr. | | 2,400 | |
| | To T A/c | | | 60,000 |
| | (Being amount received from T on account of the bills receivable ) | | | |
| 4 July | B/R A/c Dr. | | 2,52,000 | |
| | To T A/c | | | 2,52,000 |
| | (Being bill accepted by T ) | | | |
| | Bank A/c Dr. | | 2,40,660 | |
| | Discounting charges A/c Dr. | | 11,340 | |
| | To B/R A/c | | | 2,52,000 |
| | (Being bill discounted with the bank) | | | |
| 4 July | B/P A/c Dr. | | 1,80,000 | |
| | To Bank A/c | | | 1,80,000 |
| | (Being B/P honoured on maturity date ) | | | |
| | T A/c Dr. | | 48,000 | |
| | To Bank A/c | | | 40,440 |
| | To Discounting charges A/c | | | 7,560 |
| | (Being amount sent to T along with his share of discounting charges) | | | |
| 7 Oct | T A/c Dr. | | 2,52,000 | |
| | To Bank A/c | | | 2,52,000 |
| | (Being bill dishonoured due to T's bankruptcy) | | | |

| Date 2022 | Particulars | | L.F. | Amount (Dr.) ₹ | Amount (Cr.) ₹ |
|---|---|---|---|---|---|
| | Bank A/c | Dr. | | 84,000 | |
| | Bad Debts A/c | Dr. | | 84,000 | |
| | To T A/c | | | | 1,68,000 |
| | (Being 50% amount received from T & balance being written off as bad debts) | | | | |

**Working Note:-**

**In the Books of J**

**T A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To B/P A/c | 1,80,000 | By Bank A/c | 57,600 |
| To Bank A/c | 40,440 | By Discounting charges A/c | 2,400 |
| To Discounting charges A/c | 7,560 | By B/R A/c | 2,52,000 |
| To Bank A/c | 2,52,000 | By Bank A/c | 84,000 |
| | | By Bad debts A/c | 84,000 |
| Total | 4,80,000 | Total | 4,80,000 |

**Q. 11 Journalise the following transactions in the books of Karthik:**

**(i) Karthik accepted a bill to Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.**

**(ii) Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.**

**(iii) Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.**

**(iv) Karthik's acceptance to Prem for ₹ 6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount. [June 2023, 5 Marks]**

**Solution :**

**In the books of Karthik**

**Journal Entries**

| Date | Particulars | | L.F. | Amt.(Dr.) | Amt.(Cr.) |
|---|---|---|---|---|---|
| (i) | Bills Payable A/c | Dr. | | 3,500 | |
| | To Balu A/c | | | | 3,500 |
| | (Being old bills payable dishonoured) | | | | |
| | Balu A/c | Dr. | | 1,500 | |
| | To Cash A/c | | | | 1,500 |
| | (Being part payment made) | | | | |



| Date | Particulars | | L.F. | Amt.(Dr.) | Amt.(Cr.) |
|---|---|---|---|---|---|
| | Interest A/c | Dr. | | 75 | |
| | To Balu A/c | | | | 75 |
| | (Being interest due to him) | | | | |
| | Balu A/c | Dr. | | 2,075 | |
| | To Bills Payable A/c | | | | 2,075 |
| | (Being new bill accepted to him) | | | | |
| (ii) | Gopal A/c | Dr. | | 4,550 | |
| | To Mohan A/c | | | | 4,550 |
| | (Being Gopal's acceptance endorsed to Mohan earlier, now dishonoured) | | | | |
| | Mohan A/c | Dr. | | 4,550 | |
| | To Bank A/c | | | | 4,550 |
| | (Being payment made to Mohan) | | | | |
| (iii) | Cash A/c | Dr. | | 2,475 | |
| | Discount A/c | Dr. | | 25 | |
| | To B/R A/c | | | | 2,500 |
| | (Being payment received from Doshi, allowed him discount) | | | | |
| (iv) | Bills Payable A/c | Dr. | | 6,500 | |
| | To Bills Receivable A/c | | | | 6,500 |
| | (Being bills payable from Ashok endorsed to Prem, in settlement of bills payable issued to him earlier) | | | | |

# 11 CHAPTER RECTIFICATION OF ERRORS

## DESCRIPTIVE QUESTIONS

**Q.1 What are the types of errors & their effects on agreement of trial balance?**

**Ans. Classification of Errors (types of errors) and its effect on agreement of Trial Balance :**

***1. Errors of Principle:***

- That means there is error in applying some accounting principle.
- Such errors will not affect the agreement of trial balance *i.e.* these are double sided error.

***Ex.*** Treating a revenue expense as capital expenditure **or** *vice versa* or the recording of sale of a fixed asset as ordinary sale.

***2. Clerical Errors:***

- These are the errors committed in applying the accounting procedure.
- Such errors may or may not affect the agreement of trial balance.

These can be further classified as follows:

**(*a*) Errors of Omission:**

(*i*) Omitting an entry completely from the subsidiary book. Full omission hence Trial Balance will agree.

***Ex.***: Sale of ₹ 5,000 to A on 30.3.16 is not recorded.

(*ii*) Omitting to post the ledger account **from the subsidiary** books. Partial omission hence Trial Balance **will not agree.**

***Ex.***: A sale entry of ₹ 10,000 not posted **to A's A/c.**

**(*b*) Errors of Commission:**

(*i*) Writing wrong amount in the Subsidiary **book. Trial Balance** will agree.

***Ex.*** : A purchase of ₹ 5,000 from 'X' is **entered in purchase** book as ₹ 500

(ii) Posting the wrong account in the ledger. Trial Balance will agree.

**Ex.:** From Sales book A's account is debited by ₹ 8000 instead of B's account.

(iii) Wrong casting of subsidiary books.

**Ex.:** Total of Bills Receivable book is taken as ₹ 1,05,000 instead of ₹ 1,00,500

(iv) Posting the wrong amount in the ledger.

**Ex.:** From Sales Return book A's account is credited by ₹ 8,000 instead of ₹ 8,800

(v) Posting an amount on the wrong side of an account.

**Ex.:** From Sales Book L's account is credited

(vi) Wrong balancing of an account.

**Ex.:** Balance of Furniture account is taken as ₹ 7,000 instead of ₹ 3,000

***Note:*** *In case of errors described in (iii) to (vi) above, Trial Balance will not agree.*

**(c) Compensating Errors:**

Two or more mistakes which compensate the effect of each other on trial balance & hence Trial Balance will agree.

**Ex.:** Excess debit ₹ 1,000 to Furniture A/c & Excess credit of ₹ 1,000 to Sales A/c.

## SHORT NOTES

**Q.1 Suspense Account**

**Ans. Suspense Account :**

- When trial balance does not tally, the difference is put to an account named as Suspense A/c. Difference is:
  - debited (if debit side of trial balance is short) or
  - credited (if credit side of trial balance is short) to Suspense A/c
- Thus with the help of suspense A/c trial balance is artificially tallied.
- While passing rectification entry for one sided errors, the one effect Dr. or Cr. will go into the A/c in which mistake is committed & the other effect will be given to Suspense A/c.
- When all such one sided errors are rectified the Suspense A/c will become *Nil.*
- While rectifying double sided errors, suspense account will not get affected.



## TRUE OR FALSE

**Q.1. Rectifying errors in subsequent accounting period always affect the profit or loss of that period.**

**Ans. False:** Rectifying errors in subsequent accounting period related to Personal & Real Accounts will not affect the profit of that period.

**Q.2 Errors of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.**

**Ans. True:** Recording the transaction in an incorrect fundamental manner is an error of principle.

**Q.3 Wrong casting of subsidiary books does not affect the trial balance.**

**Ans. False:** Wrong casting of subsidiary books affects the trial balance because wrong total will be posted to its account and then to the trial balance.

**Q.4 If the amount is posted in the wrong account or it is written on the wrong side of an account, it is called an error of commission.**

**Ans. True:** Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.

**Q.5 Under or over-casting of a subsidiary book is an example of error of commission. [June 2023, 2 Marks]**

**Ans. True:** Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.

**Q.6 Any type of error affects the agreement of trial balance.**

**Ans. False:** Every error does not affect the agreement of trial balance because Errors of Principle, Compensating errors etc. do not affect the agreement of trial balance.

**Q.7 Purchase of office furniture has been debited to general expenses account. It is a compensating error.**

**Ans. False:** It is an error of principle because here an item of capital nature is treated as an item of revenue nature.

**Q.8 Errors of complete omission will be located, if trial balance is prepared.**

**Ans. False:** Errors of Complete omission cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trial balance.

**Q.9 Errors of principle will affect trial balance.**

**Ans. False:** Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded with correct figures.

**Q.10 Error of carry-forward of totals of purchase journal affects two accounts.**

**Ans. False:** It will affect one account *i.e.* purchases account so it will affect the total of trial balance.

**Q.11 If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree. [May 2018, 2 Marks]**

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

***Q.12 If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.* [May 2019, 2 Marks]**

***Ans. False:*** Amount posted in the wrong account or on the wrong side of the account is an error of commission.

***Q.13 Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.* [Nov: 2020, 2 Marks]**

***Ans. False:*** It is an error of Principle.

***Q.14 If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.* [June 2022, 2 Marks]**

***Ans. False:*** If the errors are deducted after preparing trial balance, then all the errors are not rectified through suspense account. Generally double sided errors are rectified without using suspense account.

**Q.15 If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. [Dec. 2022, 2 Marks]**

**Ans. False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, which can be rectified without opening a suspense account.

## PRACTICAL QUESTIONS

**Q.1 Ganesh drew a Trial Balance of his operations for the year ended 31.03.2016. There was a difference in the Trial Balance which he closed with a Suspense Account. On a scrutiny by the Auditors, the following errors were found:**

**(i) Purchases day book for the month of April, was undercast by ₹ 1000**

**(ii) Sales day book of October, was overcast by ₹ 10,000**

**(iii) A furniture purchased for ₹ 8,100 was entered in the Furniture Account as ₹ 810.**

**(iv) A bill for ₹ 10,000 drawn by Ganesh was not entered in the Bills Receivable Book.**

**(v) A machinery purchased for ₹ 10,000 was entered in the purchased day book.**

**Pass necessary Journal Entries to rectify the same and ascertain the difference in the Trial Balance that was shown under the Suspense Account in respect of the above items.**



**Solution:**

**Working Notes**

| | Effect already given in A/c | | | Correct effect | | | Answer: Rectification entry | | |
|---|---|---|---|---|---|---|---|---|---|
| i. | Purchase A/c Dr.<br>To Party A/c | 4,000 | 5,000 | Purchase A/c Dr.<br>To Party A/c | 5,000 | 5,000 | Purchase A/c Dr.<br>To Suspense A/c | 1,000 | 1,000 |
| ii. | Party A/c Dr.<br>To Sales A/c | 30,000 | 40,000 | Party A/c Dr.<br>To Sales A/c | 30,000 | 30,000 | Sales A/c Dr.<br>To Suspense A/c | 10,000 | 10,000 |
| iii. | Furniture A/c Dr.<br>To Cash A/c | 810 | 8,100 | Furniture A/c Dr.<br>To Cash A/c | 8,100 | 8,100 | Furniture A/c Dr.<br>To Suspense A/c | 7,290 | 7,290 |
| iv. | No Entry | | | B/R A/c Dr.<br>To Party A/c | 10,000 | 10,000 | B/R A/c Dr.<br>To Party A/c | 10,000 | 10,000 |
| v. | Purchase A/c Dr.<br>To Party A/c | 10,000 | 10,000 | Machinery A/c Dr.<br>To Party A/c | 10,000 | 10,000 | Machinery A/c Dr.<br>To Purchase A/c | 10,000 | 10,000 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Difference in Trial balance (Balancing figure) | 18,290 | By Sales A/c | 10,000 |
| | | By Purchase A/c | 1000 |
| | | By Furniture A/c | 7290 |
| | 18,290 | | 18,290 |

**Comment:**

- Debit side of Trial balance was short by ₹ 18,290. Trial balance was temporarily tallied by putting that diff. to debit of suspense A/c. Now after rectification the suspense A/c has become *nil* that means trial balance is now tallied.
- (*iv*) & (*v*) are double sided error, hence their rectification does not involve suspense A/c but (*i*), (*ii*) & (*iii*) are one sided error, hence their rectification involves suspense A/c.
- (*v*) is Error of Principle, (*iv*) is Errors of Full omission and (*i*), (*ii*) & (*iii*) are Error of commission.

**Q.2 The accountant of X prepared the Trial Balance for the year ended 31st March, 2016. But there was a difference and the accountant put the difference in Suspense Account. Rectify the following errors found and prepare the Suspense Account:**

**(1) The total of the Returns outward book, ₹ 420 has not been posted in the ledger.**

**(2) Purchase of ₹ 350 from Y has been entered in the sales book. However Y's A/c has been correctly entered.**

**(3) A sale of ₹ 390 to Z has been credited to his account as ₹ 290.**

**(4) Old furniture sold for ₹ 5,400 had been entered as ₹ 4,500 in sales account.**

**(5) Goods taken by proprietor, ₹ 500 have not been entered in the books at all.**

**Solution:**

| | Effect already given in A/c | | | Correct effect | | | Rectification entry | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Party A/c Dr. | 420 | | Party A/c Dr.<br>To purchase return | 420 | 420 | Suspense A/c Dr.<br>To Purchase return A/c | 420 | 420 |
| 2. | To Sales A/c<br>To Y A/c | | 350<br>350 | Purchase A/c Dr.<br>To Y A/c | 350 | 350 | Sales A/c Dr.<br>Purchase A/c Dr.<br>To Suspense A/c | 350<br>350 | 700 |
| 3. | To Z A/c<br>To Sales A/c | | 290<br>390 | Z A/c Dr.<br>To sale A/c | 390 | 390 | Z A/c (290 + 390) Dr.<br>To Suspense A/c | 680 | 680 |
| 4. | Cash A/c Dr.<br>To Sales A/c | 5400 | 4500 | Cash A/c Dr.<br>To Old furniture A/c | 5400 | 5400 | Suspense A/c Dr.<br>Sales A/c Dr.<br>To Old furniture A/c | 900<br>4500 | 5400 |
| 5. | No effect | | | Drawing A/c Dr.<br>To Goods used A/c | 500 | 500 | Drawing A/c Dr.<br>To Goods used A/c | 500 | 500 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Diff. in Trial balance (Balancing figure) | 60 | By Sundry A/c | 700 |
| To Purchase Return A/c | 420 | By Z A/c | 680 |
| To Old Furniture A/c | 900 | | |
| | 1380 | | 1380 |

**Comment:**

- Debit side of Trial balance was short by ₹ 60.
- (5) is double sided error, hence their rectification does not involve suspense A/c but (1), (2), (3) & (4) are one sided error, hence their rectification involves suspense A/c.
- (4) is Error of Principle as well as Error of commission, (5) is Errors of Full omission, (1) is Errors of Partial omission and (2), & (3) are Error of commission.

**Q.3 A book-keeper finds the difference in the Trial Balance amounting to ₹ 1,000 and puts it in the Suspense Account. Later on he detects the following errors.**

1. **Purchased goods from Ravi ₹ 15,000 but entered into Sales Book.**
2. **Received one bill for ₹ 25,000 from Arun but recorded in Bills Payable Book.**
3. **An item of ₹ 3,500 relating to prepaid rent account was omitted to be brought forward.**
4. **An item of ₹ 2,000 in respect of purchase returns, had been wrongly entered in the purchase book, party A/c was correctly posted.**
5. **₹ 25,000 paid to Hari against our acceptance were debited to Harish Account.**



6. **Bills received from Janki for repairs done to Machine ₹ 2,500 and Machine supplied for ₹ 45,000 were entered in the Purchase Book as ₹ 46,000. Janki A/c was credited with ₹ 47,500.**

**Give rectifying journal entries with full narration and prepare Suspense Account.**

**Solution:**

| | Effect already given in A/c | | | Correct effect | | | Rectification entry | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Ravi A/c Dr.<br>To sales A/c | 15000 | 15000 | Purchase A/c Dr.<br>To Ravi A/c | 15000 | 15000 | Purchase A/c Dr.<br>Sales A/c Dr.<br>To Ravi A/c | 15000<br>15000 | 30000 |
| 2. | Arun A/c Dr.<br>To B/P A/c | 25000 | 25000 | B/R A/c Dr.<br>To Arun A/c | 25000 | 25000 | B/R A/c Dr.<br>B/P A/c Dr.<br>To Arun A/c | 25000<br>25000 | 50000 |
| 3. | Opening bal. not taken | | | Opening bal. is prepaid 3500 debit should have been taken | | | Prepaid rent A/c Dr.<br>To Suspense A/c | 3500 | 3500 |
| 4. | Purchase A/c Dr.<br>Party A/c Dr. | 2000<br>2000 | | Party A/c Dr.<br>To Purchase Return | 2000 | 2000 | Suspense A/c Dr.<br>To Purchase Return<br>To Purchase A/c | 4000 | 2000<br>2000 |
| 5. | Harish A/c Dr.<br>To Cash A/c | 25000 | 25000 | B.P. A/c Dr.<br>To Cash A/c | 25000 | 25000 | B.P. A/c Dr.<br>To Harish A/c | 25000 | 25000 |
| 6. | Purchase A/c Dr.<br>To Janki A/c | 46000 | 47500 | Repair A/c Dr.<br>Machine A/c Dr.<br>To Janki A/c | 2500<br>45000 | 47500 | Repairs A/c Dr.<br>Machine A/c Dr.<br>To Purchase A/c<br>To Suspense A/c | 2500<br>45000 | 46000<br>1500 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Diff. of T.B. (Balancing figure) | 1,000 | By Prepaid rent A/c | 3,500 |
| To Purchase return A/c | 2,000 | By Sundry A/c | 1,500 |
| To Purchase A/c | 2,000 | | |
| | 5,000 | | 5,000 |

**Comment:**

- Debit side of Trial balance was short by ₹ 1000 Amt. of diff. was given but side was not given.
- (1), (2) & (5) are double sided error, hence their rectification does not involve suspense A/c but (3), (4), & (6) are one sided error, hence their rectification involves suspense A/c.
- (6) is Error of Principle as well as Error of commission, (3) is Error of Partial omission, and (1), (2), (4) & (5) are Error of commission.

**Q.4 The trial balance of a firm is out. The following errors were found subsequently, to have been committed. Pass journal entries to correct them, and ascertain the difference in the Trial Balance.**

**(a)** An amount of ₹ 100 was received from D. Das on 31st December, 2015, but had been entered in the Cash Book on 3rd January, 2016.

**(b)** The Returns Inwards Books for December has been cast ₹ 100 short.

**(c)** The purchase of an office table costing ₹ 300 had been passed through the Purchase Day Book.

***(d)*** ***₹ 375 paid for wages to workmen for making show cases had been charged to wages account.***

***(e)*** ***A purchase of ₹ 671 had been posted to the debit of the creditor's account as ₹ 617. The creditor is P. Panna & Co.***

***(f)*** ***A cheque for ₹ 200 received from P.C Joshi has been dishonoured on maturity and was passed to the debit of Allowances Account.***

***(g)*** ***Goods amounting to ₹ 100 had been returned by a customer and were taken into stock but no entry in respect thereof was made in the books.***

***(h)*** ***₹ 2,000 paid for the purchase of a motor-cycle for Mr. Dutt (a partner) had been charged to Miscellaneous Expenses Account.***

***(i)*** ***A sale of ₹ 200 to Singhani & Co. was credited to their account.***

***(j)*** ***A sale of ₹ 1,000 had been passed through the Purchase Day Book. The customer's account has, however, been correctly debited.***

***(k)*** ***While carrying forward the total of the sales book from one page to the next, the amount was written as ₹ 1,76,658 instead of ₹ 1,67,568.***

**Solution:**

| | Working Notes | | | | | | Answer | | |
|---|---|---|---|---|---|---|---|---|---|
| | Effect Given | | | Correct Effect | | | Rectification | | |
| (a) | No effect (Note: The entry already passed in the next years books will have to be reversed) | | | Cash A/c Dr. | 100 | | Cash A/c Dr. | 100 | |
| | | | | To D. Das A/c | | 100 | To D. Das A/c | | 100 |
| (b) | Sales return A/c Dr. | 9900 | | Sales return A/c Dr. | 10000 | | Sales return A/c Dr. | 100 | |
| | To Party A/c | | 10000 | To Party A/c | | 10000 | To Suspense A/c | | 100 |
| (c) | Purchase A/c Dr. | 300 | | Furniture A/c Dr. | 300 | | Furniture A/c Dr. | 300 | |
| | To Party A/c | | 300 | To Party A/c | | 300 | To Purchase A/c | | 300 |
| (d) | Wages A/c Dr. | 375 | | Furniture A/c Dr. | 375 | | Furniture A/c Dr. | 375 | |
| | To Cash A/c | | 375 | To Cash A/c | | 375 | To Wages A/c | | 375 |
| (e) | Purchase A/c Dr. | 671 | | Purchase A/c Dr. | 671 | | Suspense A/c Dr. | 1288 | |
| | P. Panna & Co. Dr. A/c. | 617 | | To P. Panna & Co. | | 671 | To P. Panna A/c (671 +617) | | 1288 |
| (f) | Allowance A/c Dr. | 200 | | P.C. Joshi A/c Dr. | 200 | | P.C. Joshi A/c Dr. | 200 | |
| | To Bank A/c | | 200 | To Bank A/c | | 200 | To Allowance A/c | | 200 |
| (g) | No effect | | | Sales return A/c Dr. | 100 | | Sales return A/c Dr. | 100 | |



| | Working Notes | | | | | | Answer | | |
|---|---|---|---|---|---|---|---|---|---|
| | Effect Given | | | Correct Effect | | | Rectification | | |
| | | | | To Customer A/c (party A/c) | | 100 | To Customer A/c (Party A/c) | | 100 |
| (h) | Misc. Exp. A/c Dr. | 2000 | | Drawing A/c Dr. | 2000 | | Drawing A/c Dr. | 2000 | |
| | To cash A/c | | 2000 | To cash A/c | | 2000 | To Misc. A/c | | 2000 |
| (i) | To Sales A/c | | 200 | Singhani A/c Dr. | 200 | | Singhani & Co. A/c (200+200) Dr. | 400 | |
| | To Singhani & Co. A/c | | 200 | To Sales A/c | | 200 | To Suspense A/c | | 400 |
| (j) | Customer A/c Dr. | 1000 | | Customer A/c Dr. | 1000 | | Suspense A/c Dr. | 2000 | |
| | Purchase A/c Dr. | 1000 | | To Sales A/c | | 1000 | To Sales A/c | | 1000 |
| | | | | | | | To Purchase A/c | | 1000 |
| (k) | Party A/c Dr. | 167568 | | Party A/c Dr. | 167568 | | Sales A/c Dr. | 9090 | |
| | To Sales A/c | | 176658 | To sales A/c | | 167568 | To Suspense A/c | | 9090 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Diff. in trial balance (Balancing figure) | 6,302 | By Sales return A/c | 100 |
| To P. Panna A/c | 1,288 | By Singhani & Co. A/c | 400 |
| To Sundry A/c | 2,000 | By Sales A/c | 9,090 |
| | 9,590 | | 9,590 |

**Comment:**

- Debit side of Trial balance was short by ₹ 6302
- (a), (c), (d), (f), (g) & (h) are double sided error, hence their rectification does not involve suspense A/c but (b), (e), (i), (j) & (k) are one sided error, hence their rectification involves suspense A/c.
- (d) & (h) are Error of Principle, (g) is Errors of Full omission, and (a), (b), (c), (e), (f), (i), (j) & (k) are Error of commission.

**Q.5 Pass necessary journal entries to rectify the following errors:**

**(i)** An amount of ₹ 200 withdrawn by the proprietor for his personal use has been debited to trade expenses account.

**(ii)** A purchase of goods from Nathan amounting to ₹ 300 has been wrongly entered through the sales-book.

**(iii)** A credit sale of ₹ 100 to Santhanam has been wrongly passed through the purchases-book.

**(iv)** ₹ 150 received from Malhotra have been credited to Mehrotra.

**(v)** ₹ 375 paid on account of salary to the cashier Dhawan stands debited to his personal account.

**(vi)** A contractor's bill for extension of premises amounting to ₹ 2,750 has been debited to building repairs account.

**(vii)** On 25th June, goods of the value of ₹ 500 were returned by Akash Deep and were taken into stock but the returns were entered in the books under date 3rd July, *i.e.*, after the expiration of the financial year on 30th June.

**(viii)** A bill of ₹ 200 for old office furniture sold to Sethi were entered in the sales-day-book.

**(ix)** The periodical total of the sales-book was cast short by ₹ 100.

**(x)** An amount of ₹ 80 received on account of interest was credited to commission account.

**Solution:**

**Rectification of Entry in same Year**

| | Particulars | L.F. | Dr. | Cr. |
|---|---|---|---|---|
| (i) | Drawing A/c Dr.<br>To Trade expense A/c<br>(Being rectification of drawing wrongly debited to trade expense A/c) | | 200 | 200 |
| (ii) | Sale A/c Dr.<br>Purchase A/c Dr.<br>To Nathan A/c<br>(Being Purchase entered in sales book, consequently sales is credited & Nathan A/c debit instead of debiting purchase & crediting Nathan, now rectified) | | 300<br>300 | 600 |
| (iii) | Santhanam A/c Dr.<br>To Purchase A/c<br>To Sales A/c<br>(Being sale wrongly entered in purchase book now rectified) | | 200 | 100<br>100 |
| (iv) | Mehrotra A/c Dr.<br>To Malhotra A/c<br>(Being Mehrotra A/c credited instead of Malhotra now rectified.) | | 150 | 150 |
| (v) | Salary A/c Dr.<br>To Dhawan's A/c<br>(Being rectification of wrong debit to Dhawan's A/c instead of salary A/c) | | 375 | 375 |
| (vi) | Premises A/c Dr.<br>To Repairs A/c<br>(Being Capital expenditure wrongly debited to revenue exp. Now rectified) | | 2750 | 2750 |
| (vii) | Sales Return A/c Dr.<br>To Akash deep A/c<br>(Being sales return was not recorded in current year now entered. Goods have been already correctly included in stock hence no correction there. Entry already passed in the next year's books will have to be reversed) | | 500 | 500 |



| | Particulars | L.F. | Dr. | Cr. |
|---|---|---|---|---|
| (viii) | Sales A/c Dr.<br>To Furniture A/c<br>(Being sale of asset wrongly entered in sales book now rectified) | | 200 | 200 |
| (ix) | Suspense A/c Dr.<br>To Sales A/c<br>(Being short totalling sales book resulting into short credit to sale A/c, now rectified) | | 100 | 100 |
| (x) | Commission A/c Dr.<br>To Interest A/c<br>(Being wrong credit to commission instead of Interest A/c now rectified) | | 80 | 80 |

**Comment:**

- Credit side of Trial balance was short by ₹100
- (*i*) to (*viii*) & (*x*) are double sided error, hence their rectification does not involve suspense A/c but (*ix*) is one sided error, hence their rectification involves suspense A/c.
- (*i*), (*vi*), (*viii*) is Error of Principle, and (*ii*) to (*v*), (*vii*), (*ix*) & (*x*) are Error of commission.

**Q.6 A book-keeper while preparing his trial balance finds that the debit exceeds by ₹ 7,250. Being required to prepare the final account for the year 2015, he places the difference to a Suspense Account. In the next year *i.e.* 2016 the following mistakes were discovered:**

**(a)** A sale of ₹ 4,000 has been passed through the Purchase Day-book. The entry in customer's account has been correctly recorded.

**(b)** Goods worth ₹ 2,500 taken away by the proprietor for his use has been debited to Repairs Account.

**(c)** A Bill receivable for ₹ 1,300 received from Krishna has been dishonoured on maturity but no entry passed.

**(d)** Salary ₹ 650 paid to a clerk has been debited to his Personal Account.

**(e)** A Purchase of ₹ 750 from Raghubir has been debited to his account. Purchases Account has been correctly debited.

**(f)** A sum of ₹ 2,250 written off as depreciation on furniture has not been debited to Depreciation Account.

**Draft the Journal entries for rectifying the above mistakes and prepare Suspense Account.**

**Solution:**

### Rectification in Subsequent Year

| Working Note: Effect already given in A/c in 2015 | | | Working Note: Correct effect | | | Answer: Rectification entry in 2016 | | |
|---|---|---|---|---|---|---|---|---|
| Purchase A/c Dr.<br>Party A/c Dr. | 4000<br>4000 | | Party A/c Dr.<br>To sales A/c | 4000 | 4000 | Suspense A/c Dr.<br>To (sales) P&L Adj. A/c<br>To (purchase) P&L Adj. A/c | 8000 | 4000<br>4000 |
| Repairs A/c Dr.<br>To goods used | 2500 | 2500 | Drawings A/c Dr.<br>To Goods Used A/c | 2500 | 2500 | Drawings A/c Dr.<br>To (repairs) P&L Adj. A/c | 2500 | 2500 |
| No Entry | | | Krishna A/c Dr.<br>To B/R A/c | 1300 | 1300 | Krishna A/c Dr.<br>To B/R A/c | 1300 | 1300 |
| Clerk A/c Dr.<br>To Cash A/c | 650 | 650 | Salary A/c Dr.<br>To Cash A/c | 650 | 650 | P&L Adj. (Salary) A/c Dr.<br>To Clerk A/c | 650 | 650 |
| Purchase A/c Dr.<br>Raghu A/c Dr. | 750<br>750 | | Purchase A/c Dr.<br>To Raghu A/c | 750 | 750 | Suspense A/c Dr.<br>To Raghu A/c | 1500 | 1500 |
| To furniture A/c | | 2250 | Depreciation A/c Dr.<br>To furniture A/c | 2250 | 2250 | P&L Adjs. A/c Dr.<br>To Suspense A/c | 2250 | 2250 |
| Balance of P&L Adj. A/c indicating that last years profit was shown less, transferred to capital A/c. | | | | | | P&L Adj. A/c Dr.<br>To Capital A/c | 7600 | 7600 |

### Suspense Account

| | | | |
|---|---|---|---|
| To P&L Adj. A/c | 8000 | By Balance B/f (Balancing figure) | 7250 |
| To Raghu A/c | 1500 | By P&L Adj. A/c | 2250 |
| | 9500 | | 9500 |

### P&L Adjustment Account

| | | | |
|---|---|---|---|
| To Clerk A/c | 650 | By Suspense A/c | 8000 |
| To Suspense A/c | 2250 | By Drawings A/c | 2500 |
| To Capital A/c (cr. Bal. transferred) | 7600 | | |
| | 10500 | | 10500 |

**Comment:**

- Balance in suspense A/c indicates that in last year's Trial balance, Credit side was short by ₹ 7250.
- As the rectification is being carried out in the next years books of account, the Profit & Loss adjustment account is debited/credited in place of income & expenses account.
- The credit balance of ₹7,600 in Profit & Loss adjustment account indicates that in last year less profit was shown.
- (*b*), (*c*) & (*d*) is double sided error, hence their rectification does not involve suspense A/c but (*a*), (*e*) & (*f*) are one sided error, hence their rectification involves suspense A/c.



- (*b*) is Error of Principle, (*c*) is Error of Full omission and (*a*), (*d*), (*e*) & (*f*) are Error of commission.

**Q.7 The following mistakes were located in the books of a concern after its books were closed and a suspense Account was opened in order to get the Trial Balance agreed.**

**(*a*) Sales Day Book was over cast by ₹ 100.**

**(*b*) A sales of ₹ 50 to X was wrongly debited to the account of Y.**

**(*c*) General Expenses of ₹ 18 was posted in the General Ledger at ₹80.**

**(*d*) A bill receivable for ₹ 155 was passed through Bills payable Day Book - This bill was given by Z.**

**(*e*) Legal expenses ₹ 119 paid to Mr. Dufty was debited to his personal account.**

**(*f*) Cash received from C. Dass was debited to G. Dass ₹ 150.**

**(*g*) While carrying forward the total of one page of the Purchases Book to the next the amount of ₹1235 was written as ₹ 1325.**

**Find out the nature and amount of the Suspense Account and pass entries for the rectification of the above errors in the subsequent year's books.**

**Solution:**

### Rectification in Subsequent Year

| | Working Notes: Effect Given | | | Working Notes: Correct Effect | | | Answer: Rectification | | |
|---|---|---|---|---|---|---|---|---|---|
| a. | Party A/c Dr.<br>To Sales A/c | 1000 | 1100 | Party A/c Dr.<br>To Sales A/c | 1000 | 1000 | P& L Adj. A/c Dr.<br>To Suspense A/c | 100 | 100 |
| b. | Y A/c Dr.<br>To Sales A/c | 50 | 50 | X A/c Dr.<br>To Sales A/c | 50 | 50 | X A/c Dr.<br>To Y A/c | 50 | 50 |
| c. | General Exp. A/c Dr.<br>To Cash A/c | 80 | 18 | General Exp. A/c Dr.<br>To Cash A/c | 18 | 18 | Suspense A/c Dr.<br>To (Ge. Exp.) P &L Adj A/c | 62 | 62 |
| d. | Z A/c Dr.<br>To B.P. A/c | 155 | 155 | B.R. A/c Dr.<br>To Z A/c | 155 | 155 | B.R. A/c Dr.<br>B.P. A/c Dr.<br>To Z A/c (155+155) | 155<br>155 | 310 |
| e. | Mr. Dufty A/c Dr.<br>To Cash A/c | 119 | 119 | Legal Exp. A/c Dr.<br>To Cash A/c | 119 | 119 | P&L Adj A/c (Legal Exp.) Dr.<br>To Mr. Dufty A/c | 119 | 119 |
| f. | G. Dass A/c Dr.<br>Cash A/c Dr. | 150<br>150 | | Cash A/c Dr.<br>To C. Das A/c | 150 | 150 | Suspense A/c Dr.<br>To C. Dass A/c<br>To G. Dass A/c | 300 | 150<br>150 |
| g. | Purchase A/c Dr.<br>To Party A/c | 1325 | 1235 | Purchase A/c Dr.<br>To Party A/c | 1235 | 1235 | Suspense A/c Dr.<br>To P&L Adj. | 90 | 90 |
| *Note:* Balance of P&L adjustment A/c, after all rectification is transferred to capital account. | | | | | | | Capital A/c Dr.<br>To P&L adj. A/c | 67 | 67 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Sundries | 300 | By balance b/f (Difference in trial balance) (Bal. fig) | 352 |
| To P&L Adj A/c | 62 | By P&L Adj. A/c | 100 |
| To P&L Adj A/c | 90 | | |
| | 452 | | 452 |

**P&L Adjustment Account**

| | | | |
|---|---|---|---|
| To Suspense A/c | 100 | By Suspense A/c | 62 |
| To Mr. Dufty A/c | 119 | By Suspense A/c | 90 |
| | | By Capital A/c (Bal. transferred) | 67 |
| | 219 | | 219 |

***Note:*** *Debit balance ₹ 67 indicates that last year's profit was shown excess.*

**Comment:**

- Balance in suspense A/c indicates that in last year's Trial balance, Credit side was short by ₹ 352
- As the rectification is being carried out in the next years books of account, the Profit & Loss adjustment account is debited/credited in place of income & expenses account.
- The debit balance of ₹ 67 in Profit & Loss adjustment account indicates that in last year excess profit was shown.
- (*b*), (*d*) & (*e*) is double sided error, hence their rectification does not involve suspense A/c but (*a*), (*c*), (*f*) & (*g*) are one sided error, hence their rectification involves suspense A/c.
- All errors are Error of commission although error (*e*) can also be considered as Error of Principle.

**Q.8 In 2016 Sen found accidentally that his books for 2015 contained some errors. The errors were:**

***i.*** **An invoice for ₹ 1,000 for goods purchased from Basu was entered in Sales Returns Book.**

***ii.*** **Goods bought on credit from Ramlal for ₹ 1,500 were entered in the Sales Book as ₹ 1,050.**

***iii.*** **A Cash Discount of ₹ 50 allowed to G. Gupta remained un-posted to his account.**

***iv.*** **The Sales Book for the month of April was overcast by ₹ 100. It was also found that a sale of ₹ 456 to Kabir was entered in the Sales Book as ₹ 645 from where he was debited by ₹ 615.**

***v.*** **A machine purchased on 1st January, 2013 for ₹ 10,000 (on which ₹ 2,000 depreciation had been written off for the two years 2013 and 2014) had been sold on 1st July, 2015 for ₹ 8,500 but the sale was entered in the Sales Day Book.**



***vi.*** **₹ 460 paid for freight on machinery purchased on Oct.1, 2015 was debited to Freight Account as ₹ 640. Give journal entries to rectify the errors. Your entries must not affect current year's profit or loss. Have you any comments to offer?**

**Solution:**

**Rectification in Subsequent Year**

| | Working Notes | | | | | | Answer | | |
|---|---|---|---|---|---|---|---|---|---|
| | Effect Given | | | Correct Effect | | | Rectification | | |
| *i.* | Sales return A/c Dr.<br>To Basu A/c | 1000 | 1000 | Purchase A/c Dr.<br>To Basu A/c | 1000 | 1000 | P&L Adj. (Purchase) A/c Dr.<br>To P&L Adj (Sales Rtn.)<br>Alternatively No entry need to be passed | 1000 | 1000 |
| *ii.* | Ramlal A/c Dr.<br>To Sales A/c | 1050 | 1050 | Purchase A/c Dr.<br>To Ramlal A/c | 1500 | 1500 | P&L Adj. A/c Dr. (Purchase)<br>P&L Adj. A/c Dr. (Sales)<br>To Ramlal A/c (1050 + 1500) | 1500<br>1050 | 2550 |
| *iii.* | Cash A/c Dr.<br>Discount A/c Dr.<br>To G. Gupta | 450<br>50 | 450 | Cash A/c. Dr.<br>Discount A/c Dr.<br>To G. Gupta | 450<br>50 | 500 | Suspense A/c. Dr.<br>To G. Gupta | 50 | 50 |
| *iv.* | Party A/c Dr.<br>To Sales A/c | 10000 | 10100 | Party A/c Dr.<br>To Sales A/c | 10000 | 10000 | P&L Adj A/c Dr. (Sales A/c)<br>To Suspense A/c | 100 | 100 |
| | Kabir A/c Dr.<br>To Sales A/c | 615 | 645 | Kabir A/c Dr.<br>To Sales A/c | 456 | 456 | P&L Adj A/c Dr. (Sales A/c)<br>To Kabir A/c<br>To Suspense A/c | 189 | 159<br>30 |
| *v.* | Party A/c Dr.<br>To Sales A/c | 8500 | 8500 | Party A/c Dr.<br>To Machinery A/c | 8500 | 8500 | P&L Adj A/c Dr. (sales A/c)<br>To Machinery A/c | 8500 | 8500 |
| | No entry | | | Depreciation A/c Dr.<br>To Machinery A/c | 500 | 500 | P&L Adj A/c Dr. (Dep. A/c)<br>To Machinery A/c | 500 | 500 |
| | No entry | | | Machinery A/c. Dr.<br>To Profit on sale of Machinery A/c. | 1000 | 1000 | Machinery A/c Dr.<br>To P & L Adj. A/c (profit on sale of Machinery)<br>***OR***<br>P&L Adj. A/c Dr.<br>To Machinery A/c | 1000<br><br>8000 | 1000<br><br>8000 |
| *vi.* | Freight A/c Dr.<br>To Cash A/c | 640 | 460 | Machinery A/c Dr.<br>To Cash A/c | 460 | 460 | Machinery A/c Dr.<br>Suspense A/c Dr.<br>To P&L Adj. A/c | 460<br>180 | 640 |

| Working Notes | | | | | | Answer | | |
|---|---|---|---|---|---|---|---|---|
| Effect Given | | | Correct Effect | | | Rectification | | |
| No entry | | | Depreciation A/c Dr. | 12 | | P&L Adj. (Dep.) Dr. A/c | 12 | |
| | | | To Machinery A/c $\left(460 \times \frac{10}{100} \times \frac{3}{12}\right)$ | | 12 | To Machinery A/c | | 12 |
| | | | | | | *OR* | | |
| | | | | | | Machinery A/c Dr. | 448 | |
| | | | | | | Suspense A/c Dr. | 180 | |
| | | | | | | To P&L Adj. A/c | | 628 |
| *Note:* Balance of P&L adjustment A/c, after all rectification, is transferred to capital account. | | | | | | Capital A/c Dr. | 10,211 | |
| | | | | | | To P&L adj. A/c | | 10,211 |

**P&L Adjustment Account**

| | | | |
|---|---|---|---|
| To Ramlal A/c | 2,550 | By Sundries (640 - 12) | 628 |
| To Suspense A/c | 100 | By Capital A/c (mistake in last years Profit) | 10,211 |
| To Sundries (159 + 30) | 189 | (Balance transferred) | |
| To Machinery A/c | 8,000 | | |
| | 10,839 | | 10,839 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To G. Gupta A/c | 50 | By balance b/f (Balancing figure) (Difference in trial balance of last year.) | 100 |
| To P&L Adj. A/c | 180 | By P&L Adj. A/c | 100 |
| | | By P&L Adj. A/c | 30 |
| | 230 | | 230 |

**Comment:**

- Balance in suspense A/c indicates that in last year's Trial balance, Credit side was short by ₹ 100.
- As the rectification is being carried out in the next years books of account, the Profit & Loss adjustment account is debited/credited in place of income & expenses account.
- The debit balance of Profit & Loss adjustment account indicates that in last year profit was shown excess by ₹ 10,211.
- (*i*), (*ii*) & (*v*) are double sided error, hence their rectification does not involve suspense A/c but (*iii*), (*iv*) & (*vi*) are one sided error, hence their rectification involves suspense A/c.
- (*v*) is Error of Principle, (*vi*) is Error of Principle as well as error of commission, (iii) is Error of Partial omission and (*i*), (*ii*) & (*iv*) are Error of commission.

**Q.9 Nitish closes his books on 31st December. In 2015, his books showed a difference which he transferred to the debit of his Capital Account and prepared the Profit and Loss Account and Balance Sheet after doing so he found that the under mentioned errors had been committed in 2015.**



**(*i*) A machine, book value ₹ 8200 was sold on credit to Mehtani for ₹ 7500. The amount was posted to the credit of Mehta.**

**(*ii*) A cheque for ₹ 2,100 was received from Kapoor and was correctly dealt with. It was, however, returned dishonoured and was then posted to the debit of Trade Expenses A/c.**

**(*iii*) The closing stock sheets for 2015 were found to be totalled ₹10,000 in excess.**

**(*iv*) The income tax paid on behalf of the proprietor, ₹ 2370 was debited to Income Tax Account as ₹ 3720.**

**(*v*) A steel cupboard was purchased for ₹ 1,250, it was debited to General Expenses Account as ₹ 2150. Give journal entries to carry out the corrections required. How much was the difference in the books on December 31, 2015?**

**Solution:**

| Effect already given in A/c | | | Correct effect | | | Rectification entry | | |
|---|---|---|---|---|---|---|---|---|
| To Mehta A/c | | 7500 | Mehtani A/c Dr. | 7500 | | Mehtani A/c Dr. | 7500 | |
| To Machinery A/c | | 7500 | To Machinery A/c | | 7500 | Mehta A/c Dr. | 7500 | |
| | | | | | | To Suspense A/c | | 15000 |
| Trade expense Dr. A/c | 2100 | | Kapoor A/c Dr. | | 2100 | Kapoor A/c Dr. | 2100 | |
| To bank A/c | | 2100 | To bank A/c | 2100 | | To P&L Adj. A/c | | 2100 |
| Stock A/c Dr. | 110000 | | Stock A/c Dr. | 100000 | | P&L Adj. A/c Dr. | 10000 | |
| To Trading A/c | | 110000 | To Trading A/c | | 100000 | To Opening stock A/c | | 10000 |
| Gen. Exp. A/c Dr. | 2150 | | Furniture A/c Dr. | 1250 | | Furniture A/c Dr. | 1250 | |
| To Cash A/c | | 1250 | To Cash A/c | | 1250 | Suspense A/c. Dr | 900 | |
| | | | | | | To P&L adj. A/c | | 2150 |
| Income tax A/c Dr. | 3720 | | Drawing A/c Dr. | 2370 | | Drawing A/c Dr. | 2370 | |
| To Cash A/c | | 2370 | To Cash A/c | | 2370 | Suspense A/c Dr. | 1350 | |
| | | | | | | To P&L Adj. A/c | | 3720 |
| Balance in Suspense A/c now credited to Capital A/c, because diff. in Trial balance was last year debited to Capital A/c, instead of Suspense A/c | | | | | | Suspense A/c Dr. | 12750 | |
| | | | | | | To Capital A/c | | 12750 |
| Balance in P&L adj. indicating that last year profit was shown excess now rectified by debiting to Capital A/c. | | | | | | Capital A/c Dr. | 2030 | |
| | | | | | | To P&L Adj. A/c | | 2030 |

**Suspense Account**

| | | | |
|---|---|---|---|
| To P&L Adj. A/c | 1350 | By Sundry A/c | 15000 |
| To P&L Adj. A/c | 900 | | |
| To Capital A/c (Bal. tr. To Capital A/c) | 12750 | | |
| | 15000 | | 15000 |

**P&L Adjustment Account**

| | | | |
|---|---|---|---|
| To Opening stock A/c | 10000 | By Kapoor A/c | 2100 |
| | | By Sundry A/c | 3720 |
| | | By Sundry A/c | 2150 |
| | | By Capital A/c (Bal. transferred) | 2030 |
| | 10000 | | 10000 |

**Comment:**

- Last year difference in Trial balance was transferred (debited) to Capital A/c. Hence suspense A/c does not have it as opening balance. Therefore after rectification instead of suspense A/c getting closed, it is showing balance ₹ 12,750 which is transferred (credited) to capital A/c so that last years debit to capital A/c gets nullified.
- The debit balance of Profit & Loss adjustment account indicates that in last year profit was shown excess by ₹ 2,030.
- *(ii)* & *(iii)* are double sided error, hence their rectification does not involve suspense A/c but *(i)*, *(iv)* & *(v)* are one sided error, hence their rectification involves suspense A/c.
- *(iv)* & *(v)* are Error of Principle as well as error of commission, and *(i)*, *(ii)* & *(iii)* are Error of commission.

**Q.10 The books of account of B. Quick for the year ending 31st March, 2015 were closed with a difference in books carried forward. The following errors were detected subsequently:**

**(a) Goods ₹ 125 returned to Mita Bros. were recorded in the Returns Inward Book as ₹ 251 and from there it was posted to the debit of Mita Bros. Account.**

**(b) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customer account in the Sales ledger.**

**(c) Closing Stock was overstated by ₹ 5,000 being casting error in the schedule of inventory.**

**(d) Paid acceptance to Bala Ram for ₹ 7,600 was posted to the debit of Sita Ram as ₹ 6,700.**

**(e) Goods purchased from A & Co. ₹ 3,250 entered in the Sales Day Book for ₹ 3,520.**

**(f) ₹ 1,500 being the total of the discount column on the credit side of the Cash Book was not posted. Pass rectification entries in the next year.**



**Solution:**

**Rectification in Subsequent year**

| | Particulars | | Dr. | Cr. |
|---|---|---|---|---|
| *(a)* | Suspense A/c (251 + 251) | Dr. | 502 | |
| | To P&L Adj. A/c (125 + 251) | | | 376 |
| | To Mita Brothers A/c (251 – 125) | | | 126 |
| | (Being rectification of wrong debit to sales Return 251 omission of credit to Purchase return ₹ 125 & excess debit to Mita Brothers, now rectified) | | | |
| *(b)* | Customer A/c | Dr. | 90 | |
| | To Suspense A/c | | | 90 |
| | (Being short debit to customer A/c, now rectified) | | | |
| *(c)* | P&L Adj. A/c | Dr. | 5000 | |
| | To Opening stock A/c | | | 5000 |
| | (Being excess entry of closing stock last year, now rectified. Last years Closing stock A/c is Current years opening stock A/c) | | | |
| *(d)* | Bills payable A/c | Dr. | 7600 | |
| | To Sita Ram A/c | | | 6700 |
| | To Suspense A/c | | | 900 |
| | (Being debit to Sita Ram instead of bills payable A/c that too with short amount, now rectified) | | | |
| *(e)* | P &L Adj. A/c (3520 +3250) | Dr. | 6770 | |
| | To A & Co. A/c | | | 6770 |
| | (Being a purchase wrongly entered as sales is now rectified) | | | |
| *(f)* | Suspense A/c | Dr. | 1500 | |
| | To P&L Adj. A/c | | | 1500 |
| | (Being omission of posting to Discount received A/c, rectified) | | | |

**Suspense Account**

| | | | |
|---|---|---|---|
| To Sundry A/c | 502 | By Balance B/f (diff. In last years trial bal.) (Balancing figure) | 1012 |
| To P&L Adj. A/c | 1500 | By Customer A/c | 90 |
| | | By Sundry A/c | 900 |
| | 2002 | | 2002 |

**P&L Adjustment Account**

| | | | |
|---|---|---|---|
| To Opening stock A/c | 5000 | By Suspense A/c | 376 |
| To A & Co. A/c | 6770 | By Suspense A/c | 1500 |
| | | By Capital A/c (Balance transferred) | 9894 |
| | 11770 | | 11770 |

**Comment:**

- Balance in suspense A/c indicates that in last year's Trial balance, Credit side was short by ₹ 1012.
- The debit balance of Profit & Loss adjustment account indicates that in last year profit was shown excess by ₹ 9,894.
- (*c*) & (*e*) are double sided error, hence their rectification does not involve suspense A/c but (*a*), (*b*), (*d*) & (*f*) are one sided error, hence their rectification involves suspense A/c.
- (*f*) is error of Partial omission, and (*a*) to (*e*) are Error of commission.

**Q.11 Give journal entries (narrations not required) to rectify the following:**

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

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

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

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

**[May 2018, 4 Marks]**

**Solution:** **Journal Entries**

| S. No. | Particulars | | LF. | Dr. | Cr. |
|---|---|---|---|---|---|
| (*i*) | Subham A/c | Dr. | | 300 | |
| | Furniture A/c | Dr. | | 2,700 | |
| | To Nigam A/c | | | | 3,000 |
| (*ii*) | Sales Returns A/c | Dr. | | 5,000 | |
| | To Jyothy A/c | | | | 5,000 |
| (*iii*) | Sales A/c | Dr. | | 75,000 | |
| | To P&L A/c (Gain on sale of investments) | | | | 15,000 |
| | To Investments A/c | | | | 60,000 |
| (*iv*) | Drawings A/c | Dr. | | 10,000 | |
| | To Trade Expenses A/c | | | | 10,000 |

**Q.12 Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found:**

**(*i*) Purchase account was undercast by ₹ 8,000.**

**(*ii*) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.**

**(*iii*) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.**

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



**(*v*) Repairs to Machinery was debited to Machinery Account ₹1,800.**

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

**Suggest the necessary rectification entries. [May 2018, 10 Marks]**

**Solution:** **Journal Entries in the books of Miss Daisy**

| S.No. | Particulars | | Dr.(₹) | Cr. (₹) |
|---|---|---|---|---|
| (*i*) | Profit & Loss Adjustment A/c | Dr. | 8,000 | |
| | To Suspense* A/c | | | 8,000 |
| | (Purchase Account under cast in the previous year; error now rectified) | | | |
| (*ii*) | Rahim's A/c | Dr. | 2,500 | |
| | To Profit & Loss Adjustment A/c | | | 2,500 |
| | (Sales to Rahim omitted last year; now adjusted) | | | |
| (*iii*) | Anbu's A/c | Dr. | 1,200 | |
| | To Asok's A/c | | | 1,200 |
| | (Amount received from Asok wrongly posted to the account of Anbu; now rectified) | | | |
| (*iv*) | Profit & Loss Adjustment A/c | Dr. | 450 | |
| | To Suspense* A/c | | | 450 |
| | (Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted) | | | |
| (*v*) | Profit & Loss Adjustment A/c | Dr. | 1,800 | |
| | To Machinery A/c | | | 1,800 |
| | (Repairs to machinery was wrongly debited to machinery account, now rectified) | | | |
| (*vi*) | Profit & Loss Adjustment A/c | Dr. | 6,000 | |
| | To Mr. Paul | | | 6,000 |
| | (Credit purchase of goods from Mr. Paul entered as sale last year, now rectified) | | | |
| (*vii*) | Daisy's Capital A/c | Dr. | 13,750 | |
| | To Profit and Loss Adjustment A/c | | | 13,750 |
| | (Being balance in P&L Adjustment Account transferred to Daisy's Capital A/c - Refer W.N. 1) | | | |
| (*viii*) | Suspense A/c | Dr. | 8,450 | |
| | To Daisy's Capital A/c | | | 8,450 |
| | (Being balance of Suspense A/c transferred to Capital A/c-Refer W.N. 2) | | | |

*Considering that the difference was posted to Suspense account.

**Working Notes:**

1. **Profit and Loss Adjustment Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Suspense A/c | 8,000 | By Rahim's A/c | 2,500 |
| To Suspense A/c | 450 | By Daisy's Capital A/c | 13,750 |

| | ₹ | | ₹ |
|---|---|---|---|
| To Machinery A/c | 1,800 | (Bal. Transfer) | |
| To Mr. Paul's A/c | 6,000 | | |
| | 16,250 | | 16,250 |

2.

**Suspense Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Daisy's Capital A/c | 8,450 | By P&L Adj. A/c | 8,000 |
| (Balance Transfer) | | By P&L Adj. A/c | 450 |
| | 8,450 | | 8,450 |

**Q.13 The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:**

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

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

**(iii) General expenses of ₹180 were posted in the General Ledger as ₹810.**

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

**(v) Legal expenses ₹ 1,190 Paid to Mrs. Neetu was debited to her personal account.**

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

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

**Find out the nature and amount of the Suspense Account and pass entries (including narration) for the rectification of the above errors in the subsequent year's books. [Nov. 2018, 10 Marks]**

**Solution :**

**Journal Entries**

| S. No. | Particulars | L.F. | Amount (₹) | Amount (₹) |
|---|---|---|---|---|
| (i) | P&L Adjustment A/c Dr.<br>To Suspense A/c<br>(Being sales day book over cast by ₹ 1,000, now rectified) | | 1,000 | 1,000 |
| (ii) | X's A/c Dr.<br>To Y's A/c<br>(Being sale of ₹ 5,000 to X wrongly debited to Y, now rectified) | | 5,000 | 5,000 |
| (iii) | Suspense A/c Dr.<br>To P&L Adjustment A/c<br>(Being amount of general expenses wrongly posted now rectified) | | 630 | 630 |



| S. No. | Particulars | L.F. | Amount (₹) | Amount (₹) |
|---|---|---|---|---|
| (iv) | Bills Receivable A/c Dr.<br>Bills Payable A/c Dr.<br>To P's A/c<br>(Being B/R wrongly recorded in B/P Book, now rectified) | | 1,550<br>1,550 | 3,100 |
| (v) | P&L Adjustment A/c Dr.<br>To Neetu's A/c<br>(Being Legal Exp. wrongly posted to Neetu's A/c, now rectified) | | 1,190 | 1,190 |
| (vi) | Suspense A/c Dr.<br>To Ram's A/c<br>To Shyam's A/c<br>(Being amount wrongly posted in Shyam's A/c, now rectified) | | 3,000 | 1,500<br>1,500 |
| (vii) | Suspense A/c Dr.<br>To P&L Adjustment A/c<br>(Being amount of purchase book wrongly carried forward, now rectified) | | 90 | 90 |

**Suspense Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To P&L Adjustment A/c | 630 | By Difference in Trial Balance | 2,720 |
| To Ram's A/c | 1,500 | (Balancing fig.) | |
| To Shyam's A/c | 1,500 | By P&L Adjustment A/c | 1,000 |
| To P&L Adjustment A/c | 90 | | |
| | **3,720** | | **3,720** |

**Q.14 Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance :**

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

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

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

**(iv) Goods returned by customer for ₹ 5,000. The same have been taken into stock but no entry passed in the books of account. [May 2019, 4 Marks]**

**Solution:**

**In the Books of Trader**

**Rectification Journal Entries**

| S.No. | Particulars | L.F. | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| 1. | Commission A/c Dr.<br>To Interest received A/c | | 4,500 | 4,500 |

| S.No. | Particulars | L.F. | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| | (Being amount received on account of interest credited to commission account, now rectified) | | | |
| 2. | M/s. Sobhag's A/c Dr. | | 90 | |
| | To Suspense A/c | | | 90 |
| | (Being sales understated in M/s Sobhag Traders' account, now rectified) | | | |
| 3. | Drawings A/c Dr. | | 35,000 | |
| | To Machinery A/c | | | 35,000 |
| | (Being amount of drawings debited to Machinery account, now rectified) | | | |
| 4. | Sales Return A/c Dr. | | 5,000 | |
| | To Customer A/c | | | 5,000 |
| | (Being entry for goods returned by customer not passed in the books of account, now recorded) | | | |

**Q.15 *Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:***

**(1) The sales book has been totalled ₹ 2,100 short.**

**(2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.**

**(3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.**

**(4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.**

**(5) Discount received from Black and White ₹ 1,200 has not been entered in the books.**

**(6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted. [Nov. 2019, 10 Marks]**

**Solution: *(i)* Without opening a suspense account**

**(1)** In the credit side of the Sales A/c:-

"By wrong totalling of the Sales Book ₹ 2100"

**(2)**

| Date | Particulars | L.F. | Amount | Amount |
|---|---|---|---|---|
| | Sales Return A/c Dr. | | 1800 | |
| | To Gaurav & Co.'s A/c | | | 1800 |
| | (Being goods returned by Gaurav & Co. not recorded anywhere) | | | |

**(3)** In the credit side of Supplier Sen Brothers A/c:—

"By error in posting ₹ 4500"



**(4)**

| Date | Particulars | L.F. | Amount | Amount |
|---|---|---|---|---|
| | Furniture A/c Dr. | | 15000 | |
| | To Purchases A/c | | | 15000 |
| | (Being correction of Furniture purchased entered in the Purchase Day Book) | | | |

**(5)**

| Date | Particulars | L.F. | Amount | Amount |
|---|---|---|---|---|
| | Black and White A/c Dr. | | 1200 | |
| | To Discount received A/c | | | 1200 |
| | (Being rectification of the entry omitted) | | | |

**(6)** In the debit side of Discount allowed A/c:—

"To omission of entry in the Cash book ₹ 180"

***(ii)* With opening a Suspense A/c**

**Journal Entries**

| Date | Particulars | L.F. | mount (₹) | Amount (₹) |
|---|---|---|---|---|
| | Suspense A/c Dr. | | 2100 | |
| | To Sales A/c | | | 2100 |
| | (Being correction arising from under casting of sales day book) | | | |
| | Sales Return A/c Dr. | | 1800 | |
| | To Gaurav & Co.'s A/c | | | 1800 |
| | (Being the recording of unrecorded returns) | | | |
| | Suspense A/c Dr. | | 4500 | |
| | To Sen Brother's A/c | | | 4500 |
| | (Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹ 2250) | | | |
| | Furniture A/c Dr. | | 15000 | |
| | To Purchases A/c | | | 15000 |
| | (Being correction of recording purchase of furniture as ordinary purchases) | | | |
| | Black and White Dr. | | 1200 | |
| | To Discount received A/c | | | 1200 |
| | (Being the recording of discount omitted to be recorded) | | | |
| | Discount allowed A/c Dr. | | 180 | |
| | To Suspense A/c | | | 180 |
| | (Being correction of discount allowed not entered in the cash book) | | | |

**Suspense A/c**

| Date | Particulars | J.F | Amount | Date | Particulars | J.F. | Amount |
|---|---|---|---|---|---|---|---|
| | To Sales A/c | | 2100 | | By Difference in Trial Balance (Bal. Fig.) | | 6420 |
| | To Sen Brothers' A/c | | 4500 | | By Discount allowed A/c | | 180 |
| | Total | | 6600 | | Total | | 6600 |

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

***(i)*** **Repairs made during, the year were wrongly debited to the building A/c - ₹ 12,500.**

***(ii)*** **The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.**

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

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

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

**You are required to pass journal entries to rectify the above mistakes.**
**[Nov. 2020, 5 Marks]**

**Solution:**

**In the books of M/s. Applied Laboratories**
**Rectification Journal Entries**

| S. No. | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| *(i)* | Profit & Loss Adjustment A/c | Dr. | 12,500 | |
| | To Building A/c | | | 12,500 |
| | (Being repairs debited to building account, now rectified) | | | |
| *(ii)* | Profit & Loss Adjustment A/c | Dr. | 1,500 | |
| | To Suspense A/c | | | 1,500 |
| | (Being under casting of 1,500 in freight column, rectified) | | | |
| *(iii)* | Suspense A/c | Dr. | 2,100 | |
| | To Rani & Co. A/c | | | 2,100 |
| | (Being Rani's Account debited instead of crediting, now rectified) | | | |



| S. No. | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| *(iv)* | Profit & Loss Adjustment A/c | Dr. | 30,000 | |
| | To Furniture A/c | | | 30,000 |
| | (Being sale of furniture credited to sales account, now rectified) | | | |
| *(v)* | Raj & Co. A/c | Dr. | 20,000 | |
| | To Bills receivables A/c | | | 20,000 |
| | (Being dishonour of bill wrongly debited to Bills receivable account, now rectified) | | | |
| | Capital A/c(W.N.) | Dr. | 44,000 | |
| | To Profit & Loss Adjustment A/c | | | 44,000 |
| | (Being Balance of Profit & Loss Adjustment A/c transferred to Capital account) | | | |

**Working Note:-**

1. **Profit & Loss Adjustment A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Building A/c | 12,500 | By Capital A/c (Bal. fig.) | 44,000 |
| To Suspense A/c | 1,500 | (Loss on adjustment) | |
| To Furniture A/c | 30,000 | | |
| Total | 44,000 | Total | 44,000 |

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

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

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

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

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

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

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

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

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

**You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.** **[Jan. 2021, 10 Marks]**

**Solution:**

**In the books of Mr. Joshi**
**Journal Entries**

| S. No. | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| (i) | Suspense A/c | Dr. | | 936 | |
| | To Profit & Loss Adjustment A/c | | | | 936 |
| | (Being the total of the Purchases Book of one page, ₹ 5,615 carried forward to the next page as ₹ 6,551, now rectified) | | | | |
| (ii) | Trade receivables A/c | Dr. | | 1102 | |
| | Profit & Loss Adjustment A/c | Dr. | | 540 | |
| | To Suspense A/c | | | | 1642 |
| | (Being a sale of ₹ 281 entered in the Sales Book as ₹ 821 and posted to the credit of the customer, now rectified) | | | | |
| (iii) | Suspense A/c | Dr. | | 590 | |
| | To Profit & Loss Adjustment A/c | | | | 590 |
| | (Being a return to creditor, ₹ 295 entered in the Returns Inward Book, now rectified) | | | | |
| (iv) | Suspense A/c | Dr. | | 1,790 | |
| | To Senu A/c | | | | 895 |
| | To Sethu A/c | | | | 895 |
| | (Being cash received from Senu, ₹ 895 posted to debit of Sethu, now rectified) | | | | |
| (v) | Trade receivables A/c | Dr. | | 1,400 | |
| | To Profit & Loss Adjustment A/c | | | | 1,400 |
| | (Being Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out, now rectified) | | | | |
| (vi) | Profit & Loss Adjustment A/c (1600 × 20%) | Dr. | | 320 | |
| | Closing Stock A/c (1600 × 80%) | Dr. | | 1,280 | |
| | To Trade receivables A/c | | | | 1,600 |
| | (Being goods worth ₹1,600 were sent on sale or return basis to a customer and no intimation has been received from him, at the close of year, now adjusted in books) | | | | |
| (vii) | Trade receivables (Q) A/c | Dr. | | 600 | |
| | To Suspense A/c | | | | 600 |
| | (Being ₹ 600 due from Q omitted to be taken to the trial balance, now rectified) | | | | |
| (viii) | Trade receivables (R) A/c | Dr. | | 3,000 | |
| | To Profit & Loss Adjustment A/c | | | | 3,000 |
| | (Being sale of goods to Mr. R for ₹ 3,000 omitted to be recorded, now rectified) | | | | |



| S. No. | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| (ix) | Profit & Loss Adjustment A/c (W.N.) | Dr. | | 5,066 | |
| | To Capital A/c | | | | 5,066 |
| | (Being Profit on adjustment transferred to Capital A/c) | | | | |

**Working Note:-**

**Profit & Loss Adjustment A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Suspense A/c | 540 | By Suspense A/c | 936 |
| To Trade receivables A/c | 320 | By Suspense A/c | 590 |
| To Capital A/c (Bal. fig.) | 5,066 | By Trade receivables A/c | 1,400 |
| | | By Trade receivables (R) A/c | 3,000 |
| **Total** | **5,926** | **Total** | **5,926** |

**Q.18 Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:**

**(i)** **Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.**

**(ii)** **Purchase account was over cast by ₹1,00,000.**

**(iii)** **A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.**

**(iv)** **Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.**

**(v)** **Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.**

**(vi)** **₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.**

**(vii)** **Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.**

**(viii)** **Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.**

**Suggest the necessary rectification entries. [July 2021, 10 Marks]**

**Solution:**

**In the books of Ratan**
**Journal Entries**

| S. No. | Particulars | L.F. | (Dr.) ₹ | (Cr.) ₹ |
|---|---|---|---|---|
| I | Motor Vehicles A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Purchase of scooter wrongly debited to conveyance account now rectified; capitalisation of ₹ 27000, *i.e.*, ₹ 30,000 less 10% depreciation) | | 27,000 | 27,000 |
| II | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Purchase account overcast in the previous year; error now rectified) | | 1,00,000 | 1,00,000 |
| III | Profit & Loss Adjustment A/c Dr.<br>To Mr. X A/c<br>(Credit purchase from Mr. X ₹ 20,000 entered as sales last year; now rectified.) | | 40,000 | 40,000 |
| IV | Mr. Bhaskar A/c Dr.<br>To Mr. Anand A/c<br>(Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar ; now rectified.) | | 10,000 | 10,000 |
| V | Suspense A/c Dr.<br>To Mr. Chandu's A/c<br>(₹ 5000 received from Mr. Chandu wrongly debited to his account; now rectified.) | | 10,000 | 10,000 |
| VI | Trade Receivable A/c Dr.<br>To Suspense A/c<br>(₹ 5000 due by Mr. Ramesh not taken into trial balance; now rectified.) | | 5,000 | 5,000 |
| VII | Mr. Ram's A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Sales to Mr. Ram omitted last year; now adjusted) | | 20,000 | 20,000 |
| VIII | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Excess posting to purchase account last year, ₹ 25,930 instead of ₹ 23,950, now adjusted.) | | 1,980 | 1,980 |



| S. No. | Particulars | L.F. | (Dr.) ₹ | (Cr.) ₹ |
|---|---|---|---|---|
| IX | Profit & Loss Adjustment A/c Dr.<br>To Ratan's Capital A/c<br>(Balance of Profit & Loss Adjustment A/c transferred to Mr. Ratan's Capital A/c ) | | 1,08,980 | 1,08,980 |
| X | Ratan's Capital A/c Dr.<br>To Suspense A/c<br>(Balance of Suspense A/c transferred to Mr. Ratan Capital A/c ) | | 1,06,980 | 1,06,980 |

**Working Note:-**

1. **Profit & Loss Adjustment A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Mr. X's A/c | 40,000 | By Motor Vehicles A/c | 27,000 |
| To Mr. Ratan's Capital A/c (transferred) | 1,08,980 | By Suspense A/c | 1,00,000 |
| | | By Mr. Ram A/c | 20,000 |
| | | By Suspense A/c | 1,980 |
| Total | 1,48,980 | Total | 1,48,980 |

2. **Suspense A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Profit & Loss Adjustment A/c | 1,00,000 | By Trade Receivable A/c | 5,000 |
| | | By Ratan's Capital A/c (Transferred) | 1,06,980 |
| To Mr. Chandu's A/c | 10,000 | | |
| To Profit & Loss Adjustment A/c | 1,980 | | |
| Total | 1,11,980 | Total | 1,11,980 |

**Q.19 Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance :**

(*i*) **Wages paid for construction of office building debited to wages account ₹ 20,000.**

(*ii*) **A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.**

(*iii*) **An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debt in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.**

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

**(v) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.** **[ Dec. 2021, 5 Marks]**

**Solution:**

**Journal**

| S. No. | Particulars | L.F. | Amt.(Dr.) | Amt.(Cr.) |
|---|---|---|---|---|
| 1. | Building A/c Dr.<br>To Wages A/c<br>(Being wages paid for construction of building wrongly debited to wages A/c, now rectified) | | 20,000 | 20,000 |
| 2. | Ramesh A/c Dr.<br>To Purchases A/c<br>To Sales A/c<br>(Being goods sold to Ramesh wrongly recorded in purchases book, now rectified) | | 2,400 | 1,200<br>1,200 |
| 3. | Mahesh Chand A/c Dr.<br>To Bad Debts Recovered A/c<br>(Being bad debts recovered from Mahesh Chand wrongly credited to his account, now rectified) | | 2,000 | 2,000 |
| 4. | Advertisement A/c Dr.<br>To Purchases A/c<br>(Being goods distributed as samples not recorded earlier, now recorded) | | 5,000 | 5,000 |
| 5. | Return Inward A/c Dr.<br>To Green's A/c<br>(Being goods returned by Green not recorded earlier, now recorded) | | 1,500 | 1,500 |

**Q.20 Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them:**

**(i) Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.**

**(ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.**

**(iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.**

**(iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.**



**(v) College Fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.**

**(vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.**

**(vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken in to inventory, but no entry was made in the books.**

**(viii) ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.**

**(ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal Account.**

**(x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.** **[Dec. 2022, 10 Marks]**

**Solution :**

**In the books of Hare Rama & Sons**

**Journal Entries**

| S. No. | Particulars | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|
| (i) | Repairs A/c Dr.<br>To Building A/c<br>(Being repairs made to building wrongly debited to building A/c, now corrected) | | 1,850 | 1,850 |
| (ii) | Shyam Lal A/c Dr.<br>To Bad debt Recovered A/c<br>(Being bad debts recovered wrongly credited to Shyam Lal A/c, now corrected) | | 3,000 | 3,000 |
| (iii) | Furniture A/c Dr.<br>To Purchases A/c<br>(Being furniture purchased wrongly recorded in purchases book, now corrected) | | 20,000 | 20,000 |
| (iv) | Purchases A/c Dr.<br>To Ram Singh A/c<br>(Being goods purchased from Ram Singh not recorded earlier, now recorded) | | 8,000 | 8,000 |
| (v) | Drawings A/c Dr.<br>To Audit Fees A/c<br>(Being college fees of proprietor's son wrongly debited to audit fees A/c, now corrected) | | 15,000 | 15,000 |
| (vi) | Pinki Rani A/c Dr.<br>To Meet Kumar A/c<br>(Being amount received from Meet Kumar wrongly credited to Pinki Rani A/c, now corrected) | | 4,500 | 4,500 |

| S. No. | Particulars | | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|---|
| (vii) | Sales Return A/c | Dr. | | 6,200 | |
| | To Customer A/c | | | | 6,200 |
| | (Being sales return from a customer not recorded earlier, now recorded) | | | | |
| (viii) | Furniture A/c | Dr. | | 1,500 | |
| | To Wages A/c | | | | 1,500 |
| | (Being wages paid for furniture wrongly debited to wages A/c, now corrected) | | | | |
| (ix) | Salary A/c | Dr. | | 12,000 | |
| | To Clerk Personal A/c | | | | 12,000 |
| | (Being salary paid to clerk wrongly debited to his personal A/c, now corrected) | | | | |
| (x) | Purchases A/c | Dr. | | 20,000 | |
| | Sales A/c | Dr. | | 20,000 | |
| | To Raghav A/c | | | | 40,000 |
| | (Being purchase of goods wrongly recorded in sales book, now corrected) | | | | |

CHAPTER 12

# INVENTORY VALUATION

## SHORT NOTES

### Q.1 Periodic inventory system [Nov. 2019, 2.5 Marks]

**Ans. Periodic/Physical inventory system**

- No records of inventory are maintained.
- Inventory is ascertained by physical counting at the end of the year and then valued.
- It is simple and commonly followed by small organisations.

Unless otherwise specified, we can always assume that inventory/closing stock for annual financial account purposes is ascertained by physical counting and then valuing.

### Q.2 Perpetual inventory system [Nov. 2019, 2.5 Marks]

**Ans. Perpetual/continuous inventory system**

- Inventory records also known as stores records are maintained in which details of each and every item are kept.
- The records may be in only quantity form or may include value also (known as priced ledger).
- The details of receipt and issue are recorded instantly and balance ascertained.
- Hence balance of all items of inventory are always available. The balance of year end can be used in financial accounting for final accounts.

### Q.3 Stock taking

**Ans. Stock taking:**

- Stock taking is referred to the process of physical counting/checking of each item of inventory.
- It is a necessary element of inventory control system.
- It can be carried at pre-determined time interval or on a surprise basis *i.e.* any time without intimating in advance to the stores people.

- All items may be verified together at one time or on few items everyday basis.
- Important and valuable items will be verified more frequently than others.
- In perpetual inventory system also stock taking is carried so as to prove the accuracy of stock records.
- In periodic inventory system stock taking is carried at the year end.

## DIFFERENCES

### Q.1 FIFO & LIFO method

**Ans. FIFO & LIFO method:**

***FIFO (First In First Out) method:***

- In FIFO method it is assumed that the lot of material which comes first will be issued first and then the next and so on.
- Therefore the closing stock will be out of the latest (recent) lots and hence the stock will be valued at the rates of this lots.
- Closing stock can be valued from out of the latest (last) lots or by preparing date wise stores ledger, both approaches will give same valuation.
- In case of rising prices, the inventory will be valued at the latest *i.e.* higher prices and hence profit will be higher and cost of sales will be lower.
- In case of declining prices, the inventory will be valued at the latest *i.e.* lower prices and hence profit will be lower and cost of sales will be higher.

***LIFO (Last In First Out) method:***

- In LIFO method it is assumed that the last lot (*i.e.*, the last among the lots available at the time of issue) will be issued first and then the previous lot and so on.
- Therefore the earlier lots will be in stock and hence the closing stock will be valued at those rates of earliest lots (*i.e.* oldest lots)
- In case of rising prices, the inventory will be valued at the oldest *i.e.* lower prices and hence profit will be lower and cost of sales will be higher.
- In case of declining prices, the inventory will be valued at the oldest *i.e.* higher prices and hence profit will be higher and cost of sales will be lower.
- In this method the current (*i.e.* latest) cost gets charged against current revenue.
- In case of LIFO method the valuation of inventory from earliest lot will be followed only when date wise details of issue are not given.



- But if in the question the details of date-wise issues are given then more correctly the valuation should be made by preparing a date wise stores-Card. Both approaches can give different valuation.
- LIFO as a cost formula is not permitted by revised AS-2.

## TRUE OR FALSE

**Q.1 Damaged inventory should be valued at cost or market price, whichever is lower.**

**Ans. False:** Damaged inventory should be valued at net realizable value only.

**Q.2 Finished goods are normally valued at cost or market price whichever is higher.**

**Ans. False:** As per AS-2, finished goods are normally valued at cost or net realizable value whichever is lower.

**Q.3 The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less.**

**Ans. False:** As per AS-2, Valuation of Inventories, inventory is valued at the lower of cost and net realizable value.

**Q.4 Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.** **[July 2021, 2 Marks]**

**Ans. False:** Warehouse rent paid for storage of finished inventory should not included in the cost of finished inventory, as it is treated as the part of selling & distribution expenses.

**Q.5 Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.** **[Dec. 2022, 2 Marks]**

**Ans. True:** Periodic inventory system is a method of ascertaining inventory by taking an actual physical count (or measure or weight) of all the inventory items on hand at a particular date on which inventory is valued.

## PRACTICAL QUESTIONS

**Q.1 M/s. Subhalaxmi Traders find out the following historical cost and net realisable value for various types of inventories. Find out value of Closing Stock in accordance with AS-2 (Revised) - Valuation of Inventories issued by ICAI.**

| Inventory Categories | 01 | 02 | 03 | 04 | 05 | 06 | |
|---|---|---|---|---|---|---|---|
| Historical Cost | 17,400 | 20,100 | 18,200 | 16,500 | 15,400 | 21,400 | =1,09,000 |
| Net Realisable Value | 12,200 | 27,400 | 19,100 | 17,200 | 16,800 | 20,900 | =1,13,600 |

**Solution :** As per AS-2 (Revised), valuation of inventories must be at the lower of historical cost and Net Realisable value. Comparison between cost and net realisable value can be done individually on item-by-item basis or in the aggregate *i.e.* group-wise of similar and interchangeable items. But comparison by global basis is to be avoided. That is to say, total cost of all dissimilar items with their total net realisable value is not permitted. Hence, as per category-by-category comparison, we can determine value of inventories as under.

| Inventory Categories | Lower of historical cost & net realisable value |
|---|---|
| | 12,200 |
| 01 | 20,100 |
| 02 | 18,200 |
| 03 | 16,500 |
| 04 | 15,400 |
| 05 | 20,900 |
| 06 | 1,03,300 |

*Thus, value of closing stock is ₹ 1,03,300*

**Q.2 A firm has two products A and B. It analyses its costs for the products as follows:**

| | A (₹) | B (₹) |
|---|---|---|
| **Materials** | 1,20,000 | 1,40,000 |
| **Labour** | 80,000 | 1,00,000 |
| **Production Expenses** | 70,000 | 70,000 |
| **Administration Expenses** | 50,000 | 50,000 |
| **Advertising** | 30,000 | 30,000 |
| | 3,50,000 | 3,90,000 |

**Production was 20,000 units of A and 30,000 units of B. The selling price was ₹ 20 per unit of A but the price of B was only ₹ 10; agents in both cases received commission @ 5% of the selling price. The closing stock was 2,000 units and 3,000 units of A and B respectively. What is the value that should be put on the closing stock?**

**Solution :**

**Statement Showing Valuation of Stock as on........**

**Cost of Production**

| | | A | | B |
|---|---|---|---|---|
| | | ₹ | | ₹ |
| Materials | | 1,20,000 | | 1,40,000 |
| Labour | | 80,000 | | 1,00,000 |
| Production Expenses | | 70,000 | | 70,000 |
| Total | (i) | 2,70,000 | | 3,10,000 |
| No. of units produced | (ii) | 20,000 | | 30,000 |
| Cost per unit [(i) - (ii)] | | ₹ 13.50 | | 10.33 |
| Net Realisable Value (NRV) (Selling price less 5% selling comm.) | | ₹ 19.00 | | 9.50 |
| Valued at Lower of Cost or NRV | | ₹ 13.50 | | 9.50 |
| No. of units in Stock | | 2,000 | | 3,000 |



| | A | | B |
|---|---|---|---|
| Value of Stock (at cost or net realisable value whichever is lower) | ₹ 27,000 | | 28,500 |
| **Total Value: 55,500** | | | |

## FIFO, LIFO AND WEIGHTED AVERAGE

**Q.3 The following are the details of a spare part of Sriram Mills :**

| | | |
|---|---|---|
| **1-1-2016** | **Opening Stock** | ***Nil*** |
| **1-1** | **Purchases** | **100 units @ ₹ 30 per unit** |
| **15-1** | **Issued for consumption** | **50 units** |
| **1-2** | **Purchases** | **200 units @ ₹ 40 per unit** |
| **15-2** | **Issued for consumption** | **100 units** |
| **20-2** | **Issued for consumption** | **100 units** |
| **1-3** | **Purchases** | **150 units @ ₹ 50 per unit** |
| **15-3** | **Issued for consumption** | **100 units** |

**Find out the value of stock as on 31-3-2016 if the company follows:**

**1. First in First Out basis**

**2. Last in First Out basis**

**3. Weighted Average basis**

**Solution :**

**Stores card/Stores ledger**

**FIFO METHOD**

**Item - Spare parts → Method of Valuation of issues → FIFO**

| Date | | | Receipt | | | Issue | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | Particulars | V.No. | Qty. | Rate | Amt. | Qty. | Rate | Amt. | Qty. | Rate | Amt. |
| 1.1 | Opening Bal. | | | | | | | | — | — | — |
| 1.1 | Purchase | | 100 | 30 | 3000 | | | | 100 | 30 | 3000 |
| 15.1 | Issue | | | | | 50 | 30 | 1500 | 50 | 30 | 1500 |
| 1.2 | Purchase | | 200 | 40 | 8000 | | | | 50<br>200 | 30<br>40 | 1500<br>8000 |
| 15.2 | Issue | | | | | 100 | 50×30<br>50×40 | 1500<br>2000 | 150 | 40 | 6000 |
| 20.2 | Issue | | | | | 100 | 100×40 | 4000 | 50 | 40 | 2000 |
| 1.3 | Purchase | | 150 | 50 | 7500 | | | | 50<br>150 | 40<br>50 | 2000<br>7500 |
| 15.3 | Issue | | | | | 100 | 50×40<br>50×50 | 2000<br>2500 | 100 | 50 | 5000 |
| | Total | | 450 | | 18500 | 350 | | 13500 | 100 | | 5000 |

| | Qty. | Value |
|---|---|---|
| Purchases | 450 | 18,500 |
| Consumption | 350 | 13,500 |
| Closing Stock (Cost by FIFO method) | 100 | 5,000 |

Without making stores card, if we simply value the stock of 100 units from the last lot because the earlier lots have been issued, we get the same valuation 100 units @ ₹ 50 = ₹ 5,000.

### LIFO METHOD

**Item - Spare parts → Method of Valuation of issues → LIFO**

| Date 2016 | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.1 | Opening Bal. | | | | | | | | — | — | — |
| 1.1 | Purchase | | 100 | 30 | 3000 | | | | 100 | 30 | 3000 |
| 15.1 | Issue | | | | | 50 | 30 | 1500 | 50 | 30 | 1500 |
| 1.2 | Purchase | | 200 | 40 | 8000 | | | | 50<br>200 | 30<br>40 | 1500<br>8000 |
| 15.2 | Issue | | | | | 100 | 40 | 4000 | 50<br>100 | 30<br>40 | 1500<br>4000 |
| 20.2 | Issue | | | | | 100 | 40 | 4000 | 50 | 30 | 1500 |
| 1.3 | Purchase | | 150 | 50 | 7500 | | | | 50<br>150 | 30<br>50 | 1500<br>7500 |
| 15.3 | Issue | | | | | 100 | 50 | 5000 | 50<br>50 | 30<br>50 | 1500<br>2500 |
| | Total | | 450 | | 18500 | 350 | | 14500 | 100 | | 4000 |

| | Qty. | Value |
|---|---|---|
| Purchases | 450 | 18,500 |
| Consumption | 350 | 14,500 |
| Closing Stock (Cost by LIFO method) | 100 | 4,000 |

**Alternatively:** The shortcut valuation of closing stock by LIFO *i.e.* without preparing stores card, would have been 100 units @30 = 3,000. It differs from the above valuation which is more correct if datewise issue is known.

### WEIGHTED AVERAGE METHOD

**Item - Spare parts → Method of Valuation of issues → Weighted Average Method**

| Date 2016 | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.1 | Opening Bal. | | | | | | | | — | — | — |
| 1.1 | Purchase | | 100 | 30 | 3000 | | | | 100 | 30 | 3000 |
| 15.1 | Issue | | | | | 50 | 30 | 1500 | 50 | 30 | 1500 |



| Date 2016 | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.2 | Purchase | | 200 | 40 | 8000 | | | | 250 | 38 | 9500 |
| 15.2 | Issue | | | | | 100 | 38 | 3800 | 150 | 38 | 5700 |
| 20.2 | Issue | | | | | 100 | 38 | 3800 | 50 | 38 | 1900 |
| 1.3 | Purchase | | 150 | 50 | 7500 | | | | 200 | 47 | 9400 |
| 15.3 | Issue | | | | | 100 | 47 | 4700 | 100 | 47 | 4700 |
| | Total | | 450 | | 18500 | 350 | | 13800 | 100 | | 4700 |

| | Qty. | Value |
|---|---|---|
| Purchases | 450 | 18,500 |
| Consumption | 350 | 13,800 |
| Closing Stock (Cost by weighted method) | 100 | 4,700 |

**Alternatively periodic weighted average can be applied**

say quarterly weighted average = 3000+8000+7500/100+200+150 = 41.11

Closing stock = 41.11 × 100 = 4111

| | Qty. | Value |
|---|---|---|
| Purchases | 450 | 18,500 |
| Consumption | 350 | 14,389 |
| Closing Stock (Cost by weighted method) | 100 | 4,111 |

**Q.4 A manufacturer has the following record of purchase of a condenser which he uses while manufacturing radio sets:**

***Purchases were as follows***

| Date | Quantity (Units) | Price per (Unit) |
|---|---|---|
| Dec-4 | 900 | 5.00 |
| Dec-10 | 400 | 5.50 |
| Dec-11 | 300 | 5.50 |
| Dec-19 | 200 | 6.00 |
| Dec-28 | 800 | 4.75 |
| | 2600 | |

**Value the closing stock under different methods**

***Issues were made as follows***

| Date | Quantity (Units) |
|---|---|
| Dec-5 | 600 |
| Dec-12 | 400 |
| Dec-29 | 600 |

**Solution:**

### FIFO METHOD

**Item - Condenser → Method of Valuation of issues → FIFO**

| Date | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 01.12 | Opening Bal. | | | | | | | | — | — | — |
| 04.12 | Purchase | | 900 | 5 | 4500 | | | | 900 | 5 | 4500 |
| 05.12 | Issue | | | | | 600 | 5 | 3000 | 300 | 5 | 1500 |
| 10.12 | Purchase | | 400 | 5.50 | 2200 | | | | 300<br>400 | 5<br>5.50 | 1500<br>2200 |
| 11.12 | Purchase | | 300 | 5.5 | 1650 | | | | 300<br>700 | 5<br>5.50 | 1500<br>3850 |
| 12.12 | Issue | | | | | 400 | 300×5<br>100×5.5 | 1500<br>550 | 600 | 5.50 | 3300 |
| 19.12 | Purchase | | 200 | 6 | 1200 | | | | 600<br>200 | 5.50<br>6 | 3300<br>1200 |
| 28.12 | Purchase | | 800 | 4.75 | 3800 | | | | 600<br>200<br>800 | 5.50<br>6<br>4.75 | 3300<br>1200<br>3800 |
| 29.12 | Issue | | | | | 600 | 5.50 | 3300 | 200<br>800 | 6<br>4.75 | 1200<br>3800 |
| | Total | | 2600 | | 13350 | 1600 | | 8350 | 1000 | | 5000 |

| | Qty. | Value |
|---|---|---|
| Purchases | 2600 | 13,350 |
| Consumption | 1600 | 8,350 |
| Closing Stock (Cost by FIFO method) | 1000 | 5,000 |

Without making stores card, if we simply value the stock of 1000 units from the last lots because the earlier lots have been issued, we get the same valuation 800 units @ 4.75 = ₹ 3,800 and 200 units @6 = ₹1,200.

### LIFO METHOD

**Item → Condenser → Method of Valuation of issues → LIFO**

| Date | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 01.12 | Opening Bal. | | | | | | | | — | — | — |
| 04.12 | Purchase | | 900 | 5 | 4500 | | | | 900 | 5 | 4500 |
| 05.12 | Issue | | | | | 600 | 5 | 3000 | 300 | 5.50 | 1500 |
| 10.12 | Purchase | | 400 | 5.5 | 2200 | | | | 300<br>400 | 5<br>5.50 | 1500<br>2200 |
| 11.12 | Purchase | | 300 | 5.5 | 1650 | | | | 300<br>700 | 5<br>5.50 | 1500<br>3850 |
| 12.12 | Issue | | | | | 400 | 5.50 | 2200 | 300<br>300 | 5<br>5.50 | 1500<br>1650 |
| 19.12 | Purchase | | 200 | 6 | 1200 | | | | 300<br>300<br>200 | 5<br>5.50<br>6 | 1500<br>1650<br>1200 |



| Date | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 28.12 | Purchase | | 800 | 4.75 | 3800 | | | | 300<br>300<br>200<br>800 | 5<br>5.50<br>6<br>4.75 | 1500<br>1650<br>1200<br>3800 |
| 29.12 | Issue | | | | | 600 | 4.75 | 2850 | 300<br>300<br>200<br>200 | 5<br>5.50<br>6<br>4.75 | 1500<br>1650<br>1200<br>950 |
| | Total | | 2600 | | 13350 | 1600 | | 8050 | 1000 | | 5300 |

| | Qty. | Value |
|---|---|---|
| Purchases | 2600 | 13,350 |
| Consumption | 1600 | 8,050 |
| Closing Stock (Cost by LIFO method) | 1000 | 5,300 |

The shortcut valuation of closing stock by LIFO *i.e.* without preparing stores card, would have been 900 units @5 = 4,500 and 100 units @5.50 = 550. It differs from the above, which is more correct if date wise issue is known.

### WEIGHTED AVERAGE METHOD

**Item → Condenser → Valuation of Issues → Weighted Average**

| Date | Particulars | V.No. | Receipt Qty. | Receipt Rate | Receipt Amt. | Issue Qty. | Issue Rate | Issue Amt. | Balance Qty. | Balance Rate | Balance Amt. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 01.12 | Opening Balance | | | | | | | | — | — | — |
| 04.12 | Purchase | | 900 | 5 | 4500 | | | | 900 | 5 | 4500 |
| 05.12 | Issue | | | | | 600 | 5 | 4500 | 300 | 5 | 1500 |
| 10.12 | Purchase | | 400 | 5.50 | 2200 | | | | 700 | 5.286 | 3700 |
| 11.12 | Purchase | | 300 | 5.50 | 1650 | | | | 1000 | 5.35 | 5350 |
| 12.12 | Issue | | | | | 400 | 5.35 | 2140 | 600 | 5.35 | 3210 |
| 19.12 | Purchase | | 200 | 6 | 1200 | | | | 800 | 5.5125 | 4410 |
| 28.12 | Purchase | | 800 | 4.75 | 3800 | | | | 1600 | 5.131 | 8210 |
| 29.12 | Issue | | | | | 600 | 5.131 | 3079 | 1000 | 5.131 | 5131 |

| | Qty. | Value |
|---|---|---|
| Purchases | 2600 | 13,350 |
| Consumption | 1600 | 8,219 |
| Closing Stock (Cost by LIFO method) | 1000 | 5,131 |

**Alternatively periodic weighted average** can be applied. It can be monthly, quarterly etc.

$$\text{Monthly Weighted Average} = \frac{5\times900+5.5\times400+5.5\times300+6\times200+4.75\times800}{900+400+300+200+800}$$

$$= \frac{4500+2200+1650+1200+3800}{2600} = \frac{13350}{2600} = 5.135$$

Therefore closing stock will be $1000 \times 5.135 = 5135$

| | Qty. | Value |
|---|---|---|
| Purchases | 2,600 | 13,350 |
| Consumption | 1,600 | 8,215 |
| Closing Stock (Cost by LIFO method) | 1,000 | 5,135 |

**Ascertaining closing stock by preparing trading account**

**Q.5 From the following particulars for the years 2014 and 2015 determine the value of the closing stock at the end of 2015.**

| | 2014 ₹ | 2015 ₹ |
|---|---|---|
| **Opening Stock** | **20,000** | **30,000** |
| **Purchases** | **1,20,000** | **1,90,000** |
| **Sales** | **2,00,000** | **2,40,000** |

**Uniform rate of gross profit may be assumed.**

**At the end of 2015, goods purchased were received, but no entry was made for this credit purchase since invoice was not received. These goods cost ₹ 20,000.**

**Solution :**

Closing stock of 2015 can be ascertained by preparing Trading a/c but gross profit ratio for 2015 is not given hence the same is ascertained by preparing Trading a/c of 2014. For this remember the closing stock of this year is the opening stock of next year.

**Trading Account**

**For the year ending 31st December, 2014**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock | 20,000 | By Sales | 2,00,000 |
| To Purchases | 1,20,000 | By Closing Stock | 30,000 |
| To Gross Profit (Balancing figure) | 90,000 | | |
| | 2,30,000 | | 2,30,000 |

Calculation of Rate of Gross Profit

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{90,000}{2,00,000} \times 100 = 45\%$$

**Trading Account**

**For the year ending 31st December, 2015**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Opening Stock | | 30,000 | By Sales | 2,40,000 |
| To Purchases | 1,90,000 | | By Closing Stock (Balancing Figure) | 1,08,000 |
| + unrecorded purchase | 20,000 | 2,10,000 | | |



| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Gross Profit (45% of 2,40,000) | 1,08,000 | | |
| | 3,48,000 | | 3,48,000 |

Uniform Rate of gross Profit = 45% is taken from 2004. Stock as on 31-12-2005 including goods for which invoice was not accounted is ₹ 1,08,000

**Ascertaining Stock, when stock of different date is known (Stock of latter date is known)**

**Q.6 X who was closing his books on 31-3-2016 failed to take the actual Stock which he did only on 9th April, 2016, when it was ascertained by him to be worth ₹ 25,000.**

**It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the return book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.**

**It was found that sales between 31-3-2016 and 9-4-2016 as per the sales day book are ₹1,720. Purchases between 31-3-2016 and 9-4-2016 as per purchases day book are ₹120, out of these goods amounting to ₹ 50 were not received until after the stock was taken.**

**Goods invoiced during the month of March, 2016 but goods received only on 4th April, 2016 amounted to ₹ 100. Rate of gross profit is 33 1/3% on cost.**

**Ascertain the value of physical stock as on 31-3-2016.**

**Solution:**

| | |
|---|---|
| Stock on 9-4-2016 | 25,000 |
| *Add:* Cost of goods sold (1720/100) × 75 | + 1,290 |
| **Note:** Profit 33 1/3% on cost = 25% on sale | |
| *Less:* Goods purchased and received (120 - 50) | - 70 |
| *Less:* Goods purchased in March but received on 4-4-2016 | - 100 |
| Physical stock on 31-3-2016 | 26120 |
| *Add:* Stock in transit (purchased but not received till 31-3-2016) | + 100 |
| Closing stock for final A/c. | 26,220 |

**Ascertaining stock, when stock of different date is known (Stock of earlier date is known)**

**Q.7 A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, stock taking was done on 15th March, 2016 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 15th March and 31st March, 2016.**

(*a*) **Sales ₹ 41,000 (including cash sales ₹ 10,000)**
(*b*) **Purchases ₹ 5,034 (including cash purchases ₹ 1,990)**
(*c*) **Sales Returns ₹ 1,000**

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

***You are required to ascertain the value of stock on hand on 31st March, 2016.***

**Solution:**

**Statement showing the Valuation of Stock as on 31st March, 2016**

| | ₹ |
|---|---|
| A Stock in godown (Physical inventory) as on 15-3-2016 | 50,000 |
| B *Less:* (*a*) Cost of sales between 15.3 to 31.3 net of return 80% of (₹ 41,000 – ₹ 1,000) | – 32,000 |
| C *Add:* (*a*) Purchases during the period | + 5,034 |
| D Stock as on March 31, 2016 (at cost) | 23,034 |

**Q.8 Raj Ltd. prepared their accounts for financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at ₹ 1,25,000. It has been found that;**

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

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

(*iii*) **Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.**

(*iv*) **Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.**

(*v*) **Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.**

(*vi*) **Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2019 but the goods were not included in stock.**

**Rate of Gross Profit is 25% on cost.**

**Ascertain the value of Stock as on 31st March 2019. [May 2019, 5 Marks]**

**Solution:**

| | ₹ |
|---|---|
| Stock as on 10th April, 2019 | 1,25,000 |
| Add: Cost of Goods sold $\left(\frac{20,000}{100} \times 80\right)$ | 16,000 |
| [Note:- Profit 25% on cost = 20% on sale] | |
| Add: Free samples distributed | 4,000 |



| | ₹ |
|---|---|
| Less: Goods purchased & received (10,000 - 2,000) | 8,000 |
| Add: Invoices entered but goods not included in stock | 20,000 |
| **Stock as on 31st March, 2019** | **1,57,000** |

**Q.9 Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :**

**(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.**

**(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.**

**(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.**

**(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.**

**Determine the value of stock on 29th February, 2020.**

**[Nov. 2020, 10 Marks]**

**Solution:**

**Statement of Valuation of Stock on 29th Feb., 2020**

| | ₹ | ₹ |
|---|---|---|
| Value of stock as on 23rd Feb. 2020 | | 28,00,000 |
| **Add:** Unsold stock out of the goods sent on consignment | 2,30,000 | |
| Purchases during the period from 23 Feb., 2020 to 29 Feb., 2020 | 1,80,000 | |
| Goods in transit on 29 Feb., 2020 | 1,20,000 | 5,30,000 |
| | | 33,30,000 |
| **Less:** Cost of sales during the period from 23 Feb., 2020 to 29 Feb., 2020 (W.N.1) | | (9,52,000) |
| | | **23,78,000** |

**Working Notes:**

1. **Calculation of Cost of Sales:**

| | ₹ |
|---|---|
| Total Sales | 13,60,000 |
| **Less:** Goods sent on Approval* | |
| (*a*) ½ returned | (1,60,000) |
| (*b*) No intimation received for approval of ½ goods | (1,60,000) |
| | 10,40,000 |

₹ 10,40,000

Abnormal Sales

₹ 1,50,000

COGS ₹ 2,40,000

Normal Sales
(₹ 10,40,000 - ₹ 1,50,000)
₹ 8,90,000
Less: Gross Profit ₹ 1,78,000
(25% on cost or 20% on Sales)
COGS ₹ 712,000

Total COGS is ₹ **9,52,000** (₹ 2,40,000 + ₹ 7,12,000)

*** This stock is already included in stock taking made on 23rd Feb., 2020.**

**Q.10 From the following particulars ascertain the value of inventories as on 31st March, 2020:**

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

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

**Except the abovementioned transaction, gross profit earned during the year was 20% on sales. [Jan. 2021, 5 Marks]**

**Solution:**

**Memorandum Trading a/c**
**for the year ended 31st March, 2020**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| To Opening Stock A/c (3,50,000+20,000) | 3,15,000 | 55,000 | 3,70,000 | By Sales A/c | 18,00,000 | 50,000 | 18,50,000 |
| To Purchases A/c | 12,00,000 | -- | 12,00,000 | By Closing Stock A/c (bal. fig.) | 1,75,000 | -- | 1,75,000 |
| To Manufacturing exp. | 1,00,000 | -- | 1,00,000 | By Gross Loss | -- | 5,000 | 5,000 |
| To Gross Profit | 3,60,000 | -- | 3,60,000 | | | | |
| Total | 19,75,000 | 55,000 | 20,30,000 | Total | 19,75,000 | 55,000 | 20,30,000 |

**So, value of Stock on the date of fire ₹1,75,000.**

**Note:-** Selling & Distribution expenses and Administration expenses will not be considered for the purpose of preparing Trading A/c.



**Q.11 From the following information, calculate the historical cost of closing inventories using adjusted selling price method :**

| | | |
|---|---|---|
| **Purchase during the year** | - | **₹ 5,00,000** |
| **Sales during the year** | - | **₹ 7,50,000** |
| **Opening Inventory** | - | **Nil** |
| **Closing Inventory at selling price** | - | **₹ 1,00,000** |

**[July 2021, 5 Marks]**

**Solution :**

*(i)* **Calculation of Gross Margin of Profit:-**

| | ₹ |
|---|---|
| Sales during the year | 7,50,000 |
| Add: Closing Inventory (at selling price) | 1,00,000 |
| | 8,50,000 |
| *Less:* Purchases during the year | (5,00,000) |
| **Gross Margin** | **3,50,000** |

*(ii)* **Rate of Gross Margin** $= \frac{3,50,000}{8,50,000}$ 100 = 41.176%

*(iii)* **Cost of Closing Inventory** = ₹ 1,00,000 - 41.176% of ₹ 1,00,000
= ₹ 1,00,000 - ₹ 41176
= ₹ 58,824

**Q.12 The following are the details of the spare parts of an Oil Mill:**

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

**Find out the value of Inventory as on 31-3-2021, if the company follows Weighted Average Method. [Dec. 2021, 4 Marks]**

**Solution :**

**STOCK LEDGER**

| Date 2021 | Receipts | | | Issues | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | Qty. (Units) | Rate ₹ | Amt. ₹ | Qty. (Units) | Rate ₹ | Amt. ₹ | Qty. (Units) | Rate ₹ | Amt. ₹ |
| 1st Jan. | -- | -- | -- | -- | -- | -- | Nil | -- | Nil |
| 1st Jan. | 10 | 300 | 3000 | -- | -- | -- | 10 | 300 | 3000 |

| Date 2021 | Receipts | | | Issues | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | Qty. (Units) | Rate ₹ | Amt. ₹ | Qty. (Units) | Rate ₹ | Amt. ₹ | Qty. (Units) | Rate ₹ | Amt. ₹ |
| 15th Jan. | -- | -- | -- | 5 | 300 | 1500 | 5 | 300 | 1500 |
| 1st Feb. | 20 | 400 | 8000 | -- | -- | -- | 25 | 380 | 9500 |
| 15th Feb. | -- | -- | -- | 10 | 380 | 3800 | 15 | 380 | 5700 |
| 20th Feb. | -- | -- | -- | 10 | 380 | 3800 | 5 | 380 | 1900 |
| 31st Mar. | -- | -- | -- | -- | -- | -- | 5 | 380 | 1900 |

**Value of inventory as on 31st March, 2021 is ₹ 1900.**

**Q.13 Zed Enterprises furnishes the following information for the year ended 31st March, 2021.**

| Particulars | Amount (₹) |
|---|---|
| Value of Stock as on 1st April, 2020 | 28,00,000 |
| Purchases during the year | 1,38,40,000 |
| Manufacturing Expenses during the year | 28,00,000 |
| Sales during the year | 2,08,80,000 |

**The following further information is also provided:**

(*i*) At the time of valuing stock on 31st March, 2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March, 2021 for ₹ 6,40,000.

(*ii*) Except for the above transaction, the Rate of Gross Profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March, 2021. [June 2022, 5 Marks]

**Solution :**

**Trading A/c for the year ended 31st March, 2021**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock 28,00,000 | | By Sales 2,08,80,000 | |
| + Written off 2,40,000 | 22,40,000 | Less: Sale of abnormal item (6,40,000) | 2,02,40,000 |
| -Abnormal item (8,00,000) | 1,38,40,000 | By Closing Stock (Bal. fig.) | 37,00,000 |
| To Purchases | 28,00,000 | | |
| To Manufacturing exp. | 5060000 | | |
| To Gross Profit | | | |
| (1/3 on Cost Or 1/4 on sales) | | | |
| **Total** | **2,39,40,000** | **Total** | **2,39,40,000** |

**So, value of stock as on 31 March, 2021 is ₹ 37,00,000.**

13
CHAPTER

# DEPRECIATION

## SHORT NOTES

### Q.1 Meaning of depreciation

**Ans. Meaning of depreciation:**

An expenditure which results into enduring benefit (long-term benefit) are treated as capital expenditure/fixed assets. Fixed assets are those assets which are held for use in the business and not for sale or consumption in the course of production.

Fixed assets which have a limited useful life are known as depreciable assets like, building, plant and machinery, etc. land is a non-depreciable asset. Revenue expenses are charged to the year's P&L A/c similarly depreciable fixed assets should be charged over (written off) over its useful life. This process of systematically allocating depreciable amount (cost less estimated scrap value) to the P&L accounts over its useful life is known as depreciation accounting. Amortization of assets which has specific life like patents etc. is also included in it.

- Depreciation is the reduction in the value of fixed assets due to:
  - its use,
  - passage of time and
  - obsolescence.
- Depreciation is the apportionment of cost of asset net of estimated scrap value over its estimated useful life.

### Q.2 Sum of Years of Digits Method

**Ans. Sum of Years of Digits Method:**

- In this method the depreciation is calculated in the ratio of the remaining life of the asset in the beginning of that year to the sum of digits of the life remaining for all the year.

$$\text{Depreciation of the Year} = \text{Depreciable Value} \times \frac{\text{Number of years (including the present year) of remaining life of the asset}}{\text{Total of all digits of the life of the asset (in years)}}$$

## Q.3 Depletion method

**Ans. Depletion method:**

- This method is followed in case of exhaustive (wasting) assets *e.g.*, mines.
- For charging depreciation on such item the life of the Asset (lease period) is not very important because it can be used (*i.e.*, Mineral can be extracted) only till it contains minerals.
- As soon as the mineral is exhausted the mine becomes useless.
- Therefore depreciation is calculated in proportion of the mineral extracted in a particular year to the total extractable mineral contained in it.
- $\textit{Depreciation (per ton, etc.)} = \dfrac{\textit{Cost of Asset}}{\textit{Extractable Quantity of Mineral}}$

## Q.4 Discuss the factors taken into consideration for calculation of depreciation. [Nov. 2020, 5 Marks]

**Ans. The elements relevant for deciding the rate/amount of depreciation are:**

- Cost of acquisition (Costs necessary to put an asset into usable condition).
- The estimated life of the asset.
- Estimated scrap value at the end of its life.

## Q.5 Amortisation [Dec. 2021, 1 Mark]

**Ans.** The word Amortisation refers to the economic deterioration by the expiration of intangible assets like goodwill, patents, copyrights, trademarks etc.

## TRUE OR FALSE

**Q.1 Land is also a depreciable asset.**

**Ans. False:** Land is not a depreciable asset because it does not qualify for depreciation as per AS-10.

**Q.2 Depreciation is a cash expenditure like other normal expenses.**

**Ans. False:** Depreciation is a non-cash expenditure because it does not involve any cash outflow.

**Q.3 Depreciation is an amortised expenditure.**

**Ans. True:** Depreciation is charged on value of fixed asset over its useful life. So, by way of depreciation any capital expenditure is amortised over its useful life.

**Q.4 Depreciation cannot be provided in case of loss, in a financial year.**

**Ans. False:** Depreciation is a charge against profit so it has to be provided for whether there is a profit or loss in a financial year of the business.



**Q.5 Depreciable amount refers to the difference between historical cost and the market value of an asset.**

**Ans. False:** Depreciable amount refers to historical cost less salvage value.

**Q.6 Depreciation is a non-cash expense and does not result in any cash outflow.** **[Nov. 2018, 2 Marks]**

**Ans. True:** Depreciation is a non cash expense and there is no outflow of cash in the business.

## PRACTICAL QUESTIONS

**Q.1 On 1.1.2013 machinery was purchased for ₹ 80,000. On 1.7.2014 addition were made to the amount of ₹ 40,000. On 31.3.2015 machine purchased on 1.7.2014 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.2015 machinery purchased on 1.1.2013 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2015 addition were made to the amount of ₹ 20,000.**

**Show Machinery A/c & Depreciation A/c for 3 years 2013, 2014, 2015. Depreciate Machinery at 10% p.a. by W.D.V. method.**

**Solution:**

**Machinery A/c (W.D.V. 10%)**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2013 | To Bank A/c | 80,000 | 31.12.2013 | By Depreciation A/c | 8,000 |
| | | | | By Balance c/d | 72,000 |
| | | 80,000 | | | 80,000 |
| 1.1.2014 | To Balance b/d | 72,000 | 31.12.2014 | By Depreciation A/c | 9,200 |
| 1.7.2014 | To Bank A/c | 40,000 | | By Balance c/d | 1,02,800 |
| | | 1,12,000 | | | 1,12,000 |
| 1.1.2015 | To Balance b/d | 1,02,800 | 31.3.2015 | By Bank A/c | 11,000 |
| | | | | By Depreciation A/c | 285 |
| | | | | By Loss on sale of Machinery | 115 |
| 30.6.2015 | To Profit on sale of machinery | 2,076 | 30.6.2015 | By Bank A/c | 26,700 |
| 1.10.2015 | To Bank A/c | 20,000 | | By Depreciation A/c | 1,296 |
| | | | | By Depreciation A/c (6548+500) | 7,048 |
| | | | | By Balance c/f | 78,432 |
| | | 1,24,876 | | | 1,24,876 |

**Depreciation A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2013 | To Machinery A/c | 8,000 | 31.12.2013 | By P&L A/c | 8,000 |
| | | 8,000 | | | 8,000 |
| 31.12.2014 | To Machinery A/c | 9,200 | 31.12.2014 | By P&L A/c | 9,200 |
| | | 9,200 | | | 9,200 |
| 31.3.2015 | To Machinery A/c | 285 | 31.12.2015 | By P&L A/c | 8,629 |
| 30.6.2015 | To Machinery A/c | 1,296 | | | |
| 31.12.2015 | To Machinery A/c | 7,048 | | | |
| | | 8,629 | | | 8,629 |

**Working Notes:—**

| (1) Sold on 31.3.2015 | | | (2) Sold on 30.6.2015 | | | (3) Depreciation on 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| 1.7.2014 | Cost | 12,000 | 1.1.2013 | Cost | 32,000 | *Balance of old machine* | |
| 31.2014 | Depreciation | 600 | 31.12.2013 | Depreciation | 3,200 | on 1.1.2015 | 1,02,800 |
| 1.1.2015 | Balance | 11,400 | 1.1.2014 | Balance | 28,800 | (-) sold | 11,400 |
| 31.3.2015 | Depreciation | 285 | 31.12.2014 | Depreciation | 2,880 | (-) sold | 25,920 |
| 31.3.2015 | Balance | 11,115 | 1.1.2015 | Balance | 25,920 | Balance | 65,480 |
| | Sold for | 11,000 | 30.6.2015 | Depreciation | 1,296 | Depreciation @10% | 6,548 |
| | Loss | 115 | | Balance | 24,624 | *On new machine* | |
| | | | | Sold for | 26,700 | 20,000 × 10 ÷ 100 × 3 ÷ 12 | 500 |
| | | | | Profit | 2,076 | | 7,048 |

**Depreciation : Calculation by SLM and Accounting by credit to Asset A/c**

**Q.2 On 1.1.2013 machinery was purchased for ₹ 80,000. On 1.7.2014 addition were made to the amount of ₹ 40,000. On 31.3.2015 machine purchased on 1.7.2014 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.2015 machinery purchased on 1.1.2013 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2015 addition were made to the amount of ₹ 20,000.**

**Show Machinery A/c & Depreciation A/c for 3 years 2013, 2014, 2015. Depreciate Machinery at 10% p.a. by S.L.M.**

**Solution:**

**Machinery A/c (SLM 10%)**

| Date | Particulars | ₹ | Date | Particular | ₹ |
|---|---|---|---|---|---|
| 1.1.2013 | To Bank A/c | 80,000 | 31.12.2013 | By Depreciation A/c | 8,000 |
| | | | | By Balance c/d | 72,000 |
| | | 80,000 | | | 80,000 |
| 1.1.2014 | To Balance b/d | 72,000 | 31.12.2014 | By Depreciation A/c (8000+2000) | 10,000 |
| 1.7.2014 | To Bank A/c | 40,000 | | By Balance c/d | 1,02,000 |
| | | 1,12,000 | | | 1,12,000 |
| 1.1.2015 | To Balance b/d | 1,02,000 | 31.3.2015 | By Bank A/c | 11,000 |
| 30.6.2015 | To Profit on sale of Machinery A/c | 2,700 | | By Depreciation A/c | 300 |
| 1.10.2015 | To Bank A/c | 20,000 | | By Loss on sale of Machinery A/c | 100 |
| | | | 30.6.2015 | By Bank A/c | 26,700 |
| | | | | By Depreciation A/c | 1,600 |
| | | | | By Depreciation A/c (7600+500) | 8,100 |
| | | | | By Balance c/f | 76,900 |
| | | 1,24,700 | | | 1,24,700 |

**Depreciation A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2013 | To Machinery A/c | 8,000 | 31.12.2013 | By P&L A/c | 8,000 |
| | | 8,000 | | | 8,000 |



| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2014 | To Machinery A/c | 10,000 | 31.12.2014 | By P&L A/c | 10,000 |
| | | 10,000 | | | 10,000 |
| 31.3.2015 | To Machinery A/c | 300 | 31.12.2015 | By P&L A/c | 10,000 |
| 30.6.2015 | To Machinery A/c | 1,600 | | | |
| 31.12.2015 | To Machinery A/c | 8,100 | | | |
| | | 10,000 | | | 10,000 |

**Working Notes:—**

| (1) Sold on 31.3.2015 | | | (2) Sold on 30.6.2015 | | | (3) Depreciation on 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| 1.7.2014 | Cost | 12,000 | 1.1.2013 | Cost | 32,000 | *Original cost of remaining old machine* | |
| 31.12.2014 | Depreciation | 600 | 31.12.2013 | Depreciation | 3,200 | 80,000 – 32,000 = | 48,000 |
| 1.1.2015 | Balance | 11,400 | 1.1.2014 | Balance | 28,800 | 40,000 – 12,000 = | 28,000 |
| 31.3.2015 | Depreciation | 300 | 31.12.2014 | Depreciation | 3,200 | | 76,000 |
| | Balance | 11,100 | 1.1.2015 | Balance | 25,600 | Depreciation @10% | 7,600 |
| | Sold for | 11,000 | 30.6.2015 | Depreciation | 1,600 | | |
| | Loss | 100 | | Balance | 24,000 | *On new machine* | |
| | | | | Sold for | 26,700 | 20,000 × 10 ÷ 100 × 3 ÷ 12 | 500 |
| | | | | Profit | 2,700 | | 8,100 |

**Depreciation : Calculation by WDV and Accounting by credit to Depreciation Provision A/c.**

**Q.3 On 1.1.2013 machinery was purchased for ₹ 80,000. On 1.7.2014 addition were made to the amount of ₹ 40,000. On 31.3.2015 machine purchased on 1.7.2014 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.2015 machinery purchased on 1.1.2013 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2015 addition were made to the amount of ₹ 20,000.**

**Show Machinery A/c, Depreciation provision A/c and Asset disposal A/c for 3 years 2013, 2014, 2015. Depreciate Machinery at 10% p.a. by W.D.V. method (for calculation refer Q. 1)**

**Solution:**

**Machinery Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2013 | To Bank A/c | 80,000 | 31.12.2013 | By Balance c/d | 80,000 |
| | | 80,000 | | | 80,000 |
| 1.1.2014 | To Balance b/d | 80,000 | 31.12.2014 | By Balance c/d | 1,20,000 |
| 1.7.2014 | To Bank A/c | 40,000 | | | |
| | | 1,20,000 | | | 1,20,000 |
| 1.1.2015 | To Balance b/d | 1,20,000 | 31.3.2015 | By Asset disposal A/c | 12,000 |
| 1.10.2015 | To Bank A/c | 20,000 | 30.6.2015 | By Asset disposal A/c | 32,000 |
| | | | 31.12.2015 | By Balance c/d | 96,000 |
| | | 1,40,000 | | | 1,40,000 |

### Provision for Depreciation Account (WDV 10%)

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2013 | To Balance c/f | 8,000 | 31.12.2013 | By Depreciation A/c | 8,000 |
| | | 8,000 | | | 8,000 |
| 31.12.2014 | To Balance c/f | 17,200 | 1.1.2014 | By Balance b/d | 8,000 |
| | | | 31.12.2014 | By Depreciation A/c | 9,200 |
| | | 17,200 | | | 17,200 |
| 31.3.2015 | To Asset disposal A/c | 600 | 1.1.2015 | By balance b/d | 17,200 |
| 30.6.2015 | To Asset disposal A/c | 6,080 | 31.12.2015 | By Depreciation A/c | 7,048 |
| 31.12.2015 | To Balance c/f | 17,568 | | | |
| | | 24,248 | | | 24,248 |

### Depreciation A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2013 | To Depreciation provision A/c | 8,000 | 31.12.2013 | By P&L A/c | 8,000 |
| | | 8,000 | | | 8,000 |
| 31.12.2014 | To Depreciation provision A/c | 9,200 | 31.12.2014 | By P&L A/c | 9,200 |
| | | 9,200 | | | 9,200 |
| 31.3.2015 | To Asset disposal A/c | 285 | 31.12.2015 | By P&L A/c | 8,629 |
| 31.6.2015 | To Asset disposal A/c | 1,296 | | | |
| 31.12.2015 | To Depreciation provision A/c | 7,048 | | | |
| | | 8,629 | | | 8,629 |

Dr. **Asset Disposal Account** Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.2015 | To Machinery A/c | 12,000 | 31.3.2015 | By Bank A/c (sale) | 11,000 |
| | | | | By Depreciation provision A/c | 600 |
| | | | | By Depreciation A/c | 285 |
| | | | | By P&L A/c (loss) | 115 |
| 30.6.2015 | To Machinery A/c | 32,000 | 30.6.2015 | By Bank A/c (sale) | 26,700 |
| 30.6.2015 | To P&L A/c | 2,076 | | By Depreciation provision A/c | 6,080 |
| | | | | By Depreciation A/c | 1,296 |
| | | 46,076 | | | 46,076 |

- Depreciation upto the date of disposal is directly credited to asset disposal A/c alternatively it can be routed through depreciation provision A/c.
- Similarly asset sold can be accounted through asset Disposal account in earlier Question also.

**Depreciation : Calculation by SLM and Accounting by credit to Depreciation Provision A/c.**

**Q.4 On 1.1.16 machinery was purchased for ₹ 80,000. On 1.7.17 addition were made to the amount of ₹ 40,000. On 31.3.18 machine purchased on 1.7.17 costing ₹ 12,000 was sold for ₹ 11,000 & on 30.6.18 machinery purchased on 1.1.16 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.18 addition were made to the amount of ₹ 20,000.**



**Show Machinery A/c & Depreciation provision a/c for 3 years 16, 17, 18. Depreciate Machinery at 10% p.a. by S.L.M. (for calculation refer Q. 2)**

**Solution:**

Dr. **Machinery Account** Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.16 | To Bank A/c | 80,000 | 31.12.16 | By Balance c/f | 80,000 |
| | | 80,000 | | | 80,000 |
| 1.1.17 | To Balance b/d | 80,000 | 31.12.17 | By Balance c/d | 1,20,000 |
| 1.7.17 | To Bank A/c | 40,000 | | | |
| | | 1,20,000 | | | 1,20,000 |
| 1.1.18 | To Balance b/f | 1,20,000 | 31.3.18 | By Bank A/c | 11,000 |
| 30.6.18 | To P&L A/c (profit) | 2,700 | | By Depreciation provision A/c | 900 |
| | | | | By P&L (loss) A/c | 100 |
| 1.10.18 | To Bank A/c | 20,000 | 30.6.18 | By Bank A/c | 26,700 |
| | | | | By Depreciation provision A/c | 8,000 |
| | | | 31.12.18 | By Balance c/f | 96,000 |
| | | 1,42,700 | | | 1,42,700 |

Alternatively sale of asset can be routed through asset disposal A/c as done in earlier question.

Dr. **Provision for Depreciation Account (SLM 10%)** Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.16 | To Balance c/f | 8,000 | 31.12.16 | By Depreciation A/c | 8,000 |
| | | 8,000 | | | 8,000 |
| 31.12.17 | To Balance c/f | 18,000 | 1.1.17 | By Balance b/d | 8,000 |
| | | | 31.12.17 | By Depreciation A/c | 10,000 |
| | | 18,000 | | | 18,000 |
| 31.3.18 | To Machinery A/c | 900 | 1.1.18 | By Balance b/d | 18,000 |
| 30.6.18 | To Machinery A/c | 8,000 | 31.3.18 | By Depreciation A/c | 300 |
| 31.12.18 | To Balance c/f | 19,100 | 30.6.18 | By Depreciation A/c | 1,600 |
| | | | 31.12.18 | By Depreciation A/c | 8,100 |
| | | 28,000 | | | 28,000 |

### Depreciation A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.16 | To Depreciation provision A/c | 8,000 | 31.12.16 | By P&L A/c | 8,000 |
| | | 8,000 | | | 8,000 |
| 31.12.17 | To Depreciation provision A/c | 10,000 | 31.12.17 | By P&L A/c | 10,000 |
| | | 10,000 | | | 10,000 |
| 31.3.18 | To Depreciation provision A/c | 300 | 31.12.18 | By P&L A/c | 10,000 |
| 30.6.18 | To Depreciation provision A/c | 1,600 | | | |
| 31.12.18 | To Depreciation provision A/c | 8,100 | | | |
| | | 10,000 | | | 10,000 |

**Q.5 On 1st January, 2012 Hari Om purchased 6 machines for ₹ 15,000 each. His accounting year ends on 31st December. Depreciation at the rate of 10% on initial cost has been charged to profit and loss account and credited to a separate depreciation provision account.**

**On 1st January, 2013 one machine was sold for ₹ 12,500 and on 1st January, 2014 a second machine was sold for ₹ 12,500. An improved model which cost ₹ 28,000 was purchased on 1st July, 2013. The same rate of depreciation was decided for the new machine was well. You are required to show:**

**1. The asset account 2. The asset disposal account 3. The depreciation provision account.**

**Solution :**

**Ledger of Hari Om**

**Machinery Account**

Dr. Cr.

| 2012 | Particulars | ₹ | 2012 | Particulars | ₹ |
|---|---|---|---|---|---|
| Jan. 1 | To Bank A/c | 90,000 | Dec. 31 | By Balance c/d | 90,000 |
| | | 90,000 | | | 90,000 |
| **2013** | | | **2013** | | |
| Jan. 1 | To Balance b/d | 90,000 | Jan. 1 | By Machinery disposal A/c | 15,000 |
| July 1 | To Bank A/c | 28,000 | Dec. 31 | By Balance c/d | 1,03,000 |
| | | 1,18,000 | | | 1,18,000 |
| **2014** | | | **2014** | | |
| Jan. 1 | To Balance b/d | 1,03,000 | Jan. 1 | By Machinery disposal A/c | 15,000 |
| | | | Dec. 31 | By Balance c/d | 88,000 |
| | | 1,03,000 | | | 1,03,000 |
| **2015** | | | | | |
| Jan. 1 | To Balance b/d | 88,000 | | | |

Note: The balance in the asset account at any time represents the cost of assets retained by the firm.

**Machinery Disposal Account**

| 2013 | Particulars | ₹ | 2013 | Particulars | ₹ |
|---|---|---|---|---|---|
| Jan. 1 | To Machinery A/c | 15,000 | Jan. 1 | By Provision for depreciation A/c | 1,500 |
| | | | Jan. 1 | By Cash A/c | 12,500 |
| | | | Dec. 31 | By Profit and loss A/c (loss) | 1,000 |
| | | 15,000 | | | 15,000 |
| **2014** | | ₹ | **2014** | | ₹ |
| Jan. 1 | To Machinery A/c | 15,000 | Jan. 1 | By Provision for depreciation A/c | 3,000 |
| Dec. 31 | To P&L A/c (profit) | 500 | Jan. 1 | By Cash A/c | 12,500 |
| | | 15,500 | | | 15,500 |



**Note:** Machinery disposal account is not a continuous account like machinery account. It must be prepared separately for each year.

**Provision for Depreciation Account (SLM 10%)**

Dr. Cr.

| 2012 | Particulars | ₹ | 2012 | Particulars | ₹ |
|---|---|---|---|---|---|
| Dec. 31 | To Balance c/d | 9,000 | Dec. 31 | By Depreciation A/c | 9,000 |
| | | 9,000 | | | 9,000 |
| **2013** | | | **2013** | | |
| Jan. 1 | To Machinery disposal A/c-transfer | 1,500 | Jan. 1 | By Balance b/d | 9,000 |
| Jan. 1 | To Balance c/d | 16,400 | Dec. 31 | By Depreciation A/c (7500 + 1400) | 8,900 |
| | | 17,900 | | | 17,900 |
| **2014** | | | **2014** | | |
| Jan. 1 | To Machinery disposal A/c-transfer | 3,000 | Jan. 1 | By Balance b/d | 16,400 |
| Dec. 31 | To Balance c/d | 22,200 | Dec. 31 | By Depreciation A/c (6000 + 2800) | 8,800 |
| | | 25,200 | | | 25,200 |
| | | | **2015** | | |
| | | | Jan. 1 | By Balance b/d | 22,200 |

**Note :** The balance in the provision account at any time shows the balance of accumulated depreciation in respect of retained assets.

| *Working of depreciation* | ₹ |
|---|---|
| (1) On ₹ 75,000 (₹ 90,000 - ₹ 15,000) @ 10% per annum | 7,500 |
| On ₹ 28,000 @ 10% p.a. for 6 months | 1,400 |
| Depreciation for the year 2013 | 8,900 |
| (2) On ₹ 60,000 (₹ 75,000 - ₹ 15,000) @ 10% p.a. | 6,000 |
| On ₹ 28,000 @ 10% p.a. for one year | 2,800 |
| Depreciation for the year 2014 | 8,800 |

**Q.6 A purchased on 1st January, 2012 certain machinery for ₹ 1,94,000 and spent ₹ 6,000 on its erection. On 1st July, 2012 additional machinery costing ₹ 1,00,000 was purchased. On 1st July, 2014 the machinery purchased on 1st January, 2012 having become obsolete was auctioned for ₹ 1,00,000 and on the same date new machinery was purchased at a cost of ₹ 1,50,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the machinery. No depreciation need be provided when a machinery is sold or auctioned, for that part of the year in which sale or auction took place. But for the above, depreciation shall be provided on time basis. In 2015, however, A changed this method of providing depreciation and adopted the method of writing off 15% p.a. on the written down value on the balance as appeared in machinery account on 1-1-2015.**

**Show the machinery account for the calendar years 2012 to 2015. (certain matter is underlined by the author for the attention of the student which indicates the prospective change)**

**Solution:**

**Machinery A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2012 | To Bank A/c (194000+6000) | 2,00,000 | 31.12.2012 | By Depreciation A/c (20000+5000) | 25,000 |
| 1.7.2012 | To Bank A/c | 1,00,000 | | By Balance c/d | 2,75,000 |
| | | 3,00,000 | | | 3,00,000 |
| 1.1.2013 | To Balance b/d | 2,75,000 | 31.12.2013 | By Depreciation A/c (20000+10000) | 30,000 |
| | | | | By Balance c/d | 2,45,000 |
| | | 2,75,000 | | | 2,75,000 |
| 1.1.2014 | To Balance b/d | 2,45,000 | 1.7.2014 | By Cash/Bank A/c | 1,00,000 |
| 1.7.2014 | To Bank A/c | 1,50,000 | 1.7.2014 | By P&L (loss on sale machine) A/c | 60,000 |
| | | | 31.12.2014 | By Depreciation A/c (10000+7500) | 17,500 |
| | | | 31.12.2014 | By Balance c/d | 2,17,500 |
| | | 3,95,000 | | | 3,95,000 |
| 1.1.2015 | To Balance b/d | 2,17,500 | 31.12.2015 | By Depreciation A/c (15% of 217500) | 32,625 |
| | | | 31.12.2015 | By Balance c/f | 1,84,875 |
| | | 2,17,500 | | | 2,17,500 |

**New method to be applied on the balance appearing as on 1.1.2015 as given in the question in the last sentence, as prospective change.**

**Q.7**

**Cost of Machine = ₹ 20,000**

**Scrap Value = ₹ 2,000**

**Estimated life = 5 years**

**Calculate depreciation of all the years on the basis of Sum of Years of Digits Method.**

**Solution:**

**Depreciation of the Year** = Depreciable Value × $\frac{\text{Number of years (including the present year) of remaining life of the asset}}{\text{Total of all digits of the life of the asset (in years)}}$

1st Year depreciation $= (20{,}000 - 2{,}000) \times \frac{5}{1+2+3+4+5} = 18{,}000 \times \frac{5}{15} = ₹\ 6{,}000$

2nd Year depreciation $= 18{,}000 \times \frac{4}{15} = ₹\ 4{,}800$

3rd Year depreciation $= 18{,}000 \times \frac{3}{15} = ₹\ 3{,}600$

4th Year depreciation $= 18{,}000 \times \frac{2}{15} = ₹\ 2{,}400$



5th Year depreciation $= 18{,}000 \times \frac{1}{15} = ₹\ 1{,}200$

**Q.8 Mr. A purchased a Plant costing ₹ 60,000 on 1st January, 2015. He purchased another Plant for ₹ 50,000 on 1st July in the same year. On 1st October 2016, he sold 1/3rd part of 1st Plant for ₹ 11,000 and purchased another Plant for ₹ 30,000 on the same date. Prepare Plant A/c for three years in the following cases:**

**Case I- If rate of depreciation is 10% p.a. on SLM**

**Case II- If rate of depreciation is 10% p.a. on WDV**

**Solution:**

***Case I:-***

**Working Note:-**

| Plant I | | Plant II | | Plant III | |
|---|---|---|---|---|---|
| **On Jan 1, 2015** | **60,000** | **On July 1, 2015** | **50,000** | **On Oct 1, 2016** | **30,000** |
| Part I- 60,000 × 1/3= | 20,000 | Less: Dep. | 2,500 | Less: Dep. | 750 |
| Less: Dep. | 2,000 | | 47,500 | | 29,250 |
| | 18,000 | Less: Dep. | 5,000 | Less: Dep. | 3,000 |
| Less: Dep. | 1,500 | | 42,500 | | 26,250 |
| | 16,500 | Less: Dep. | 5,000 | | |
| Less: Sold | 11,000 | | 37,500 | | |
| **Loss** | 5,500 | | | | |
| Part II- 60,000 × 2/3= | 40,000 | | | | |
| Less: Dep. | 4,000 | | | | |
| | 36,000 | | | | |
| Less: Dep. | 4,000 | | | | |
| | 32,000 | | | | |
| Less: Dep. | 4,000 | | | | |
| | 28,000 | | | | |

**Plant Account**

| Date | Particulars | L.F | Amount | Date | Particulars | | L.F | Amount |
|---|---|---|---|---|---|---|---|---|
| 2015 | | | | 2015 | | | | |
| Jan. 1 | To Bank: Plant I | | 60,000 | Dec. 31 | By Depreciation on | | | |
| July 1 | To Bank : Plant II | | 50,000 | | Plant I | 6,000 | | |
| | | | | | Plant II | 2,500 | | 8,500 |
| | | | | | By Balance c/d | | | |
| | | | | | Plant I | 54,000 | | |
| | | | | | Plant II | 47,500 | | 1,01,500 |
| | **Total** | | **1,10,000** | | **Total** | | | **1,10,000** |
| 2016 | | | | 2016 | | | | |
| Jan. 1 | To Balance b/d Plant I 54,000 | | | Oct. 1 | By Depreciation on Plant I 1/3 | | | 1,500 |

| Date | Particulars | L.F | Amount | Date | Particulars | L.F | Amount |
|---|---|---|---|---|---|---|---|
| | Plant II 47,500 | | 1,01,500 | | By Cash | | 11,000 |
| Oct 1 | To Bank Plant III | | 30,000 | | By P & L A/c (Loss) | | 5,500 |
| | | | | Dec. 31 | By Depreciation on | | |
| | | | | | Plant I (2/3) 4,000 | | |
| | | | | | Plant II 5,000 | | |
| | | | | | Plant III 750 | | 9,750 |
| | | | | | By Balance c/d | | |
| | | | | | Plant I (2/3) 32,000 | | |
| | | | | | Plant II 42,500 | | |
| | | | | | Plant III 29,250 | | 1,03,750 |
| | **Total** | | **1,31,500** | | **Total** | | **1,31,500** |
| 2017 | | | | 2017 | By Depreciation on | | |
| Jan 1 | To Balance b/d | | | Dec 31 | Plant (2/3) 4,000 | | |
| | Plant I (2/3) 32,000 | | | | Plant II 5,000 | | |
| | Plant II 42,500 | | | | Plant III 3,000 | | 12,000 |
| | Plant III 29,250 | | 1,03,750 | | By Balance c/d | | |
| | | | | | Plant I (2/3) 28,000 | | |
| | | | | | Plant II 37,500 | | |
| | | | | | Plant III 26,250 | | 91,750 |
| | **Total** | | **1,03,750** | | **Total** | | **1,03,750** |

**Case II:-**

**Working Note:-**

| Plant I | | Plant II | | Plant III | |
|---|---|---|---|---|---|
| **On Jan 1, 2015** | **60,000** | **On July 1, 2015** | **50,000** | **On Oct 1, 2016** | **30,000** |
| Part I- 60,000 × 1/3= | 20,000 | Less: Dep. | 2,500 | Less: Dep. | 750 |
| Less: Dep. | 2,000 | | 47,500 | | 29,250 |
| | 18,000 | Less: Dep. | 4,750 | Less: Dep. | 2,925 |
| Less: Dep. | 1,350 | | 42,750 | | 26,325 |
| | 16,650 | Less: Dep. | 4,275 | | |
| Less: Sold | 11,000 | | 38,475 | | |
| **Loss** | 5,650 | | | | |
| Part II- 60,000 × 2/3= | 40,000 | | | | |
| Less: Dep. | 4,000 | | | | |
| | 36,000 | | | | |
| Less: Dep. | 3,600 | | | | |
| | 32,400 | | | | |
| Less: Dep. | 3,240 | | | | |
| | 29,160 | | | | |



## Plant Account

| Date | Particulars | L.F | Amount | Date | Particulars | L.F | Amount |
|---|---|---|---|---|---|---|---|
| 2015 | | | | 2015 | | | |
| Jan 1 | To Bank: Plant I | | 60,000 | Dec 31 | By Depreciation on | | |
| July 1 | To Bank : Plant II | | 50,000 | | Plant I 6,000 | | |
| | | | | | Plant II 2,500 | | 8,500 |
| | | | | | By Balance c/d | | |
| | | | | | Plant I 54,000 | | |
| | | | | | Plant II 47,500 | | 1,01,500 |
| | **Total** | | **1,10,000** | | **Total** | | **1,10,000** |
| 2016 | | | | 2016 | | | |
| Jan 1 | To Balance b/d | | | Oct 1 | By Depreciation on | | |
| | Plant I 54,000 | | | | Plant I 1/3 | | 1,350 |
| | Plant II 47,500 | | 1,01,500 | | By Cash | | 11,000 |
| Oct 1 | To Bank: Plant III | | 30,000 | | By P & L A/c (Loss) | | 5,650 |
| | | | | Dec 31 | By Depreciation on | | |
| | | | | | Plant I (2/3) 3,600 | | |
| | | | | | Plant II 4,750 | | |
| | | | | | Plant III 750 | | 9,100 |
| | | | | | By Balance c/d | | |
| | | | | | Plant I (2/3) 32,400 | | |
| | | | | | Plant II 42,750 | | |
| | | | | | Plant III 29,250 | | 1,04,400 |
| | **Total** | | **1,31,500** | | **Total** | | **1,31,500** |
| 2017 | | | | 2017 | | | |
| Jan 1 | To Balance b/d | | | Dec 31 | By Depreciation on | | |
| | Plant I (2/3) 32,400 | | | | Plant I (2/3) 3,240 | | |
| | Plant II 42,750 | | | | Plant II 4,275 | | |
| | Plant III 29,250 | | 1,04,400 | | Plant III 2,925 | | 10,440 |
| | | | | | By Balance c/d | | |
| | | | | | Plant I (2/3) 29,160 | | |
| | | | | | Plant II 38,475 | | |
| | | | | | Plant III 26,325 | | 93,960 |
| | **Total** | | **1,04,400** | | | | **1,04,400** |

**Q.9 A Plant & Machinery costing ₹10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year. [Nov. 2018, 4 Marks]**

**Solution:**

$$\text{Depreciation per year} = \frac{10,00,000}{10} = ₹1,00,000$$

| | | |
|---|---|---|
| Value of Plant & Machinery | = | 10,00,000 |
| **Less :** Depreciation for 4 years (1,00,000 × 4) | = | 4,00,000 |
| **WDV of the machine at the end of 4th year** | = | **6,00,000** |

| | | |
|---|---|---|
| Add: Upward Revaluation | = | 40,000 |
| Depreciable amount after revaluation | | **6,40,000** |

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year onwards $= \frac{6,40,000}{8} =$ ₹**80,000**

**Q.10 A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2015 and spent ₹ 3,000 on its overhauling. On 1st July 2016, another machine was purchased for ₹ 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 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, 2016 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, 2015.**

**[May 2019, 10 Marks]**

**Solution:** **Machinery Account**

| Date | Particulars | | ₹ | Date | Particulars | | ₹ |
|---|---|---|---|---|---|---|---|
| 2015 | | | | 2015 | | | |
| Jan 1 | To Bank A/c (Ist) (37000+3000) | | 40,000 | Dec 31 | By Depreciation A/c | | 4,000 |
| | | | | | By Balance c/d | | 36,000 |
| | **Total** | | **40,000** | | **Total** | | **40,000** |
| 2016 | | | | 2016 | | | |
| Jan 1 | To Balance b/d | | 36,000 | Dec 31 | By Depreciation A/c | | |
| July 1 | To Bank A/c (IInd) | | 10,000 | | Ist | 5400 | |
| | | | | | IInd | 750 | 6,150 |
| | | | | | By Balance c/d | | |
| | | | | | Ist | 30600 | |
| | | | | | IInd | 9250 | 39,850 |
| | **Total** | | **46,000** | | **Total** | | **46,000** |
| 2017 | | | | 2017 | | | |
| Jan 1 | To Balance b/d | | | July 1 | By Depreciation A/c | | 2,295 |
| | Ist | 30600 | | | By Bank A/c | | 28,000 |
| | IInd | 9250 | 39,850 | | By Profit & Loss A/c **(1)** | | 305 |
| July 1 | To Bank A/c (IIIrd) | | 25,000 | Dec 31 | By Depreciation A/c | | |
| | | | | | IInd | 1388 | |
| | | | | | IIIrd | 1875 | 3,263 |
| | | | | | By Balance c/d | | |
| | | | | | IInd | 7862 | |
| | | | | | IIIrd | 23125 | 30,987 |
| | **Total** | | **64,850** | | **Total** | | **64,850** |



| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| 2018 | | | | 2018 | | |
| Jan 1 | To Balance b/d | | | July 1 | By Depreciation A/c | 590 |
| | IInd | 7862 | | | By Bank A/c | 2,000 |
| | IIIrd | 23125 | 30,987 | | By Profit & Loss A/c **(2)** | 5,272 |
| | | | | Dec 31 | By Depreciation A/c | 3,469 |
| | | | | | By Balance c/d | 19,656 |
| | **Total** | | **30,987** | | **Total** | **30,987** |

**Working Notes:-**

**(1) Calculation of Loss on Ist Machinery:**

| | ₹ |
|---|---|
| Balance of Machinery as on 1 Jan, 2017 | 30,600 |
| **Less:** Depreciation upto 1 July, 2017 $\left(30,600 \times \frac{15}{100} \times \frac{6}{12}\right)$ | 2,295 |
| | 28,305 |
| **Less:** Sale value of Machinery | 28,000 |
| | 305 |

**(2) Calculation of Loss on IInd Machinery:**

| | |
|---|---|
| Balance of Machinery as on 1 Jan, 2018 | 7,862 |
| **Less:** Depreciation upto 1 July, 2018 $\left(7,862 \times \frac{15}{100} \times \frac{6}{12}\right)$ | 590 |
| | 7,272 |
| **Less:** Sale value of Machinery | 2,000 |
| | 5,272 |

**Q.11 X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.**

**[Nov. 2019, 4 Marks]**

**Solution:**

**Working Note:-**

| I | | II | | III | |
|---|---|---|---|---|---|
| **Year** | **Amount (₹)** | **Year** | **Amount (₹)** | **Year** | **Amount (₹)** |
| 1 Jan. 2017 | 5,00,000 | 1 Jan. 2017 | 2,00,000 | 1 July 2018 | 5,00,000 |
| 31 Dec. 2017 | –50,000 | 31 Dec. 2017 | –10,000 | 31 Dec. 2018 | –25,000 |
| 1 Jan. 2018 | 4,50,000 | 1 Jan. 2018 | 1,90,000 | | |
| 1 July 2018 | –22,500 | 31 Dec.2018 | –19,000 | | |
| Sold | 4,27,500 | Balance | **1,71,000** | Balance | **4,75,000** |
| | –2,90,000 | | | | |
| (Loss) | **1,37,500** | | | | |

### Machinery Account

| Date | Particulars | | Amount | Date | Particulars | | Amount |
|---|---|---|---|---|---|---|---|
| **2017** | | | | **2017** | | | |
| 1 Jan. | To Bank [I] | | 4,80,000 | 31 Dec. | By Depreciation | | |
| | To Bank: installation charge | | 20,000 | | I | 50,000 | |
| 1 July | To Bank [II] | | 2,00,000 | | II | 10,000 | 60,000 |
| | | | | 31 Dec. | By Balance c/d | | |
| | | | | | I | 4,50,000 | |
| | | | | | II | 1,90,000 | 6,40,000 |
| | **Total** | | **7,00,000** | | **Total** | | **7,00,000** |
| 2018 | | | | 2018 | | | |
| 1 Jan. | To Balance b/d | | | 1 July | By Depreciation [I] | | 22,500 |
| | I | 4,50,000 | | | By Cash | | 2,90,000 |
| | II | 1,90,000 | 6,40,000 | | By Profit & Loss A/c (Loss) | | 1,37,500 |
| 1 July | To Bank [III] | | 5,00,000 | 31 Dec. | By Depreciation | | |
| | | | | | II | 19,000 | |
| | | | | | III | 25,000 | 44,000 |
| | | | | 31 Dec. | By Balance c/d | | |
| | | | | | II | 1,71,000 | |
| | | | | | III | 4,75,000 | 6,46,000 |
| | **Total** | | **11,40,000** | | **Total** | | **11,40,000** |

**Q.12 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.**
**[Jan. 2021, 10 Marks]**

**Solution :**

**In the Books of M/s. Dayal Transport Company**

**Trucks A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2019 | | | 2019 | | |
| 1 Jan. | Too Balance b/d (WN-1) | 3,50,00,000 | 1 Oct | By Depreciation A/c [50,00,000 × 20% × (9/12)] | 7,50,000 |
| 1 Oct. | To Profit on destroyed Truck (WN-2) | 7,50,000 | " | By Bank A/c | 35,00,000 |



| Date | Particulars | | ₹ | Date | Particulars | | ₹ |
|---|---|---|---|---|---|---|---|
| " | To Bank A/c | | 60,00,000 | 31 Dec. | By Depreciation A/c | | |
| | | | | | (a) On 9 old trucks | 90,00,000 | |
| | | | | | (b) On 1 new truck | 3,00,000 | 93,00,000 |
| | | | | " | By Balance c/d | | |
| | | | | | (a) 9 old trucks | 2,25,00,000 | |
| | | | | | (b) 1 new truck | 57,00,000 | 2,82,00,000 |
| | **Total** | | **4,17,50,000** | | **Total** | | **4,17,50,000** |
| 2020 | | | | 2020 | | | |
| 1 Jan. | To Balance b/d | | | 31 Dec. | By Depreciation A/c | | |
| | (a) 9 old trucks | 2,25,00,000 | | | (a) On 9 old trucks | 90,00,000 | |
| | (b) 1 new truck | 57,00,000 | 2,82,00,000 | | (b) On 1 new truck | 12,00,000 | 1,02,00,000 |
| | | | | " | By Balance c/d | | |
| | | | | | (a) 9 old trucks | 1,35,00,000 | |
| | | | | | (b) 1 new truck | 45,00,000 | 1,80,00,000 |
| | **Total** | | **2,82,00,000** | | **Total** | | **2,82,00,000** |

**Working Notes:-**

**(1) Calculation of Balance as on 1st Jan., 2019:-**

| | ₹ |
|---|---|
| Cost of 10 trucks | 5,00,00,000 |
| **Less:** Dep. for 6 months of Year 2017 | (50,00,000) |
| **Less:** Dep. of Year 2018 | (1,00,00,000) |
| | **3,50,00,000** |

**(2) Calculation of Profit or Loss on destroyed truck:-**

Balance of 10 trucks as on 1st Jan., 2019 $= \frac{3,50,00,000}{10}$

| | |
|---|---|
| Balance of destroyed truck | = 35,00,000 |
| **Less:** Depreciation of Year 2019 | (7,50,000) |
| | 27,50,000 |
| **Less:** Insurance Claim | 35,00,000 |
| **Profit** | **7,50,000** |

**Q.13 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.**
**[July 2021, 4 Marks]**

**Solution :**

**Calculation of Depreciation for the year ended 31st March, 2021:**

| Particulars | Amount (₹) |
|---|---|
| **Depreciation on:** | |
| **1. Opening Balance (1.4.2020)** | |
| (a) Machine Sold 1.7.2020 $\left(2,16,000 \times \frac{15}{100} \times \frac{3}{12}\right)$ | 8,100 |
| (b) Other Machine (28,54,000 - 2,16,000) $\times \frac{15}{100}$ | 3,95,700 |
| **2. Machine Purchased on 1.7.2020** | |
| $(4,58,000 + 22,000) \times \frac{15}{100} \times \frac{9}{12}$ | 54,000 |
| **3. Machine Purchased on 1.11.2020** | |
| $5,60,000 \times \frac{15}{100} \times \frac{5}{12}$ | 35,000 |
| **Total Depreciation for the year** | **4,92,800** |

**Q.14 On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.**

**The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus. [Dec. 2021, 5 Marks]**

**Solution :**

**Calculation of Depreciation on Buses**

**(i) On 1st Bus**

| | ₹ |
|---|---|
| Cost on 1.1.2019 | 8,00,000 |
| *Less :* Depreciation @ 20% upto 31.3.2019 | 40,000 |
| WDV as on 1.4.2019 | 7,60,000 |
| *Less :* Depreciation @ 20% upto 31.3.2020 | 1,52,000 |
| WDV as on 1.4.2020 | 6,08,000 |
| *Less :* Depreciation @ 20% upto 1.7.2020 for 3 months | 30,400 |
| WDV as on 1.7.2020 | 5,77,600 |



**(ii) On 2nd Bus**

| | ₹ |
|---|---|
| Cost On 1st July, 2020 | 10,00,000 |
| *Less :* Depreciation @ 20% for 9 months | 1,50,000 |
| WDV as on 31.3.2021 | 8,50,000 |

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

| | | ₹ |
|---|---|---|
| (i) On 1st Bus | = | 30,400 |
| (ii) On 2nd Bus | = | 1,50,000 |
| | | ₹ 1,80,400 |

**Gain on destroyed Bus :**

| | | ₹ |
|---|---|---|
| Insurance claim received | = | 6,00,000 |
| *Less :* WDV on 1.7.2020 | = | 5,77,600 |
| Gain | = | **₹ 22,400** |

**Q.15 The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April, 2020. The Books of Account of the Factory are closed on 31st March every year and 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 the Plant and Machinery Account for the year ended 31st March, 2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes. [June 2022, 10 Marks]**

**Solution :**

**Plant and Machinery A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2020 | | | 2020 | | |
| 1 April | To Balance b/d | | 1 Sept | By Depreciation on | |
| | Machinery 1 - 1771470 W.N.1 | | | Machinery 1 - 73811 | |
| | Machinery 2 - 1966500 | | | Machinery 2 - 81938 | 1,55,749 |
| | Others - 5762030 | 95,00,000 | 1 Sept | By Bank A/c (Sale of Machine 1) | 3,75,000 |
| 1 Sept | To Bank A/c (New Machine) | | | By Profit & Loss A/c (Loss on sale) | 13,22,659 |

| Date | Particulars | | ₹ | Date | Particulars | | ₹ |
|---|---|---|---|---|---|---|---|
| | Cost - | 14,00,000 | | " | By Profit & Loss A/c | | 18,84,562 |
| | +Installation | 44,600 | 14,44,600 | 2021 | (Loss as scrap of Machine 2) | | |
| | | | | 31Mar | By Depreciation on | | |
| | | | | | Others - | 576203 | |
| | | | | | New Machine- | 84268 | 6,60,471 |
| | | | | " | By Balance c/d | | |
| | | | | | Others - | 5185827 | |
| | | | | | New Machine - | 1360332 | 65,46,159 |
| | Total | | 1,09,44,600 | | Total | | 1,09,44,600 |

**Working Note:**

**Machinery 1**

| | ₹ |
|---|---|
| Cost as on 1.4.2018 | 21,87,000 |
| - Depreciation @ 10% | (2,18,700) |
| W.D.V as on 31.3.2019 | 19,68,300 |
| - Depreciation @ 10% | (1,96,830) |
| W.D.V as on 31.3.2020 | **17,71,470** |

**Machinery 2**

| | |
|---|---|
| Cost as on 1.4.2019 | 21,85,000 |
| Depreciation @ 10% | (2,18,500) |
| W.D.V as on 31.3.2020 | **19,66,500** |

**Q.16 A purchased a machinery for ₹ 1,30,000 on 1st April, 2019 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for ₹ 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022. Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.**

**[Dec. 2022, 4 Marks]**

**Solution :**

**Machinery A/c**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1.4.2019 | To Bank A/c (₹ 130000+ ₹ 20000) | 1,50,000 | 31.3.2020 | By Depreciation A/c | 30,000 |
| | | | " | By Balance c/d | 1,20,000 |
| | **Total** | **1,50,000** | | **Total** | **1,50,000** |



| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1.4.2020 | To Balance b/d | 1,20,000 | 31.3.2021 | By Depreciation A/c | 30,000 |
| | | | " | By Balance c/d | 90,000 |
| | **Total** | **1,20,000** | | **Total** | **1,20,000** |
| 1.04.2021 | To Balance b/d | 90,000 | 1.10.2021 | By Depreciation A/c | 6,750 |
| 1.10.2021 | To Profit & Loss A/c W.N. | 16,750 | | By Bank A/c (Sale of Machinery) | 1,00,000 |
| 1.01.2022 | To Bank A/c | 50,000 | | | |
| | | | 31.3.2022 | By Depreciation A/c | 1,875 |
| | | | | By Balance c/d | 48,125 |
| | **Total** | **1,56,750** | | **Total** | **1,56,750** |

**Working Notes:-**

| **I Machinery** | ₹ | **II Machinery** | ₹ |
|---|---|---|---|
| 1st April, 2019 | 1,50,000 | | |
| Less: Depreciation @ 20% on 31st Mar, 2020 | (30,000) | | |
| 1st April 2020 | 1,20,000 | | |
| Less: Depreciation @ 20% on 31st Mar, 2021 | (30,000) | | |
| 1st April 2021 | 90,000 | 1st Jan, 2022 | 50,000* |
| Less: Depreciation @ 15% on 1st Oct, 2021 | (6,750) | Less: Depreciation @ 15% on 31st Mar, 2021 | (1,875) |
| | ₹ 83,250 | | |
| Less: Sold | 1,00,000 | Balance on 31st Mar, 2022 | ₹48,125 |
| Profit on sale | ₹ 16,750 | | |

*Machinery purchased on 1 Oct, 2021 was put in use on 1 Jan, 2022 so depreciation has been charged from this date only.

**Q.17 The following balances appear in the books of Dheeraj Enterprises:**

| | ₹ |
|---|---|
| Machinery account as on 1-4-2021 | 12,00,000 |
| Provision for depreciation account as on 1-4-2021 | 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**

**@ 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. [June 2023, 10 Marks]**

**Solution :**

**In the Books of Dheeraj Enterprises**

**Machinery A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2021<br>1 April | To Balance b/d<br>I 2,00,000<br>II 10,00,000 | 12,00,000 | 2021<br>1 Oct. | By Machinery disposal A/c (trf.) | 2,00,000 |
| 1 Oct | To Bank A/c III<br>(Machinery purchased) | 4,80,000 | 2022<br>31Mar. | By Balance c/d:<br>II 10,00,000<br>III 4,80,000 | 14,80,000 |
| | **Total** | **16,80,000** | | **Total** | **16,80,000** |

**Provision for Depreciation A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2021<br>1st Oct. | To Machinery disposal A/c<br>I (trf.)<br>(54200+7290) | 61,490 | 2021<br>1 Apr. | By Balance b/d<br>I 54,200[1]<br>II 4,10,800 | 4,65,000 |
| 2022<br>31 Mar. | To Balance c/d<br>II 4,69,720<br>III 24,000 | 4,93,720 | 1 Oct. | By Depreciation A/c (on Ist) | 7,290 |
| | | | 2022<br>31 Mar | By Depreciation A/c<br>II 58,920<br>III 24,000 | 82,920 |
| | **Total** | **5,55,210** | | **Total** | **5,55,210** |

**Machinery disposal A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1 Oct.<br>2021 | To Machinery A/c (cost) | 2,00,000 | 1 Oct.<br>2021 | By Provision for Depreciation A/c | 61,490 |
| | | | " | By Bank A/c | 1,10,000 |
| | | | " | By Profit & loss A/c<br>(Loss on sale) | 28,510 |
| | **Total** | **2,00,000** | | **Total** | **2,00,000** |



***Working Note:-***

**1. Calculation of balance in provision for depreciation of Machinery purchased on 1 April, 2018.**

| | **Amount (₹)** |
|---|---|
| Cost on 1 April 2018 | 2,0,0000 |
| Less: Dep. @ 10% | (20,000) |
| WDV as on 1 April 2019 | 1,80,000 |
| Less: Dep. @ 10% | (18,000) |
| WDV as on 1 April 2020 | 1,62,000 |
| Less: Dep. @ 10% | (16,200) |
| WDV as on 1 April 2021 | 1,45,800 |

Total provision for depreciation upto 31st March, 2021 [₹ 20,000 + ₹ 18,000 + ₹ 16,200] = **₹ 54,200**

**2. Depreciation on machinery for 2021-22**

$$\text{I} = ₹\ 1{,}45{,}800 \times \frac{10}{100} \times \frac{6}{12} = ₹\ 7{,}290$$

$$\text{II} = ₹\ 10{,}00{,}000 - ₹\ 4{,}10{,}800$$
$$= ₹\ 5{,}89{,}200 \times 10\% = ₹\ 58{,}920$$

14
CHAPTER

# FINAL ACCOUNTS

## DESCRIPTIVE QUESTIONS

**Q.1 Discuss the limitations which must be kept in mind while evaluating the Financial Statements.** **[Nov. 2018, 4 Marks]**

**Ans. Limitations of Financial Statements**

The following are the limitations of financial statements:-

**1. Historical Cost**

The financial statements are prepared on the basis of historical cost, *i.e.* current market value of the fixed asset is not taken into consideration. The value of the fixed asset continues to decrease with the passage of time, but the effect of these subsequent changes in price is not taken into account. The Balance Sheet loses its significance since it does not take into consideration the economic realities of the business organization. Thus, heavy reliance on historical cost makes the financial statements misleading & irrelevant for decision making.

**2. Perpetual Continuity & Periodical Account**

Financial statements are prepared at the end of the year but the accounting records are maintained on the going concern assumption (*i.e.* the business shall continue to exist forever).

As a result, many items of capital expenditure are distributed over a number of beneficial years arbitrarily which may lead to incorrect preparation of financial statements.

**3. Strengths & Weaknesses**

The assets which can be expressed in terms of money are recorded in the financial statements of a company. The strengths & weaknesses of the business are not taken into consideration while preparing the Balance Sheet. For example: services, skills & loyalty of the employees are also important for the business, but these are not shown in the Balance Sheet. Thus, it should be kept in mind while judging the company's financial position, that many non-monetary strengths will not be reflected in the Balance Sheet.

**4. Intangible assets**

A company may have a number of intangible assets that are not recorded in its financial statements, but the expenditure made in regard to those assets are charged to expense.

This policy can drastically affect the reliability of the financial statements of a company.

**5. Window Dressing**

There is a possibility of fabrication of the financial statements by the management of the company. In such a case, financial statements may not provide true & fair view of the financial position of the company.

**6. Different Accounting Policies**

The financial statements of different companies are not always comparable, because the entities use different accounting policies. For example: One company may charge depreciation on straight line method & another on written down value method. When different methods are adopted by different companies for the treatment of a particular item, the results of comparison between such enterprises shall be misleading.

## SHORT NOTES

**Q.1 Trading account**

**Ans. Trading account**

- Trading account shows the profit/loss made on a gross basis that is including only the direct cost of the goods.
- In trading a/c, we credit the trading income like sale and
- Debit the cost of goods sold (opening stock + purchases (-) closing stock).
- Alternatively Opening Stock & purchases is debited & Closing stock is credited to trading account.
- Other direct expenses related to purchase or manufacture of goods like carriage inward, wages, etc. are also debited here.
- Purchase return & Sales returns will be deducted/adjusted from the purchases & sales respectively.
- The balance is known as the gross profit or gross loss, which is transferred to profit and loss A/c.
- Non-corporate entities usually prepares trading A/c so as to know the gross margin available in its sale.
- But at corporate level usually it is not prepared. In those cases the items of trading account gets incorporated in profit & loss account.

**Q.2 Profit and loss account**

**Ans. Profit and loss account:**

- It shows the performance of the entity *i.e.* profit earned or loss suffered considering all indirect expenses and incomes.



- Gross profit or gross loss from trading account is transferred to P&L a/c.
- Other incomes like discount, interest, etc. are credited.
- Administrative expense, selling and distribution expense, financial expense, income tax, losses, etc. are debited to it.
- The net profit/net loss is transferred to P&L appropriation A/c (if made) otherwise to capital A/c.
- If trading A/c is not prepared then in place of gross profit/gross loss all items of trading A/c will come in P&L A/c itself

Although not necessary, but usually full profit/loss is transferred to proprietor/partners capital account, hence profit & loss account does not appear in balance sheet.

**Q.3 Balance sheet**

**Ans. Balance sheet:**

- Balance sheet shows the financial position of the entity as at a particular point of time.
- It shows what and how much entity owns (*i.e.* its assets) and how much it owes to others (*i.e.* its liabilities), the balance (*i.e.* asset - liability) is the owners equity.
- It is not an account, hence does not have debit and credit side.
- On one side assets like fixed assets (building, machinery, furniture, etc.), current assets (like stock, debtors, cash bank balance, advances prepaid and investments, if any) are shown.
- On the other side in addition to owner's capital and reserves, the outside liabilities like loans taken, creditors, expenses payable etc. are shown.
- The two sides total must be same.
- On the asset side of balance sheet we start with most permanent to least permanent *i.e.* fixed assets, investments and then current assets. It is known as permanency preference. In case of manufacturer/trader this sequence is followed hence student will see this in all the chapters.
- When asset side starts with most liquid asset to least liquid like cash bank balance and ends with fixed assets is known as liquidity preference generally followed by institutions like banks.
- Liability side is mostly same in all cases we have first owner capital and reserves, then loans and thereafter current liabilities and provisions.

Balance sheet is a point of time statement, when stated as at 31.3.2006 it means as at close of that date *i.e.* after considering all transactions of that day.

Even though balance sheet does not have debit and credit side, student should remember that asset side represent debit and capital and liability side represent credit. It will help in correctly preparing final accounts.

Generally, Mercantile/accrual system is followed, as it is the proper and complete system to measure the performance of entity. In your syllabus every where this is considered. Under this system, incomes are recognized when these are earned irrespective of whether amount is received or not. Similarly expenses are recognized when these are incurred or accrued irrespective of whether amount is paid or not. As a result we have to make adjustment for expenses outstanding (payable), prepaid, income outstanding (receivable) and advance-received etc.

**Q.4 Manufacturing A/c**

**Ans. Manufacturing account:**

- A manufacturing concern may prepare Manufacturing A/c to ascertain cost of goods manufactured.
- Raw material consumed (Op. stock + Purchases - Closing stock), carriage inward, wages, power, depreciation of factory building, machinery, etc. and other manufacturing (factory) expense are debited to it.
- Opening WIP stock is debited and closing WIP stock credited.
- Balance is the cost of goods manufactured and is then transferred to trading account.
- When manufacturing A/c is not prepared, these items will come in trading A/c. Sometimes depreciation A/c may be directly taken to P&L A/c instead of trading A/c.
- Manufacturing A/c is also a period statement.

| |
|---|
| A manufacturer is one who purchases raw material and process it into finished goods with the help of labour and machines at his factory and sells the finished goods. Whereas a trader purchases goods and sells it as it is. |

**Q.5 Trial balance**

**Ans. Trial balance:**

- Trial balance is a statement containing the balances of all accounts as at the end of certain period usually classified into debit and credit.
- The total of debit and credit side must tally because whole accounting is done by double entry principle, otherwise it indicates arithmetical inaccuracies.
- It has balance of expenses, incomes, assets and liabilities.
- With the help of trial balance and adjustments the final accounts are prepared.
- All expenses and incomes will go into Manufacturing, Trading, P&L and P&L app. a/c depending upon its nature and all assets and liabilities will go into balance sheet.



## DIFFERENCES

**Q.1 Provision & Reserve**

**Ans. Provision and Reserve:**

- Provision means
  - "any amount written off or retained by way of providing for depreciation, renewal or diminution in value of assets, or
  - retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy".
- Provision is a present liability which by its nature requires a significant amount of estimation.
- The following are examples of amount retained in the business out of earning for different purposes that are described as provisions.
  1. Amount provided for meeting claims/liabilities which are admissible in principle but the amount whereof has not been ascertained.
  2. Amount provided for payment of taxes still to be assessed.
  3. Amount set aside for writing off bad debts or for discounts.
- The term 'reserve' is not defined in Part-III of Schedule III except negatively in the sense that profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve.
- Also provisions in excess of the amount considered necessary for the purposes these were originally made, are to be considered as reserves.
- It is thus evident that provisions are a charge against profits, while reserve is an appropriation of profits.
- Reserve are accumulated profits hence part of owners equity, provision are in the nature of liability due to outsiders.
- Provision will be debited to P&L A/c and reserve to P&L appropriation A/c when created.

**Q.2 Capital reserve & Revenue reserve**

**Ans. Capital reserve and Revenue reserve:**

- Capital reserve is any reserve, which is not free for distribution as dividend.
- Revenue reserve shall mean any reserve other than capital reserve.
- Following are the examples of capital reserve.

  Profit/Reserve which are credited to capital reserve account
  - Profit prior to incorporation (as per GAAP)
  - Profit on re-issue of forfeited shares
  - Debenture premium (as per GAAP)
  - Profit on redemption of debenture/shares (as per GAAP)
  - Profit on buyback of shares (as per GAAP)
  - Profit on acquisition of business (as per AS-14)
  - Balance of reconstruction account (as per GAAP).

Profit of capital nature not distributable but kept in separate accounts

- Share premium/Securities premium A/c
- Capital redemption reserve/share buyback reserve A/c
- Revaluation reserve (as per AS-10)

Reserve which are not distributable for the time being (Created under the provisions of Income-tax Act)

- Investment allowance reserve
- Export allowance reserve
- Shipping reserve
- Export project reserve

Free reserves/Revenue reserve is a reserve, which is available for distribution as dividend like:

- Profit & loss account balance
- General reserve
- Dividend equalisation reserve
- Profit on disposal of fixed assets/investments.

## TRUE OR FALSE

**Q.1 Profit and loss account shows the financial position of the concern.**

**Ans. False:** Profit and loss account shows the profit or loss of a concern for a particular accounting period.

**Q.2 Profit and loss account is a point statement whereas a balance sheet is a period statement.**

**Ans. False:** A profit and loss account is a period statement and a balance sheet is a point statement.

**Q.3 The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors**

**Ans. False:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors

**Q.4 The gain from sale of capital assets need not be added to revenue to ascertain the net operating profit of a business.**

**Ans. True:** The profit on sale of capital assets should not be added to ascertain the net operating profit of a business.

**Q.5 Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the balance sheet.**

**Ans. False:** Under the 'liquidity approach' assets which are most liquid are presented first, like, cash & cash equivalents.

**Q.6 The proprietor of a shop feels that he has made a loss due to closing stock being zero.**

**Ans. False:** Only closing stock is not taken in the calculation of the profits of a business.



**Q.7 Closing stock will never appear in the trial balance.**

**Ans. False:** Closing stock may appear in the trial balance if an adjusting entry relating to closing stock has already been passed and adjusted purchases are given in trial balance.

**Q.8 If Closing Stock appears in the Trial Balance: [Nov. 2018, 2 Marks]**
**The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.**

**Ans. True:** If closing stock appears in the Trial balance it indicates that it is already been adjusted with the purchase and will be shown in the Balance Sheet only.

**Q.9 The provision for bad debts is debited to sundry debtors account. [Dec. 2021, 2 Marks]**

**Ans. False:** Provision for Bad debts is created on Sundry debtors, but it is debited to Profit & Loss A/c only.

**Q.10 Overhead is defined as the total cost of direct material, direct wages and direct expenses. [June 2023, 2 Marks]**

**Ans. False:** Overhead is defined as the total of indirect material, indirect wages and indirect expenses.

## PRACTICAL QUESTIONS

**Q.1**

| Particulars | (Dr.) Balance | (Cr.) Balance |
|---|---|---|
| Bad Debts | 2,100 | |
| Discount Allowed | 1,100 | |
| Discount Received | | 900 |
| Debtors | 53,000 | |
| Creditors | | 40,000 |
| Provision for Bad Debts | | 2,500 |
| Provision for Discount allowed | | 1,500 |
| Provision for Discount received | 1,000 | |

Additional information

a. There was a further bad debt of ₹ 1,000.

b. During the year sales of ₹ 8,000 omitted to be recorded.

c. Make a Provision for bad debts @ 5% on debtors.

d. Make a Provision for discount @ 2%.

**Show the extract of Profit & Loss Account & Balance Sheet for the above adjustments.**

**Solution:**

**Profit and Loss Account (Extract)**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Bad Debts | 2,100 | | By Discount received | 900 | |
| + Further Bad debts | 1,000 | | + New Provision | 800 | |
| | 3,100 | | - Old Provision | 1,000 | 700 |
| + New Provision | 3,000 | | | | |
| | 6,100 | | | | |
| - Old Provision | 2,500 | 3,600 | | | |
| To Discount allowed | 1,100 | | | | |
| + New Provision | 1,140 | | | | |
| - Old Provision | 1,500 | 740 | | | |

**Balance Sheet (Extract)**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | 40,000 | | Debtors | 53,000 | |
| -New Provision | 800 | 39,200 | - Further Bad debts | 1,000 | |
| | | | | 52,000 | |
| | | | + Sales not recorded | 8,000 | |
| | | | | 60,000 | |
| | | | - New Provision of Bad debts | 3,000 | |
| | | | | 57,000 | |
| | | | - New Provision for dis. allowed | 1,140 | 55,860 |

**Q.2 Below is the trial balance of Shah as on December 31, 2015:**

| Debit Balance | ₹ | Credit Balance | ₹ |
|---|---|---|---|
| **Drawings** | **1,500** | **Capital Account** | **50,000** |
| **Adjusted purchases** | **6,99,200** | **Loan from Desai** | |
| **Salaries** | **4,500** | **@9% (taken on 1st July, 2014)** | **20,000** |
| **Carriage on Purchases** | **400** | **Sales** | **7,20,000** |
| **Carriage on sales** | **500** | **Discount** | **500** |
| **Rates and Insurance** | **400** | **Sundry Creditors** | **20,000** |
| **Buildings** | **27,000** | | |
| **Furniture** | **6,000** | | |
| **Sundry Debtors** | **8,000** | | |
| **Cash on Hand** | **250** | | |
| **Cash at Bank** | **1,500** | | |
| **Stock (31st December, 2015)** | **61,250** | | |
| | **8,10,500** | | **8,10,500** |



**Additional information:**

1. **Rates have been prepaid to the extent of ₹ 175.**
2. **Bad debts ₹ 500 have to written off. A provision for doubtful debts @ 5% on debtors is necessary.**
3. **Building has to be depreciated at 2% and Furniture @ 10%.**
4. **The manager is entitled to a commission of 5% of net profits before charging such commission.**

**Solution:**

**Trading and Profit and Loss Account of Shah for the Year ended on December 31, 2015**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Adjusted Purchases | | 6,99,200 | By Sales | 7,20,000 |
| To Carriage on Purchases | | 400 | | |
| To Gross Profit c/d | | 20,400 | | |
| | | 7,20,000 | | 7,20,000 |
| To Salaries | | 4,500 | By Gross Profit b/d | 20,400 |
| To Carriage on Sales | | 500 | By Discount | 500 |
| To Rates & Insurance: | | | | |
| Paid | 400 | | | |
| *Less:* Prepaid | 175 | 225 | | |
| To Bad Debts written off | | 500 | | |
| To Provision for Doubtful Debts (5% of ₹ 7,500) | | 375 | | |
| To Depreciation: | | | | |
| Buildings (2%) | 540 | | | |
| Furniture (10%) | 600 | 1,140 | | |
| To Interest | | 1,800 | | |
| To Commission payable to manager (5% of ₹ 11,860*) | | 593 | | |
| To Net Profit | | 11,267 | | |
| | | **20,900** | | **20,900** |

*₹ 20,900 less ₹ 9,040 (the total of all expenses so far), Manager is entitled to 5% of this figure.

(1) The trial balance gives "Adjusted Purchases". It means that the opening stock has already been transferred to the Purchases Account and thus been closed. Further, entry for closing stock has already been passed by debiting the Closing Stock Account and crediting Purchases Account. That is why closing

stock appears inside the trial balance. It will now be shown in the Balance Sheet and not in the Trading Account since purchases already stand reduced.

**(2)** There is a Loan of Desai @ 9% taken in 2014 *i.e.* in last accounting year. As per mercantile system interest up to 31.12.2014 must have been provided in the last years A/c itself. The trial balance makes no mention of any interest being paid to him. Hence, interest @ 9% must be provided for the whole of current year only.

**Balance Sheet of Shah as on December 31, 2015**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| Capital Account | 50,000 | | **Fixed Assets:** | | |
| *Add:* Net Profit | 11,267 | | Buildings | 27,000 | |
| *Less:* Drawings | 1,500 | 59,767 | *Less:* Depreciation | 540 | 26,460 |
| | | | Furniture | 6,000 | |
| Loan from Desai | 20,000 | | *Less:* Depreciation | 600 | 5,400 |
| *Add:* Interest Due | 1,800 | 21,800 | **Current Assets:** | | |
| | | | Cash on hand | | 250 |
| | | | Cash at Bank | | 1,500 |
| Sundry Creditors | | 20,000 | Sundry Debtors | 7,500 | |
| Commission Payable | | 593 | *Less:* Provision for Doubtful debt | 375 | 7,125 |
| | | | Stock | | 61,250 |
| | | | Prepaid Rates | | 175 |
| | | **1,02,160** | | | **1,02,160** |

**Q.3 On 1-1-2013 M/s A & Co. had a provision for bad debts of ₹ 10,880. The bad debts during the year 2013 amounted to ₹ 9,040. The debtors as at 31-12-2013 were ₹ 2,24,000. Provision for bad debts @ 5% is maintained by the business. Bad debts during 2014 and 2015 were ₹ 11,680 and ₹ 14,160 respectively. The sundry debtors as at 31-12-2014 and 31-12-2015 were ₹ 2,88,000 and ₹ 1,36,000 respectively. Prepare necessary Ledger Accounts in the books of M/s. A & Co. Also show how these would appear in the Profit and Loss Account and Balance Sheet for the years 2013 to 2015.**

**Solution:**

**Bad Debts A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2013 31st Dec. | To Sundry Debtors A/c | 9,040 | 2013 31st Dec. | By Provision for bad debts A/c | 9,040 |
| | **Total** | **9,040** | | **Total** | **9,040** |
| 2014 31st Dec. | To Sundry Debtors A/c | 11,680 | 2014 31st Dec. | By Provision for bad debts A/c | 11,680 |
| | **Total** | **11,680** | | **Total** | **11,680** |
| 2015 31st Dec. | To Sundry Debtors A/c | 14,160 | 2015 31st Dec. | By Provision for bad debts A/c | 14,160 |
| | **Total** | **14,160** | | **Total** | **14,160** |



**Provision for bad debts A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2013 31st Dec. | To Bad debt A/c | 9,040 | 2013 31st Dec. | By Balance b/d | 10,880 |
| 31st Dec. | To Balance c/d (5% on ₹ 2,24,000) | 11,200 | 31st Dec. | By Profit & Loss A/c | 9,360 |
| | **Total** | **20,240** | | **Total** | **20,240** |
| 2014 31st Dec. | To Bad debt A/c | 11,680 | 2014 31st Dec. | By Balance b/d | 11,200 |
| 31st Dec. | To Balance c/d (5% on ₹ 2,88,000) | 14,400 | 31st Dec. | By Profit & Loss A/c | 14,880 |
| | | **26,080** | | | **26,080** |
| 2015 31st Dec. | To Bad debt A/c | 14,160 | 2015 31st Dec. | By Balance b/d | 14,400 |
| 31st Dec. | To Balance c/d (5% on ₹ 1,36,000) | 6,800 | 31st Dec. | By Profit & Loss A/c | 6,560 |
| | | **20,960** | | | **20,960** |

**Extract of P&L Account for the year ended on 31-12-2013**

| Dr. | | Cr. |
|---|---|---|
| To Bad Debt A/c | 9,360 | |

**Extract of P&L Account for the year ended on 31-12-2014**

| | | |
|---|---|---|
| To Bad Debt A/c | 14,880 | |

**Extract of P&L Account for the year ended on 31-12-2015**

| | | |
|---|---|---|
| To Bad Debt A/c | 6,560 | |

**Extract of Balance Sheet as at 31st December, 2013**

| | | | | |
|---|---|---|---|---|
| | | Sundry Debtors | 2,24,000 | |
| | | *Less:* Prov. for Bad Debts | 11,200 | 2,12,800 |

**Extract of Balance Sheet as at 31st December, 2014**

| | | | | |
|---|---|---|---|---|
| | | Sundry Debtors | 2,88,000 | |
| | | *Less:* Prov. for Bad Debts | 14,400 | 2,73,600 |

**Extract of Balance Sheet as at 31st December, 2015**

| | | | | |
|---|---|---|---|---|
| | | Sundry Debtors | 1,36,000 | |
| | | *Less:* Prov. for Bad Debts | 6,800 | 1,29,200 |

**Final Accounts of Proprietary Concern (Sole Trader)**

**Q.4 From the following Trial Balance of Hari and additional information prepare Trading and Profit & Loss Account for the year ended 31st March, 2016 and a Balance Sheet as on that date:**

**Trial Balance as at 31st March, 2016**

| | Dr. (₹) | Cr. (₹) |
|---|---|---|
| Capital | — | 1,00,000 |
| Furniture | 20,000 | — |
| Purchases | 1,50,000 | — |
| Debtors | 2,00,000 | — |
| Interest Earned | — | 4,000 |
| Salaries | 30,000 | — |
| Sales | — | 3,21,000 |
| Purchase Returns | — | 5,000 |
| Wages | 20,000 | — |
| Rent | 15,000 | — |
| Sales Return | 10,000 | — |
| Bad Debt Written off | 7,000 | — |
| Creditors | — | 1,20,000 |
| Drawings | 24,000 | — |
| Provision for Bad Debts | — | 6,000 |
| Printing & Stationery | 8,000 | — |
| Insurance | 12,000 | — |
| Opening Stock | 50,000 | — |
| Office Expenses | 12,000 | — |
| Provision for Depreciation | — | 2,000 |
| | 5,58,000 | 5,58,000 |

**Additional Information:**

(1) Depreciate Furniture by 10% on original cost;

(2) A provision for Doubtful Debts is to be created to the extent of 5% on Sundry Debtors;

(3) Salaries for the month of March, 2016 amounting to ₹ 3,000 were unpaid which must be provided for. However salaries included ₹ 2,000 paid in advance;

(4) Insurance amounting to ₹ 2,000 is prepaid;

(5) Provide for outstanding office expenses ₹ 8,000;

(6) Stock used for private purpose ₹ 6,000;

(7) Closing Stock-in-Trade ₹ 60,000.



**Solution:**

**M/s Hari**

**Trading and Profit and Loss Account for the year ended on 31.3.2016**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening stock | | 50,000 | By Sales | 3,21,000 | |
| To Purchases | 1,50,000 | | (-) Return | 10,000 | 3,11,000 |
| (-) Return | 5,100 | 1,45,000 | By Goods used | | 6,000 |
| To Wages | | 20,000 | By Closing stock | | 60,000 |
| To Gross profit c/d | | 1,62,000 | | | |
| | | 3,77,000 | | | 3,77,000 |
| To Salaries | 30,000 | | By Gross Profit b/d | | 1,62,000 |
| (+) Outstanding salary | 3,000 | | By Interest | | 4,000 |
| (-) Advance salary | 2,000 | 31,000 | | | |
| To Rent | | 15,000 | | | |
| To Bad debts | 7,000 | | | | |
| (+) Provisions | 4,000 | 11,000 | | | |
| To Printing and Stationery | | 8,000 | | | |
| To Insurance | 12,000 | | | | |
| (-) Prepaid | 2,000 | 10,000 | | | |
| To Office expenses | 12,000 | | | | |
| (+) Outstanding | 8,000 | 20,000 | | | |
| To Depreciation | | 2,000 | | | |
| To Net profit transferred to Capital A/c | | 69,000 | | | |
| | | 1,66,000 | | | 1,66,000 |

**M/s Hari**

**Balance Sheet as on 31.3.2016**

| Liabilities | | ₹ | Assets | | | ₹ |
|---|---|---|---|---|---|---|
| Capital | 1,00,000 | | Furniture | | 20,000 | |
| (+) Net profit | 69,000 | | (-) Dep. Provision: Bal. B/f | 2,000 | | |
| (-) Drawings | 24,000 | | + Current year dep. | 2,000 | 4,000 | 16,000 |
| (-) Goods taken | 6,000 | 1,39,000 | Stock | | | 60,000 |
| Creditors | | 1,20,000 | Debtors | | 2,00,000 | |
| Salary payable | | 3,000 | (-) Provision: old b/f | 6,000 | | |
| Expense payable | | 8,000 | + Additional provision | 4,000 | 10,000 | 1,90,000 |
| | | | Advance salary | | | 2,000 |
| | | | Prepaid insurance | | | 2,000 |
| | | 2,70,000 | | | | 2,70,000 |

### Adjustment Entries

| No. | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| 1. | Depreciation A/c<br>To Depreciation provision A/c<br>(Depreciation for the current year provided by SLM) | Dr. | 2,000 | 2,000 |
| 2. | Bad debt A/c<br>To Provision for Bad debt A/c<br>(Provision for additional bad debts created. Required prov. 5% on Debtors of ₹ 2,00,000 *i.e.* ₹ 10,000 less existing prov. ₹ 6,000) | Dr. | 4,000 | 4,000 |
| 3. | Salary A/c<br>To Salary payable A/c<br>(Being salary for the month of March due)<br>Advance Salary A/c<br>To Salary A/c<br>(Being advance salary paid transferred to advance A/c) | Dr.<br><br><br>Dr. | 3,000<br><br><br>2,000 | 3,000<br><br><br>2,000 |
| 4. | Prepaid Insurance A/c<br>To Insurance expenses A/c<br>(Being premium paid for next year, transferred to prepaid A/c) | Dr. | 2,000 | 2,000 |
| 5. | Office expenses A/c<br>To Expenses payable A/c<br>(Being provision made for expense payable) | Dr. | 8,000 | 8,000 |
| 6. | Drawings A/c<br>To Goods used A/c<br>(Being goods withdrawn by owner for personal use) | Dr. | 6,000 | 6,000 |
| 7. | Stock A/c<br>To Trading A/c<br>(Being closing stock adjusted) | Dr. | 60,000 | 60,000 |

### Transfer Entries/Book Closing Entries

| No. | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| 1. | Purchase return A/c<br>To Purchase A/c<br>(Being purchase return balance transferred to purchases A/c) | Dr. | 5,000 | 5,000 |
| 2. | Trading A/c<br>To Opening stock A/c<br>To Purchase A/c<br>To Wages A/c<br>(Being direct expenses of goods transferred to trading A/c) | Dr. | 2,15,000 | <br>50,000<br>1,45,000<br>20,000 |
| 3. | Sales A/c<br>To Sales return A/c<br>(Being sales return A/c transferred to sales A/c) | Dr. | 10,000 | 10,000 |
| 4. | Sales A/c<br>Goods used A/c<br>To Trading A/c<br>(Being sales A/c and goods used A/c transferred to trading A/c) | Dr.<br>Dr. | 3,11,000<br>6,000 | <br><br>3,17,000 |



| No. | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| 5. | Trading A/c<br>To Profit & Loss A/c<br>(Being gross profit shown by trading A/c transferred to P&L A/c) | Dr. | 1,62,000 | 1,62,000 |
| 6. | Interest A/c<br>To Profit & Loss A/c<br>(Being indirect incomes transferred to P&L A/c) | Dr. | 4,000 | 4,000 |
| 7. | Profit & Loss A/c<br>To Salary A/c<br>To Rent A/c<br>To Bad debt A/c<br>To Printing and stationery A/c<br>To Insurance A/c<br>To Office expense A/c<br>To Depreciation A/c<br>(Being expenses A/c transferred to P&L A/c) | Dr. | 97,000 | <br>31,000<br>15,000<br>11,000<br>8,000<br>10,000<br>20,000<br>2,000 |
| 8. | Profit & Loss A/c<br>To Capital A/c<br>(Being net profit as per P&L A/c transferred to capital A/c) | Dr. | 69,000 | 69,000 |
| 9. | Capital A/c<br>To Drawings A/c<br>(Being drawing adjusted against capital A/c) | Dr. | 30,000 | 30,000 |

**Q.5 From the following Trial Balance of K. Katrak as on 31-3-2016. Prepare Trading Account, Profit and Loss Account for the year ended 31-3-2016, and a Balance Sheet as on that date after making necessary adjustments:**

**Trial Balance**

| Particulars | Dr. ₹ | Particulars | Cr. ₹ |
|---|---|---|---|
| K. Katrak's Drawings | 12,000 | K. Katrak's Capital | 60,000 |
| Furniture & Fixtures | 4,000 | Returns Outward | 2,000 |
| Plant & Machinery | 30,000 | Sales | 1,30,000 |
| Opening Stock | 20,000 | Creditors | 12,000 |
| Purchases | 80,000 | Loan at 6% p.a. taken from | |
| Salaries and wages | 22,400 | M. Mehta on 1-10-2015 | 10,000 |
| Debtors | 20,400 | Discount | 600 |
| Return Inward | 5,000 | | |
| Postage & telegrams | 1,500 | | |
| Rent, Rates and taxes | 3,600 | | |
| Bad debts written off | 400 | | |
| Trade Expenses | 200 | | |
| Interest on loan from M. Mehta | 150 | | |
| Insurance | 800 | | |

| Particulars | Dr. ₹ | Particulars | Cr. ₹ |
|---|---|---|---|
| **Travelling Expenses** | 500 | | |
| **Sundry Expenses** | 300 | | |
| **Cash-in-hand** | 3,050 | | |
| **Cash at Bank** | 10,300 | | |
| | **2,14,600** | | **2,14,600** |

**Adjustments:**

**(1) Closing stock was valued at ₹ 21,000.**

**(2) Of the debtors ₹ 400 are bad and should be written off. Create a reserve for bad debts at 5% on Sundry Debtors and a reserve for discount on Debtors at 2.5%.**

**(3) Salaries ₹ 800 for March, 16 were not paid.**

**(4) Interest on Capital is to be calculated at 6% p.a. and on drawings ₹ 330.**

**(5) Prepaid Insurance amounted to ₹ 100.**

**(6) Depreciate Furniture & Fixture by 5% and plant and machinery by 10%.**

**Solution:**

**M/S K. Katrak**

**Trading and Profit & loss Account for the year ended on 31.03.16**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening stock | | 20,000 | By Sales | 1,30,000 | |
| To Purchase | 80,000 | | (-) Return Inward | 5,000 | 1,25,000 |
| (-) Return outward | 2,000 | 78,000 | By Closing stock | | 21,000 |
| To Gross profit | | 48,000 | | | |
| | | 1,46,000 | | | 1,46,000 |
| To Depreciation: Furniture | 200 | | By Gross Profit | | 48,000 |
| Plants & Mach. | 3,000 | 3,200 | By Discount | | 600 |
| To Sundry expenses | | 300 | | | |
| To Travelling expenses | | 500 | | | |
| To Trade expenses | | 200 | | | |
| To Salary & wages | 22,400 | | | | |
| + Salary payable | 800 | 23,200 | | | |
| To Postage & Telegram | | 1,500 | | | |
| To Rent, Rates & Taxes | | 3,600 | | | |
| To Bad debts | 400 | | | | |
| + Addl Bad debts written off | 400 | | | | |
| + Provision for bad debts | 1.000 | 1,800 | | | |
| To Interest on loan from Mr. Mehta | 150 | | | | |
| + Interest payable | 150 | 300 | | | |
| To Insurance | 800 | | | | |
| (-) Prepaid Insurance | 100 | 700 | | | |
| To Discount on debtor Provided | | 475 | | | |



| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Net profit transferred to P&L app. A/c | 12,825 | | |
| | 48,600 | | 48,600 |

**Profit & loss Appropriation Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Interest on capital | 3,600 | By Net profit as per P&L account | 12,825 |
| To Balance profit transferred to capital A/c | 9,555 | By Interest on drawings | 330 |
| | 13,155 | | 13,155 |

- Interest on capital, interest on drawing, salary/commission etc. to owners and transfer to reserves etc. is taken in P&L appropriation a/c.
- Loan from Mr. Mehta has been taken 6 month ago for which the interest accrued is ₹ 300 out of which ₹ 150 has already been paid and accounted balance ₹ 150 is payable and is accounted now.

**Balance sheet as at 31.03.16**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | 60,000 | | Furniture & fixture | 4,000 | |
| (+) Interest on Capital | 3,600 | | (-) Depreciation | 200 | 3,800 |
| (-) Drawing | 12,000 | | Plant & Machinery | 30,000 | |
| (-) Interest on drawing | 330 | | (-) Depreciation | 3,000 | 27,000 |
| (+) Profit transfer from P&L A/c | 9,555 | 60,825 | Debtors | 20,400 | |
| | | | (-) Bad debt written off | 400 | |
| Loan | | 10,000 | | 20,000 | |
| Interest payable | | 150 | (-) Provision for bad debt 5% | 1,000 | |
| Creditors | | 12,000 | | 19,000 | |
| Outstanding salary | | 800 | (-) Provision for discount 2.5% | 475 | 18,525 |
| | | | Closing stock | | 21,000 |
| | | | Prepaid Insurance | | 100 |
| | | | Cash | 3,050 | |
| | | | Bank | 10,300 | 13,350 |
| | | 83,775 | | | 83,775 |

**Q.6 From the following trial balance and information, prepare Trading and Profit and Loss Account of Mr. Rishabh for the year ended 31st March, 2016 and a Balance Sheet as on that date:**

| Particulars | Dr. ₹ | Cr. ₹ |
|---|---|---|
| Capital | — | 1,00,000 |
| Drawings | 12,000 | — |
| Land and Buildings | 90,000 | — |
| Plant and Machinery | 20,000 | — |
| Furniture | 5,000 | — |
| Sales | — | 1,40,000 |
| Returns Outward | — | 4,000 |
| Debtors | 18,400 | — |
| Loan from Gajanand on 1.7.2015 @ 6% p.a. | — | 30,000 |
| Purchases | 80,000 | — |
| Returns Inward | 5,000 | — |
| Carriage Outward | 10,000 | — |
| Sundry Expenses | 600 | — |
| Printing and Stationery | 500 | — |
| Insurance Expenses | 1,000 | — |
| Provision for Bad and Doubtful Debts | — | 1,000 |
| Provision for Discount on Debtors | — | 380 |
| Bad Debts | 400 | — |
| Profit of Textile Deptt. | — | 10,000 |
| Stock of General Goods on 1.4.2015 | 21,300 | — |
| Salaries and Wages | 18,500 | — |
| Creditors | — | 12,000 |
| Trade Expenses | 800 | — |
| Stock of Textile Goods on 31.3.2016 | 8,000 | — |
| Cash at Bank | 4,600 | — |
| Cash in Hand | 1,280 | — |
| | 2,97,380 | 2,97,380 |

**Additional Information:**

*(i)* Stock of General goods on 31.3.2016 valued at ₹ 27,300.

*(ii)* Fire occurred on 23rd March, 2016 and ₹ 10,000 worth of general goods were destroyed. The Insurance Company accepted claim for ₹ 6,000 only and paid the claim money on 10th April, 2016.

*(iii)* Bad Debts amounting to ₹ 400 are to be written off. Provision for Bad and Doubtful debts is to be made at 5% and for discount at 2% on debtors Make a provision of 2% on creditors for discount.

*(iv)* Received ₹ 6,000 worth of goods on 27th March, 2016 but the invoice of purchase was not recorded in Purchase Book.

*(v)* Rishabh took away goods worth ₹ 2,000 for personal use but no record was made thereof.

*(vi)* Charge depreciation at 2% on Land and Buildings, 20% on Plant and Machinery and 5% on Furniture.

*(vii)* Insurance prepaid amounts to ₹ 200.



**Solution:**

### M/s. Rishabh
### Trading and P&L A/c for the year ended on 31st March, 2016

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening stock A/c | | 21,300 | By Sales A/c | 1,40,000 | |
| To Purchases A/c | 80,000 | | (-) Returns | 5,000 | 1,35,000 |
| (-) Returns | 4,000 | | By Closing stock A/c | | 27,300 |
| (+) Unrecorded purchase | 6,000 | 82,000 | By Goods lost A/c | | 10,000 |
| To Gross profit c/d | | 71,000 | By Goods used A/c | | 2,000 |
| | | 1,74,300 | | | 1,74,300 |
| To Carriage A/c (outward) | | 10,000 | By Gross profit b/d | | 71,000 |
| To Sundry expenses A/c | | 600 | By Profit of textile department | | 10,000 |
| To Printing and stationery A/c | | 500 | By Excess discount provision cancelled | | 38 |
| To Interest A/c (30,000 × 6% × 9/12) | | 1,350 | By Discount on creditors A/c | | 360 |
| To Insurance expenses A/c | 1,000 | | | | |
| (-) Prepaid | 200 | 800 | | | |
| To Bad debts A/c | 400 | | | | |
| (+) Further bad debts | 400 | | | | |
| (-) Excess provision cancelled | 100 | 700 | | | |
| To Salaries and wages A/c | | 18,500 | | | |
| To Trade expenses A/c | | 800 | | | |
| To Loss by fire A/c | 10,000 | | | | |
| (-) Claim | 6,000 | 4,000 | | | |
| To Depreciation A/c (1800 + 4000 + 250) | | 6,050 | | | |
| To Net profit | | 38,098 | | | |
| | | 81,398 | | | 81,398 |

### M/s. Rishabh
### Balance Sheet as on 31st March, 2016

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | 1,00,000 | | Land and building | 90,000 | |
| (+) Net profit | 38,098 | | (-) Depreciation | 1,800 | 88,200 |
| (-) Drawings | 12,000 | | Plant and machinery | 20,000 | |
| (-) Goods taken | 2,000 | 1,24,098 | (-) Depreciation | 4,000 | 16,000 |
| Loan | | 30,000 | Furniture | 5,000 | |
| Creditors | 12,000 | | (-) Depreciation | 250 | 4,750 |
| (+) Unrecorded purchases | 6,000 | | Debtors | 18,400 | |
| | 18,000 | | (-) Bad debt | 400 | |
| (-) Reserve for discount | 360 | 17,640 | | 18,000 | |
| Interest outstanding | | 1,350 | Provision old 1,000 | | |
| | | | (-) Excess provision cancelled 100 | 900 | |
| | | | | 17,100 | |

| Liabilities | ₹ | Assets | | | ₹ |
|---|---|---|---|---|---|
| | | Provision for discount | 380 | | |
| | | (-) Excess provision cancelled | 38 | 342 | 16,758 |
| | | Stock (textile) | | 8,000 | |
| | | Stock (general goods) | | 27,300 | 35,300 |
| | | Cash at bank | | | 4,600 |
| | | Cash in hand | | | 1,280 |
| | | Claim receivable | | | 6,000 |
| | | Prepaid insurance | | | 200 |
| | 1,73,088 | | | | 1,73,088 |

## Final Accounts of Partnership Firm

**Q.7 From the under mentioned Trial Balance of X and Y as on 31st December, 2015, prepare a Trading Account, Profit and Loss Account for the year ended 31-12-2015 and a Balance Sheet as on that date:**

**Trial Balance**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| Plant and machinery | | 70,000 | Sales | | 2,50,000 |
| Opening Stock | | 35,000 | Returns | | 2,000 |
| Purchases | | 75,000 | Bills payable | | 10,500 |
| Returns | | 2,800 | Creditors | | 25,000 |
| Land and buildings | | 60,000 | Capital A/c : | | |
| Carriage Inwards | | 1,500 | X | 80,000 | |
| Carriage Outwards | | 3,500 | Y | 75,000 | 1,55,000 |
| Wages | | 25,000 | | | |
| Sundry Debtors | | 48,000 | | | |
| Coal and Coke | | 3,500 | | | |
| Bad Debts | | 1,500 | | | |
| Gas and water | | 350 | | | |
| Furniture and fixture | | 15,400 | | | |
| Advertisements | | 15,000 | | | |
| Rent, Rates and taxes | | 3,500 | | | |
| Bills receivable | | 22,000 | | | |
| Salaries | | 16,000 | | | |
| Drawings: | | | | | |
| X | 5,000 | | | | |
| Y | 4,000 | 9,000 | | | |
| Trading expenses | | 12,000 | | | |
| Cash-in-hand | | 750 | | | |
| Balance at Bank | | 22,700 | | | |
| Total | | 4,42,500 | Total | | 4,42,500 |



**The following additional information is supplied:**

**(a) The partners share profits and losses as X = 4/5 and Y = 1/5;**
**(b) Depreciate Plant and Machinery by 10%;**
**(c) Bad Debts reserve to be raised to 2.5% on sundry debtors;**
**(d) Interest on capital is to be provided at 5% p.a. and on drawings at 6% p.a. (assumed to be drawn on 30th June, 2015);**
**(e) Salaries include ₹ 3,000 drawn equally by the partners;**
**(f) Advertisement expenses to be written off against revenue over 5 years;**
**(g) Outstanding liabilities to be provided: for wages ₹ 2,000; salaries ₹ 3,000;**
**(h) Partners are allowed an annual salary of ₹ 3,000 each;**
**(i) 50% of the net distributable profits are transferred to Reserve Fund;**
**(j) Closing Stock ₹ 10,000.**

**Solution :**

**Trading and Profit and loss Account for the year ended on 31.12.2015**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening stock | | 35,000 | By Sales | 2,50,000 | |
| To Purchases | 75,000 | | (-) Sales return | 2,800 | 2,47,200 |
| (-) Purchase return | 2,000 | 73,000 | By Closing stock | | 10,000 |
| To Carriage inward | | 1,500 | | | |
| To Wages | 25,000 | | | | |
| (+) wages payable | 2,000 | 27,000 | | | |
| To Coal & coke | | 3,500 | | | |
| To Gas & Water | | 350 | | | |
| To Gross profit | | 1,16,850 | | | |
| | | 2,57,200 | | | 2,57,200 |
| To Trading expenses | | 12,000 | By Gross profit | | 1,16,850 |
| To Carriage outward | | 3,500 | | | |
| To Bad debts | 1,500 | | | | |
| (+) Provision for bad debts | 1,200 | 2,700 | | | |
| To Rent rate & taxes | | 3,500 | | | |
| To Salaries | 16,000 | | | | |
| (-) Salary of Partner | 3,000 | | | | |
| + Salary payable | 3,000 | 16,000 | | | |
| To Depreciation | | 7,000 | | | |
| To Advertisement expenses written off | | 3,000 | | | |
| To Net profit transferred to P&L Appropriation a/c | | 69,150 | | | |
| | | 1,16,850 | | | 1,16,850 |

**Profit & loss Appropriation Account**

| Particulars | | | ₹ | Particulars | | | ₹ |
|---|---|---|---|---|---|---|---|
| To Interest on capital | | | | By Net profit | | | 69,150 |
| | X | 4,000 | | By Interest on drawing | | | |
| | Y | 3,750 | 7,750 | | X | 150 | |
| To Partners salary: with-drawn | | 3,000 | | | Y | 120 | 270 |
| (+) outstanding salary | X | 1,500 | | | | | |
| | Y | 1,500 | 6,000 | | | | |
| To Reserve fund (50% of profit 55,670) | | | 27,835 | | | | |
| To Net profit transferred to | X | 22,268 | | | | | |
| | Y | 5,567 | 27,835 | | | | |
| | | | 69,420 | | | | 69,420 |

**Balance sheet as on 31.12.15**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| X's Capital | 80,000 | | Land & Building | | 60,000 |
| *(-) Drawing* | 5,000 | | Plant & Machinery | 70,000 | |
| *+ Interest on capital* | 4,000 | | *(-) Depreciation* | 7,000 | 63,000 |
| *(-) Interest on drawing* | 150 | | Furniture & Fixtures | | 15,400 |
| *+ Salary payable* | 1,500 | | Closing Stock | | 10,000 |
| *+ Profit* | 22,268 | 1,02,618 | Sundry Debtors | 48,000 | |
| | | | *(-) Provision for Bad debts* | 1,200 | 46,800 |
| Y's Capital | 75,000 | | Bill receivable | | 22,000 |
| *(-) Drawing* | 4,000 | | Cash | 750 | |
| *+ Interest on capital* | 3,750 | | Bank | 22,700 | 23,450 |
| *(-) Interest on drawing* | 120 | | Miscellaneous expenditure (to the extent not written off) | | |
| *+ Salary payable* | 1,500 | | | | |
| *+ Profit* | 5,567 | 81,697 | Advertisement | 15,000 | |
| Reserve fund | | 27,835 | *(-) 1/5th Written off* | 3,000 | 12,000 |
| Bill payable | | 10,500 | | | |
| Wages payable | 2,000 | | | | |
| Salary payable | 3,000 | 5,000 | | | |
| Creditors | | 25,000 | | | |
| | | 2,52,650 | | | 2,52,650 |

## Manufacturing Account

**Q.8 Prepare Manufacturing, Trading and Profit and Loss account for the year ended on 31st December, 2015 and Balance Sheet as at that date of Shri S. Singh, manufacturers, from the following Trial Balance & information.**



**Trial Balance as at 31st December, 2015**

| Account Head | Dr. ₹ | Cr. ₹ |
|---|---|---|
| Advertising | 1,660 | |
| Bad debts | 1,210 | |
| Bad debts provision | | 2,000 |
| Bank charges | 240 | |
| Capital A/c of S. Singh | | 70,000 |
| Current A/c of S. Singh | | 3,246 |
| Drawing A/c of S. Singh | 16,000 | |
| Discount | | 824 |
| Factory Power | 7,228 | |
| Furniture | 1,800 | |
| General expense-factory | 410 | |
| General expense-office | 692 | |
| Insurance | 1,804 | |
| Light & Heat | 964 | |
| Plant & Machinery 1-1-2015 | 30,000 | |
| Plant & Machinery bought 30-6-2015 | 4,000 | |
| Purchases | 67,336 | |
| Packing and Transport | 2,170 | |
| Rent and rates | 2,972 | |
| Repairs to plant | 1,570 | |
| Salaries - office | 7,380 | |
| Sales | | 1,58,348 |
| Stock, 1st. Jan. 2015: | | |
| (a) Raw materials | 10,460 | |
| (b) Finished goods | 14,760 | |
| (c) Work-in-progress | 3,340 | |
| Wages - Factory | 41,400 | |
| Debtors | 21,120 | |
| Creditors | | 12,300 |
| Cash-at-bank | 7,852 | |
| Cash-in-hand | 350 | |
| Total | 2,46,718 | 2,46,718 |

**Additional Information:**

**Stock on 31st December, 2015 were:**

**(a) Raw-materials ₹ 7,120 (b) Work-in-progress ₹ 3,480 (c) Finished goods ₹ 19,300 (d) Packing materials ₹ 250**

**The following liabilities are to be provided for:**

**(a) Factory power ₹ 1,124 (b) Rent & Rates ₹ 772 (c) Light & Heat ₹ 320 (d) General expenses - Factory ₹ 50 (e) General expenses - Office ₹ 80**

**Insurance prepaid ₹ 340**

**Provide depreciation at 10% p.a. on Plant and machinery and 5% p.a. on furniture.**

**Increase Bad debts provision by ₹ 1,000.**

**Five sixth of Rent & Rates, Light & Heat, and Insurance are to be allocated to the Factory and one sixth to the office.**

**Solution:** **M/s. S. Singh**

**Manufacturing Account for the year ended on 31st December, 2015**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Opening stock | | 3,340 | By Cost of F.G. produce transfer to trading a/c | 1,30,928 |
| To Raw material purchases | 67,336 | | By Closing stock of WIP | 3,480 |
| (+) Addition | 10,460 | | | |
| | 77,796 | | | |
| (-) Closing stock | 7,120 | 70,676 | | |
| To Power | 7,228 | | | |
| (+) Outstanding | 1,124 | 8,352 | | |
| To General expenses | 410 | | | |
| (+) Outstanding | 50 | 460 | | |
| To Repairs to plant | | 1,570 | | |
| To Wages | | 41,400 | | |
| To Depreciation on machinery | | 3,200 | | |
| To Insurance | | 1,220 | | |
| To Heat and light | | 1,070 | | |
| To Rent | | 3,120 | | |
| | | 1,34,408 | | 1,34,408 |

**Trading and P&L a/c for the year ended on 31st December, 2015**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Opening stock A/c | | 14,760 | By Sales A/c | 1,58,348 |
| To F.G. produced transfer from manufacturing A/c | | 1,30,928 | | |
| To Gross profit A/c | | 31,960 | By Closing finished goods | 19,300 |
| | | 1,77,648 | | 1,77,648 |
| To Advertising A/c | | 1,660 | By Gross profit A/c | 31,960 |
| To Bad debts A/c | 1,210 | | By Discount A/c | 824 |
| (+) Provision | 1,000 | 2,210 | | |
| To Bank charges A/c | | 240 | | |
| To General expenses A/c | 692 | | | |
| (+) Outstanding | 80 | 772 | | |
| To Packing and transaction A/c | 2,170 | | | |
| (-) Closing stock | 250 | 1,920 | | |
| To Salaries A/c | | 7,380 | | |
| To Depreciation A/c | | 90 | | |
| To Insurance A/c | | 244 | | |
| To Light and heat A/c | | 214 | | |
| To Rent A/c | | 624 | | |
| To Net profit | | 17,430 | | |
| | | 32,784 | | 32,784 |



**Balance Sheet as on 31st December, 2015**

| Liabilities | | ₹ | Assets | | | ₹ |
|---|---|---|---|---|---|---|
| Capital | | 70,000 | Furniture | | 1,800 | |
| Current | 3,246 | | (-) Depreciation | | 90 | 1,710 |
| + Net profit | 17,430 | | Plant and machinery | | 30,000 | |
| (-) Drawings | 16,000 | 4,676 | (+) Addition | | 4,000 | |
| Creditors | | 12,300 | | | 34,000 | |
| Outstanding (1124 + 772 + 320 + 50 + 80) | | 2,346 | (-) Depreciation | | 3,200 | 30,800 |
| | | | Prepaid insurance | | | 340 |
| | | | Debtors | | 21,120 | |
| | | | (-) Provision | 2000 | | |
| | | | (-) Provision | 1000 | 3,000 | 18,120 |
| | | | Bank | | | 7852 |
| | | | Cash | | | 350 |
| | | | Stock (7120 + 3480 + 19300 + 250) | | | 30,150 |
| | | 89,322 | | | | 89,322 |

**Q.9 The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:**

| Particulars | Debit (₹) | Credit (₹) |
|---|---|---|
| Capital A/c | | 14,11,400 |
| Purchases | 12,00,000 | |
| Purchase Returns | | 18,000 |
| Sales | | 15,00,000 |
| Sales Returns | 24,000 | |
| Freight Inwards | 62,000 | |

| Particulars | Debit (₹) | Credit (₹) |
|---|---|---|
| Carriage Outwards | 8,500 | |
| Rent of Godown | 55,000 | |
| Rates and Taxes | 24,000 | |
| Salaries | 72,000 | |
| Discount allowed | 7,500 | |
| Discount received | | 12,000 |
| Drawings | 20,000 | |
| Printing and Stationery | 6,000 | |
| Insurance premium | 48,000 | |
| Electricity charges | 14,000 | |
| General expenses | 11,000 | |
| Bank charges | 3,800 | |
| Bad debts | 12,200 | |
| Repairs the Motor vehicle | 13,000 | |
| Interest on loan | 4,400 | |
| Provision for Bad-debts | | 10,000 |
| Loan from Mr. Rajan | | 60,000 |
| Sundry creditors | | 62,000 |
| Motor vehicles | 1,00,000 | |
| Land and Buildings | 5,00,000 | |
| Office equipment | 2,00,000 | |
| Furniture and Fixtures | 50,000 | |
| Stock as on 31.03.2017 | 3,20,000 | |
| Sundry debtors | 2,80,000 | |
| Cash at Bank | 22,000 | |
| Cash in Hand | 16,000 | |
| Total | 30,73,400 | 30,73,400 |

**Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:**

**(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.**

**(b) Value of stock at the close of the year was ₹ 4,10,000.**

**(c) One month rent for godown is outstanding.**

**(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017**

**(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors**

**(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018. [May 2018, 20 Marks]**



**Solution:**

**M/s Raghuram & Associates**

**Trading Account for the year ended on 31st March 2018**

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

**M/s Raghuram & Associates**

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

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Salaries | | 72,000 | By Gross profit b/d | 3,22,000 |
| To Rent for Godown | 55,000 | | By Discount received | 12,000 |
| Add: Outstanding | 5000 | 60,000 | | |
| To Provision for Doubtful Debts (W.N. 4) | | 16,200 | | |
| To Rent and Taxes | | 24,000 | | |
| To Discount Allowed | | 7,500 | | |
| To Carriage outwards | | 8,500 | | |
| To Printing and stationery | | 6,000 | | |
| To Electricity charges | | 14,000 | | |
| To Insurance premium (W.N. 1) | | 4,800 | | |
| To Depreciation (W.N. 2) | | 80,000 | | |
| To General expenses | | 11,000 | | |
| To Bank Charges | | 3,800 | | |
| To Interest on loan | 4,400 | | | |
| Add: Outstanding (V.V.N. 3) | 100 | 4,500 | | |
| To Motor car expenses (Repairs) | | 13,000 | | |
| To Net Profit transferred to Capital A/c | | 8,700 | | |
| | | 3,34,000 | | 3,34,000 |

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

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital | 14,11,400 | | Land & Building | 5,00,000 | |
| Add: Net Profit | 8,700 | | Less: Depreciation | (25,000) | 4,75,000 |
| Less: Drawings | (20,000) | | Motor Vehicles | 1,00,000 | |

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Less: Proprietor's Insurance Premium | (42,000) | 13,58,100 | Less: Depreciation | (20,000) | 80,000 |
| | | | Office equipment | 2,00,000 | |
| | | | Less: Depreciation | (30,000) | 1,70,000 |
| Loan from Rajan | 60,000 | | Furniture & Fixture | 50,000 | |
| Add: Outstanding Interest | 100 | 60,100 | | | |
| Sundry Creditors | | 62,000 | Less: Depreciation | (5,000) | 45,000 |
| Outstanding rent | | 5,000 | Stock in Trade | | 4,10,000 |
| | | | Sundry Debtors | 2,80,000 | |
| | | | Less: Provision for doubtful debts | (14,000) | 2,66,000 |
| | | | Cash at hand | | 22,000 |
| | | | Cash in bank | | 16,000 |
| | | | Prepaid insurance (W.N. 1) | | 1,200 |
| | | 14,85,200 | | | 14,85,200 |

**Working Notes:**

**(1) Insurance premium**

| | |
|---|---|
| Insurance premium as given in trial balance | 48,000 |
| Less: Personal premium | (42,000) |
| Less: Prepaid for 3 months $\left(\frac{6,000}{15} \times 3\right)$ | (1,200) |
| Transfer to Profit and Loss A/c | 4,800 |

**(2) Depreciation**

| | |
|---|---|
| Building @ 5% on 5,00,000 | 25,000 |
| Motor Vehicles @ 20% on 1,00,000 | 20,000 |
| Furniture & Fittings @ 10% on 50,000 | 5,000 |
| Office Equipment @ 15% on 2,00,000 | 30,000 |
| Total | 80,000 |

**(3) Interest on Loan**

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

**(4)** **Provision for bad debts A/c**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To bad debts A/c | 12,200 | By balance b/d | 10,000 |
| To balance c/d (5% of 2,80,000) | 14,000 | By P&L A/c | 16,200 |
| | 26,200 | | 26,200 |



**Q.10 Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L Account is as follows :**

**Trading and P&L A/c for the year ended on 31st March, 2018**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Cost of Goods sold | 22,00,000 | By Sales | 45,00,000 |
| To Gross Profit c/d | ? | | |
| | ? | | 45,00,000 |
| To Salaries paid | 12,00,000 | By Gross Profit b/d | ? |
| To General Expenses | 6,00,000 | By Other Income | 45,000 |
| To Selling Expenses | ? | | |
| To Commission to Manager (On Net profit before charging such commission) | 1,00,000 | | |
| To Net Profit | ? | | |
| | ? | | ? |

**Selling expenses amount to 1% of total Sales.**

**You are required to compute the missing figure.** **[Nov. 2018, 5 Marks]**

**Solution :**

**Trading & Profit & Loss A/c**

**(for the year ending on 31st March, 2018)**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Cost of Goods sold | 22,00,000 | By Sales | 45,00,000 |
| To Gross Profit c/d | 23,00,000 | | |
| | 45,00,000 | | 45,00,000 |
| To Salaries Paid | 12,00,000 | By Gross Profit b/d | 23,00,000 |
| To General Expenses | 6,00,000 | By Other Income | 45,000 |
| To Selling Expenses | 45,000 | | |
| To Commission to Manager | 1,00,000 | | |
| To Net Profit | 4,00,000 | | |
| | 23,45,000 | | 23,45,000 |

**Q.11 Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| **Debit Balances :** | | **Credit Balances :** | |
| Cash in hand | 1,500 | Capital | 16,000 |
| Purchase | 12,000 | Bank overdraft | 2,000 |
| Sales return | 1,000 | Sales | 9,000 |
| Salaries | 2,500 | Purchase return | 2,000 |

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| **Debit Balances:** | | **Credit Balances:** | |
| **Tax and Insurance** | **500** | **Reserve for Bad debts** | **1,000** |
| **Bad debts** | **500** | **Creditors** | **2,000** |
| **Debit Balances:** | | **Credit Balances:** | |
| **Debtors** | **5,000** | **Commission** | **500** |
| **Investments** | **4,000** | **Bills payable** | **2,500** |
| **Opening stock** | **1,400** | | |
| **Drawings** | **2,000** | | |
| **Furniture** | **1,600** | | |
| **Bills receivables** | **3,000** | | |
| | **35,000** | | **35,000** |

**Other information:**

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

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

(*iii*) **Commission received in advance is ₹ 100**

(*iv*) **Interest accrued on investment is ₹ 210**

(*v*) **Interest on overdraft is unpaid ₹ 300**

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

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

**You are required to prepare the final accounts after making above adjustments.** **[May 2019, 10 Marks]**

**Solution :**

**Trading & Profit & Loss A/c**
**for the year ended 31st Dec. 2018**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| To Opening Stock A/c | | 1,400 | By Sales A/c | 9000 | |
| To Purchases A/c | 12,000 | | Less: Sales return | 1000 | 8,000 |
| Less: Purchase return | 2,000 | 10,000 | By Closing Stock A/c | | 4,500 |
| To Gross Profit c/d | | 1,100 | | | |
| | | **12,500** | | | **12,500** |
| To Salaries A/c | 2500 | | By Gross Profit b/d | | 1,100 |
| Add: o/s salary | 100 | 2,600 | By Accrued Interest on Investment A/c | | 210 |
| To o/s Interest on Overdraft A/c | | 300 | By Commission A/c | 500 | |
| To Tax & Insurance A/c (500 +200-50) | | 650 | Less: Received in advance | 100 | 400 |
| To Bad Debts A/c | | 500 | By Net Loss t/f to Balance Sheet | | 2,500 |





| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Depreciation A/c | 160 | | |
| | **4,210** | | **4,210** |

**Balance Sheet as at 31st Dec., 2018**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital | 16000 | | Cash | | 1,500 |
| Less: Net Loss | 2500 | | Debtors | 5000 | |
| Less: Drawings | 2000 | 11,500 | Less: Reserve for Bad Debts | 1000 | 4,000 |
| Bank Overdraft | | 2,000 | Furniture | 1600 | |
| o/s Interest on Overdraft | | 300 | Less: Depreciation | 160 | 1,440 |
| Creditors | | 2,000 | Investment | | 4,000 |
| Bills Payable | | 2,500 | Accrued Interest on Investment | | 210 |
| Unaccrued Commission | | 100 | Bills Receivable | | 3,000 |
| Outstanding Salary | | 100 | Prepaid Insurance | | 50 |
| Outstanding Tax | | 200 | Closing Stock | | 4,500 |
| | | **18,700** | | | **18,700** |

**Q.12 Mr. Shyamlal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-3-2019.**

| | |
|---|---|
| **Opening work-in-progress (9000 units)** | **26,000** |
| **Closing work-in-progress (14,000 units)** | **48,000** |
| **Opening inventory of Raw Materials** | **2,60,000** |
| **Closing inventory of Raw Materials** | **3,20,000** |
| **Purchases** | **8,20,000** |
| **Hire charges of Machinery @ ₹ 0.70 per unit manufactured** | |
| **Hire charges of factory** | **2,60,000** |
| **Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P** | |
| **Repairs and maintenance** | **1,80,000** |
| **Units produced-5,00,000 units** | |

**Required a Manufacturing Account of Mr. Shyamlal for the year ended 31-3-2019.** **[Nov. 2019, 5 Marks]**

**Solution :**

**In the books of Mr. Shyamlal**
**Manufacturing A/c**
**for the year ended 31st March, 2019**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Raw material consumed: | | | By Cost of finished goods (Bal. Fig.) | 1933600 |
| Opening Inventory | 260000 | | | |

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| (+) Purchases | 820000 | | | |
| (-) Closing Inventory | 320000 | 760000 | | |
| To Direct Wages (1) | | 405600 | | |
| To Direct Expenses : | | | | |
| Hire charges of Machinery (2) | | 350000 | | |
| To Indirect Expenses: | | | | |
| Hire Charges of Factory | | 260000 | | |
| Repairs and Maintenance | | 180000 | | |
| To Adjustment of work-in-progress: | | | | |
| Opening | 26000 | | | |
| (-) Closing | 48000 | (22000) | | |
| Total | | 1933600 | Total | 1933600 |

**Working Notes:**

**(1) Direct Wages**

| | |
|---|---|
| 500000 units @ ₹ 0.80 per unit = | 400000 |
| 14000 units @ ₹ 0.40 per unit = | 5600 |
| | **₹ 405600** |

**(2) Direct Expenses**

500000 units @ ₹ 0.70 per unit = **₹ 350000**

**Q.13 The balance sheet of Mittal on 1st January, 2018 was as follows:**

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|
| Trade payables | 16,00,000 | Plant & Machinery | 31,00,000 |
| Expenses payable | 2,50,000 | Furniture & Fixture | 4,00,000 |
| Capital | 51,00,000 | Trade receivables | 14,50,000 |
| | | Cash at bank | 7,00,000 |
| | | Inventories | 13,00,000 |
| | 69,50,000 | | 69,50,000 |

**During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:**

**(i) Interest on capital @ 6% p.a.**

**(ii) Depreciation on plant and machinery @ 10% and on Furniture and Fixtures @ 5%.**

**(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.**

**But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.**



**His current assets and liabilities on 31st December, 2018, were : Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.**

**You are required Draw up revised Profit and Loss account and Balance Sheet at the end of the year.** **[Nov. 2019, 10 Marks]**

**Solution :**

**Profit and Loss A/c**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Outstanding Expenses | 185000 | By balance b/d | 1510000 |
| To Net Profit | 1350000 | By Prepaid Insurance | 25000 |
| Total | 1535000 | Total | 1535000 |

**Balance Sheet as at 31st December, 2018**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Trade payables | | 1384000 | Trade receivables | 2100000 | |
| Outstanding expenses | | 185000 | (-) Provision for | | |
| Capital | 5100000 | | doubtful debts | 105000 | 1995000 |
| (+) Net Profit | 1350000 | | Cash at Bank | | 520000 |
| (-) Drawings | 620000 | | Plant & Machinery | 3100000 | |
| (+) Interest on Capital | 306000 | 6136000 | (-) Depreciation | 310000 | 2790000 |
| | | | Furniture & Fixture | 400000 | |
| | | | (-) Depreciation | 20000 | 380000 |
| | | | Closing Inventories | | 1995000 |
| | | | Prepaid Insurance | | 25000 |
| Total | | 7705000 | Total | | 7705000 |

**Q.14 Max & Co. employs a team of 9 worker who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.**

**On 1st July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.**

**You are required to calculate :**

**(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st December, 2019.**

**(ii) Amount actually paid as salaries during 2019.**

**(iii) Outstanding salaries as on 31st December, 2019.** **[Nov. 2020, 5 Marks]**

**Solution:**

**(i) Amount of Salaries which would be charged to the Profit and Loss for the year ended 31st Dec., 2019**

| | Amount (₹) |
|---|---|
| For 9 Existing workers (9 × ₹ 44,000 × 12) | 47,52,000 |
| For 2 New trainees (2 × ₹ 21000 × 6) | 2,52,000 |
| **Total** | **50,04,000** |

**(ii) Amount Actually paid as Salaries during 2019**

| | Amount (₹) |
|---|---|
| (a) For 9 workers for Dec., 2018 (9 × ₹ 40,000 × 1) | 3,60,000 |
| (b) For 9 workers from Jan., to Nov., 2019 (9 × ₹ 44,000 × 11) | 43,56,000 |
| (c) For 2 New trainees from July to Nov., 2019 (2 × ₹ 21,000 × 5) | 2,10,000 |
| **Total** | **49,26,000** |

**(iii) Outstanding Salaries as on 31st Dec., 2019**

| | Amount (₹) |
|---|---|
| (a) For 9 Workers for Dec., 2019 (₹ 44,000 × 9) | 3,96,000 |
| (b) For 2 New trainees for Dec., 2019 (₹ 21,000 × 2) | 42,000 |
| **Total** | **4,38,000** |

**Q.15 Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing from these accounts.**

**Raw Material A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Opening Stock A/c | 1,27,000 | By Raw 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:**

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

(ii) **Wages include the following :**

**Paid to factory workers - ₹ 3,15,000**

**Paid to labour at office - ₹ 50,000**

(iii) **Direct expenses including following :**

| | | |
|---|---|---|
| Electricity charges | - | ₹ 80,000 of which 25% pertained to office |
| Fuel charges | - | ₹ 25,000 |
| Freight inwards | - | ₹ 32,000 |
| Delivery charges to customers | - | ₹ 22,000 |

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

**[Nov. 2020, 10 Marks]**

**Solution:**

**Raw Material A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock | 1,27,000 | By Raw Material Consumed | 9,15,000 |
| To Creditors (Purchase of raw material) | 14,40,000 | By Closing Stock (Bal. fig.) | 6,52,000 |
| **Total** | **15,67,000** | **Total** | **15,67,000** |

**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 Purchase of raw material (bal. fig.) | 14,40,000 |
| **Total** | **30,10,000** | **Total** | **30,10,000** |

**Revised Manufacturing A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Raw Material A/c (Bal. fig.) | 9,15,000 | By Trading A/c(3) | 18,32,000 |
| To Wages (3,65,000 – 50,000) | 3,15,000 | | |
| To Depreciation(1) | 3,95,000 | | |
| To Direct Expenses(2) | 2,07,000 | | |
| Total | 18,32,000 | Total | 18,32,000 |

**Working Notes:**

1. **Actual Depreciation:**
   = ₹ 2,15,000 + (12,00,000 × 15%)
   = ₹ 2,15,000 + ₹ 1,80,000
   = **₹ 3,95,000**
2. **Actual Direct Expenses:**
   = 2,49,000 – (80,000 × 25%) (Electricity of office) – 22,000 (Delivery Charges)
   =2,49,000 – 20,000–22,000
   = **₹ 2,07,000**
3. **Revised balance to be transferred to trading account:**

| | ₹ |
|---|---|
| Amount as per manufacturing account | 17,44,000 |
| **Add:** Depreciation not recorded earlier | 1,80,000 |
| **Less:** Wages of office | (50,000) |
| **Less:** Delivery charges to customer wrongly included in direct expenses | (22,000) |
| **Less:** Office electricity wrongly included in direct expenses (80,000 × 25%) | (20,000) |
| | 18,32,000 |

**Q.16 Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:**

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

**You are required to compute :**

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

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

**[Jan. 2021, 5 Marks]**



**Solution :**

**(i) Total Income for the year 2019-20**

| | ₹ |
|---|---|
| Income received for 2019-20 in previous year | 2,25,000 |
| Cash Sale in Current Year | 7,50,000 |
| **Total Income for 2019-20** | **9,75,000** |

**(ii) Total money received for the year ended 31st March, 2020**

| | ₹ |
|---|---|
| Cash Sales in 2019-20 | 7,50,000 |
| Add: Advance received from Customers during the year 2019-20 | 1,80,000 |
| **Total Money Received During 2019-20** | **9,30,000** |

**Working Note:-**

**Advances from Customers A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Sales A/c (Advance for current year) | 2,25,000 | By Balance b/d (Advances at beg. of the year) | 3,00,000 |
| To Balance c/d (Advances at end of the year) | 2,55,000 | By Cash A/c (Bal. fig.) | 1,80,000 |
| Total | 4,80,000 | Total | 4,80,000 |

**Q.17 Karuna decided to start business of fashion garments under the name in of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from Bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.**

**Loan and interest repaid by her in the first year are as follows:**

| | | |
|---|---|---|
| 30th June, 2020 | - | ₹ 15,000 principal + ₹ 9,000 interest |
| 30th September, 2020 | - | ₹ 15,000 principal + ₹ 8,550 interest |
| 31st December, 2020 | - | ₹ 15,000 principal + ₹ 8,100 interest |
| 31st March, 2021 | - | ₹ 15,000 principal + ₹ 7,650 interest |

**In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased. All payments were made by cheque and all receipts in cash were deposited in the bank.**

**At the end of the year, her business showed the following results :**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| **Total Sales** | **20,00,000** | **Total Purchase** | **17,00,000** |
| **Electricity Expenses paid** | **40,000** | **Telephone Charges** | **50,000** |
| **Cartage Outwards** | **60,000** | **Travelling Expenses** | **45,000** |
| **Entertainment Expenses** | **5,000** | **Maintenance Expenses** | **25,000** |
| **Misc. Expenses** | **15,000** | **Electricity Expenses Payable** | **20,000** |

**Other Information:**

***(i)*** **She withdrew ₹ 5,000 by cheque each month for her personal expenses.**

***(ii)*** **Depreciation on building @ 5% p.a. and on furniture @ 10% p.a.**

***(iii)*** **Closing stock in hand as on 31st March, 2021 : ₹ 5,50,000**

**Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date. (July 2021, 10 Marks)**

**Solution :**

**In the Books of M/s. Designer Wear**

**Trading & Profit & Loss A/c for the year ending 31st March, 2021**

| Particulars | | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|---|
| To Purchases | | 17,00,000 | By Sales | 20,00,000 |
| To Gross Profit c/d | | 8,50,000 | By Closing Stock | 5,50,000 |
| **Total** | | **25,50,000** | **Total** | **25,50,000** |
| To Interest on loan | | 33,300 | By Gross Profit b/d | 8,50,000 |
| To Electricity | 40,000 | | | |
| (+) Outstanding Electricity | 20,000 | 60,000 | | |
| To Cartage Outward | | 60,000 | | |
| To Entertainment exp. | | 5,000 | | |
| To Misc. exp. | | 15,000 | | |
| To Telephone Charges | | 50,000 | | |
| To Travelling exp. | | 45,000 | | |
| To Maintenance exp. | | 25,000 | | |
| To Depreciation on | | | | |
| Building | 30,000 | | | |
| Furniture | 1,000 | 31,000 | | |
| To Net Profit | | 5,25,700 | | |
| **Total** | | **8,50,000** | **Total** | **8,50,000** |

**Balance Sheet as at 31st March, 2021**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| Capital | 3,00,000 | | Building | 6,00,000 | |
| Add: Additional capital | 2,00,000 | | Less: Depreciation | (30,000) | 5,70,000 |



| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| *Less:* Drawing | (60,000) | | Furniture | 10,000 | |
| *Add:* Net Profit | 5,25,700 | 9,65,700 | *Less:* Depreciation | (1,000) | 9,000 |
| Bank Loan | 3,00,000 | | Security Deposit | | 7,000 |
| *Less:* Repayment | (60,000) | 2,40,000 | Closing Stock | | 5,50,000 |
| Electricity Expenses Payable | | 20,000 | Bank (W.N.)[1] | | 89,700 |
| **Total** | | **12,25,700** | **Total** | | **12,25,700** |

**Working Note:- 1**

**Bank A/c**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| To Capital | 3,00,000 | By Building [₹ 5,00,000 + ₹ 1,00,000] | 6,00,000 |
| To Bank Loan | 3,00,000 | By Bank Loan [₹ 15,000 × 4] | 60,000 |
| To Additional capital | 2,00,000 | By Interest on loan | 33,300 |
| To Sales | 20,00,000 | By Security Deposit | 7,000 |
| | | By Furniture | 10,000 |
| | | By Electricity exp. | 40,000 |
| | | By Cartage Outward | 60,000 |
| | | By Entertainment exp. | 5,000 |
| | | By Misc. exp. | 15,000 |
| | | By Purchase | 17,00,000 |
| | | By Telephone Charges | 50,000 |
| | | By Travelling exp. | 45,000 |
| | | By Maintenance exp. | 25,000 |
| | | By Drawings [₹ 5,000 × 12] | 60,000 |
| | | By Balance c/d | 89,700 |
| **Total** | **28,00,000** | **Total** | **28,00,000** |

**Q.18 PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information :**

| | | |
|---|---|---|
| **(1)** | **Liability for Income Tax** | **₹ 40,000** |
| **(2)** | **Retained Profit** | **₹ 2,00,000** |
| **(3)** | **Proposed Dividend** | **₹ 20,000** |
| **(4)** | **Increase in Provision for Doubtful Debts** | **₹ 25,000** |
| **(5)** | **Bad Debts written off** | **₹ 20,000** |

**State which one of the items above is - (*a*) transfer to provisions; (*b*) transfer to reserves; and (*c*) neither related to provisions nor reserves.**

**[July 2021, 5 Marks]**

**Solution :**

| | | | |
|---|---|---|---|
| 1. | Liability for Income Tax | ₹ 40,000 | - Transfer to Provision |
| 2. | Retained Profit | ₹ 2,00,000 | - Transfer to Reserve |
| 3. | Proposed Dividend | ₹ 20,000 | - Neither related to Provision nor Reserve |
| 4. | Increase in Provision for doubtful debts | ₹ 25,000 | - Transfer to Provision |
| 5. | Bad debt written off | ₹ 20,000 | - Neither related to Provision nor Reserve |

**Q.19 On 31st March, 2021 the Trial Balance of Mr. Black was as follows:**

| Particulars | Debit | Particulars | Credit |
|---|---|---|---|
| Stock on 1/4/2020: | | Sundry Creditors | 1,50,000 |
| Raw Materials | 2,10,000 | Bills Payables | 75,000 |
| Work-in-Progress | 95,000 | Sale of scrap | 25,000 |
| Finished Goods | 1,55,000 | Commission received | 4,500 |
| Sundry Debtors | 2,40,000 | Provision for doubtful debts | 16,500 |
| Carriages on Purchases | 15,000 | Capital account | 10,00,000 |
| Bills Receivables | 1,50,000 | Sales | 16,72,000 |
| Wages | 1,30,000 | Bank overdraft | 85,000 |
| Salaries | 1,00,000 | | |
| Telephone and Postage | 10,000 | | |
| Repairs to office furniture | 3,500 | | |
| Cash at Bank | 1,70,000 | | |
| Office Furniture | 1,00,000 | | |
| Repairs to Plant | 11,000 | | |
| Purchases | 8,50,000 | | |
| Plant and Machinery | 7,00,000 | | |
| Rent | 60,000 | | |
| Lighting | 13,500 | | |
| General Expenses | 15,000 | | |
| | 30,28,000 | | 30,28,000 |

**The following additional information is available:**

**Stocks on 31st March, 2021 were:**

| | |
|---|---|
| Raw materials | ₹ 1,62,000 |
| Finished goods | ₹ 1,81,000 |
| Work-in-progress | ₹ 78,000 |



**Salaries and wages unpaid for the year ended 31st March, 2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @ 1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.**

**Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March, 2021.** **[Dec. 2021, 15 Marks]**

**Solution :**

**In the books of Mr. Black**

**Manufacturing Account for the year ended 31st March, 2021**

| Particulars | | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|---|
| To Raw Material Consumed : | | | By Closing Stock of WIP | 78,000 |
| Opening Stock | 2,10,000 | | By Sale of Scrap | 25,000 |
| *Add :* Purchases | 8,50,000 | | By Cost of goods Manufactured (Transferred to Trading A/c) | 11,90,000 |
| *Add :* Carriage on Purchases | 15,000 | | | |
| *Less :* Closing Stock | (1,62,000) | 9,13,000 | | |
| To Wages | 1,30,000 | | | |
| *Add :* Outstanding Wages | 20,000 | 1,50,000 | | |
| To Repairs to Plant | | 11,000 | | |
| To Rent (3/4) | | 45,000 | | |
| To Lighting (2/3) | | 9,000 | | |
| To Depreciation on Plant | | 70,000 | | |
| To Opening Stock of WIP | | 95,000 | | |
| **Total** | | **12,93,000** | **Total** | **12,93,000** |

**Trading Account for the year ended 31st March, 2020**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Opening Stock of finished goods | 1,55,000 | By Sales | 16,72,000 |
| To Cost of goods (trfd. from Manufacturing A/c) | 11,90,000 | By Closing Stock of finished goods | 1,81,000 |
| To Gross Profit c/d | 5,08,000 | | |
| **Total** | **18,53,000** | **Total** | **18,53,000** |

**Profit and Loss Account for the year ended 31st March, 2020**

| Particulars | | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|---|
| To Salaries | 1,00,000 | | By Gross Profit b/d | 5,08,000 |
| *Add* : Outstanding | 9,000 | 1,09,000 | By Commission received | 4,500 |
| To Telephone & Postage | | 10,000 | | |
| To Repairs to furniture | | 3,500 | | |
| To Depreciation on furniture | | 7,500 | | |
| To Rent (1/4) | | 15,000 | | |
| To Lighting (1/3) | | 4,500 | | |
| To General Expenses | | 15,000 | | |
| To Provision for doubtful debts : | | | | |
| (1% of ₹16,72,000) | 16,720 | | | |
| *Less* : Existing Provision | 16,500 | 220 | | |
| To Net Profit | | 3,47,780 | | |
| **Total** | | **5,12,500** | **Total** | **5,12,500** |

**Q.20 The following is the trial balance of Mr. B for the year ended 31st March, 2021:**

| Particulars | Dr. | Particulars | Cr. |
|---|---|---|---|
| Opening Stock: | | Sundry Creditors | 1,75,000 |
| Raw Material | 5,25,000 | Purchase Return | 17,500 |
| Finished Goods | 2,62,500 | Capital | 3,50,000 |
| Purchase of Raw Material | 17,50,000 | Bills Payable | 84,000 |
| Land & Building | 3,50,000 | Long Term Loan | 7,00,000 |
| Loose Tools | 1,05,000 | Provision for bad and doubtful debts | |
| Plant and Machinery | 1,05,000 | | 7,000 |
| Investments | 87,500 | Sales | 29,75,000 |
| Cash in Hand | 70,000 | Bank Overdraft | 80,500 |
| Cash at Bank | 17,500 | | |
| Furniture and Fixtures | 52,500 | | |
| Bills Receivables | 52,500 | | |
| Sundry Debtors | 1,40,000 | | |
| Drawings | 70,000 | | |
| Salaries | 70,000 | | |



| Particulars | Dr. | Particulars | Cr. |
|---|---|---|---|
| Coal and Fuel | 52,500 | | |
| Factory rent and rates | 70,000 | | |
| General Expenses | 14,000 | | |
| Advertisement | 17,500 | | |
| Sales Return | 35,000 | | |
| Bad Debts | 14,000 | | |
| Direct Wages (Factory) | 2,80,000 | | |
| Power | 1,05,000 | | |
| Interest paid | 24,500 | | |
| Discount allowed | 10,500 | | |
| Carriage inwards | 52,500 | | |
| Carriage outwards | 24,500 | | |
| Commission paid | 17,500 | | |
| Dividend paid | 14,000 | | |
| | 43,89,000 | | 43,89,000 |

**Additional Information:**

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

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

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

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

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

**[June 2022, 20 Marks]**

Solution :

**In the Books of Mr. B**

**Manufacturing A/c for the year ended 31st March, 2021**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock of Raw Mat. | 5,25,000 | By Cost of goods manufactured (Transferred to trading A/c) | 28,28,000 |
| To Purchases 17,50,000 | | | |
| Less: Returns (17,500) | 17,32,500 | | |
| To Coal & Fuel | 52,500 | | |
| To Factory Rent & Rates | 70,000 | | |

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Direct Wages | 2,80,000 | | |
| To Power | 1,05,000 | | |
| To Carriage inward | 52,500 | | |
| To Depreciation on Machinery | 10,500 | | |
| Total | 28,28,000 | Total | 28,28,000 |

**Trading and Profit & loss A/c**

**for the year ended 31st March, 2021**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening Stock of Finished Goods | | 2,62,500 | By Sales | 29,75,000 | |
| To Cost of Good Manufactured | | 28,28,000 | Less: Sales Return | (35,000) | 29,40,000 |
| To Gross Profit c/d | | 1,99,500 | By Closing Stock of Finished Goods | | 3,50,000 |
| **Total** | | **32,90,000** | **Total** | | **32,90,000** |
| To Salaries | 70000 | | By Gross Profit b/d | | 1,99,500 |
| Add: Outstanding Salaries | 7000 | 77,000 | By Accrued Commission | | 43,750 |
| To General expenses | | 14,000 | By Accrued Int. on Investment | | 52,500 |
| To Advertisement | | 17,500 | | | |
| To Bad debts | 14,000 | 14,000 | | | |
| Add: New Prov. for bad & doubtful debts | 7,000 | 19,250 | | | |
| Less: Old Prov. for bad & doubtful debts | (7,000) | 10,500 | | | |
| To Interest | 24,500 | | | | |
| Less: Prepaid interest | (5,250) | | | | |
| To Discount allowed | | | | | |
| To Carriage outward | | 24,500 | | | |
| To Commission paid | | 17,500 | | | |
| To Dividend paid | | 14,000 | | | |
| To Depreciation on: | | | | | |
| Building | | 3,500 | | | |



| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Net Profit (transfer to Balance Sheet) | 84,000 | | |
| Total | 2,95,750 | Total | 2,95,750 |

**Balance Sheet as at 31st March, 2021**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | 3,50,000 | | Land & Building | 3,50,000 | |
| - Drawings | (70,000) | | - Depreciation | (3,500) | 3,46,500 |
| + Net Profit | 84,000 | 3,64,000 | Loose tools | | 1,05,000 |
| Creditors | | 1,75,000 | Plant & Machinery | 1,05,000 | |
| Bills payable | | 84,000 | - Depreciation | (10,500) | 94,500 |
| Long term loan | | 7,00,000 | Investment | | 87,500 |
| Bank Overdraft | | 80,500 | Cash in Hand | | 70,000 |
| Outstanding Salaries | | 7,000 | Cash at Bank | | 17,500 |
| | | | Furniture & Fixture | | 52,500 |
| | | | Bills Receivable | | 52,500 |
| | | | Debtors | 1,40,000 | |
| | | | Less: Prov. for bad & doubt. debts | (7,000) | 1,33,000 |
| | | | Closing Stock of Finished Goods | | 3,50,000 |
| | | | Accrued Commission | | 43,750 |
| | | | Accrued Interest | | 52,500 |
| | | | Prepaid Interest | | 5,250 |
| Total | | 14,10,500 | Total | | 14,10,500 |

**Q.21 The balance sheet of S on 1st April 2021 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 2021-22, his Profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following :**

**(i) Commission paid to selling agent ₹ 65,000.**

**(ii) Discount received from creditors ₹ 75,000.**

**(iii) Purchased a vehicle of ₹ 50,000 on 31st March, 2022.**

**(iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%.**

**(v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022.**

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

**(1) prepaid expenses ₹ 15,000 and**

**(2) outstanding commission ₹ 35,000**

**His current assets and liabilities on 31st March, 2022 were: Inventories ₹ 6,50,000. Trade 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, 2022.**

**[Dec. 2022, 10 Marks]**

**Solution:**

**Working Note:** **Revised Profit & Loss A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Outstanding commission | 35,000 | By Net profit before corrections | 6,70,000 |
| To Net profit after corrections | 6,50,000 | By Prepaid expenses | 15,000 |
| **Total** | **6,85,000** | **Total** | **6,85,000** |

**In the Books of S**

**Balance sheet as at 31st Mar, 2022**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| Trade Payables | | 1,46,000 | Furniture & Fixture | 6,50,000 | |
| Capital | 22,00,000 | | Less: Depreciation @10% | (65,000) | 5,85,000 |
| Add: Net Profit | 6,50,000 | | | | |
| Add: Additional Capital | 3,00,000 | 31,50,000 | Vehicle | 2,75,000 | |
| Outstanding commission | | 35,000 | Less: Depreciation @ 20% | (55,000) | 2,70,000 |
| | | | Add: Purchased | 50,000 | |
| | | | Trade Receivable | 13,00,000 | |
| | | | Less: Provision @ 3 % | (39,000) | 12,61,000 |



| Liabilities | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|
| | | Inventories | 6,50,000 |
| | | Cash at Bank | 5,50,000 |
| | | Prepaid expenses | 15,000 |
| **Total** | **33,31,000** | **Total** | **33,31,000** |

**Q.22 The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2022. Subsequently the following information was obtained from scrutiny of the books:**

**(i) Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.**

**(ii) Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.**

**(iii) Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March, 2022 but were not included in the stock.**

**(iv) Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.**

**(v) Goods costing ₹ 55,000 were sent on sale or return basis in March 2022 at a margin of profit of $33^1/_3$% on cost. Approval was given in April 2022 but these were considered as sales in March, 2022.**

**Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended 2022.** **[June 2023, 5 Marks]**

**Solution :** **In the books of Ram**

**Profit & loss Adjustment A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Advertisement (Samples) | 25,000 | By Net Profit before corrections | 5,75,000 |
| To Sales [₹ 55000 + ₹ 18333 ] (Goods sent on Approval) | 73,333 | By Electric Fittings | 10,500 |
| | | By Samples | 25,000 |
| To Adjusted Net Profit after corrections | 9,57,167 | By Purchases of March not included in Stock | 1,85,000 |
| | | By Sales not included in Sales of March | 2,05,000 |
| | | By Stock (Goods sent on approval not included in stock) | 55,000 |
| **Total** | **10,55,500** | **Total** | **10,55,500** |

**Working Note:—**

**Calculation of value of inventory on 31 March, 2022**

| | | ₹ |
|---|---|---|
| Stock on 31 March, 2022 | | 2,55,000 |
| **Add:** Purchase of March, 2022 not included in the stock | | 1,85,000 |
| **Add:** Goods lying with customers on Approval basis | | 55,000 |
| | **Total** | **4,95,000** |

₹
2,55,000
1,85,000
55,000
**4,95,000**

CHAPTER 15

# PARTNERSHIP

## DESCRIPTIVE QUESTIONS

**Q.1 What is Piecemeal payments method under Partnership Dissolution? Briefly explain the two methods followed for determining the order in which the payments are made? [CA Inter May 2010, 2 Marks]**

**Ans.** Generally, the assets sold upon dissolution of partnership are realized only in small instalments over a period of time. In such circumstances the choice is either to distribute whatever is collected or to wait till whole amount is collected. Usually, the first course is adopted. In order to ensure that the distributed cash amongst the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made:

(i) ***Maximum Loss Method:*** Each instalment realized is considered to be the final payment *i.e.* outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a deposit is made following either Garner v. Murray rule or the profit-sharing ratio rule.

(ii) ***Highest Relative Capital Method:*** According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit-sharing ratio is first paid off. This method is also called as proportionate capital method.

**Q.2 Explain Garner v. Murray rule applicable in the case of partnership firms. State, when is this rule not applicable? [CA Inter May 2013, 4 Marks]**

**Ans.** ***Garner vs. Murray rule - Applicability***

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit-sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

***Non-Applicability of Garner vs Murray rule:***

1. When the solvent partner has a debit balance in the capital account. Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

**Q.3 Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.**

**Ans.** Under section 27(3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP;

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- Under section 28(1) a partner is not personally liable, directly or indirectly, for an obligation referred to in section 27(3) above, solely by reason of being a partner in the LLP;
- Section 27(1) states that an LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- Under section 30(1) the liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

**Q.4 Under what circumstances, an LLP can be wound up by the Tribunal.**
**[CA Inter May 2015, 4 Marks]**

**Ans.** Under following circumstances, an LLP can be wound up by the Tribunal:

(*i*) If the LLP decides that it should be wound up by the Tribunal;
(*ii*) If for a period of more than six months, the number of partners of the LLP is reduced below two;
(*iii*) If the LLP is unable to pay its debts;
(*iv*) If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;



(*v*) If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
(*vi*) If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

## SHORT NOTES

**Q.1 Rules applicable in absence of partnership deed**
**OR**
**Discuss the rules if there is no Partnership Agreement**
**[Jan. 2021, 5 Marks]**

**Ans. Rules applicable in absence of partnership deed:**

In the absence of any provision in partnership deed, following provisions of partnership Act are applicable :

*a.* Profit/Loss sharing ratio will be equal,
*b.* No interest is to be allowed on capital,
*c.* No interest is to be charged on drawings,
*d.* 6% per annum interest is to be given on partner's loan,
*e.* No salary is to be paid to any partner,
*f.* Interest and salary, if payable, will be paid only if there is profit unless agreement provides otherwise.
- Student should use above, whenever question is silent with regard to this items.

**Q.2 Meaning of Limited Liability Partnership**

**Ans. Limited Liability Partnership:**

A need has been felt to make a new legislation related to a new corporate form of business organization in India to meet with the contemporary growth of the Indian economy. It provides an alternative to the traditional partnership with unlimited liability on the one hand and the statute-based governance structure of the limited liability company on the other hand, in order to enable professional expertise and entrepreneurial initiative to combine, organize and operate in flexible, innovative and efficient manner.

Limited Liability Partnership (LLP) is a corporate business organization that provides the benefits of limited liability but also allows its members the flexibility of organizing their internal structure just like in case of a partnership, based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

A LLP is a new form of legal business entity with limited liability. It is a separate legal entity where LLP itself is liable to the third parties upto the assets it owns but the liability of the partners is limited. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. It gives the benefits of limited liability of a company and the flexibility of a partnership.

LLP is also called as a hybrid between a company and a partnership as it contains elements of both, a corporate entity as well as a partnership.

Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

**Q.3 Salient features of LLP?**

**Ans. Characteristic/Salient features of LLP are :**

1. **A body corporate**
   A LLP is a body corporate formed and incorporated under LLP Act and is a legal entity separate from the partners constituting it. [Sec. 3]
2. **Separate Legal Entity**
   The LLP is a separate legal entity. It is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP. In other words, creditors of LLP shall be the creditors of LLP alone and not of the partners.
3. **Perpetual Succession**
   Death, insanity, retirement or insolvency of partners has no impact on the existence of LLP. The LLP can continue its existence irrespective of changes in partners. It can enter into contracts in its own name. It can also hold properties in its own name. It is created by law and law alone can dissolve it.
4. **Absence of Mutual Agency**
   The cardinal principal of mutual agency of partners in a partnership is missing in LLP. In case of LLP, the partners of LLP are agents of LLP alone and not of the other partners. Hence, no partner can be held liable on account of the independent or unauthorized actions of other partners. Thus individual partners cannot be held liable for liability incurred by another partner's wrongful business decisions or misconduct.
5. **LLP Agreement**
   The partners are free to make rules related to the mutual rights and duties of the partners as per their choice. This is done through an agreement. In the absence of any such agreement, the mutual rights and duties shall be governed by the provisions of the LLP Act, 2008.



6. **Artificial Person**
   A LLP is an Artificial legal person created by law capable of enjoying all the rights of an individual. It can do everything which a natural person can do, except the contracts of very personal nature like, it cannot marry, it cannot go to jail, cannot take an oath, cannot marry or get divorce. Further, it cannot practice a learned profession like CA, Law or Medicine. A LLP is invisible, intangible, immortal but not fictitious because it really exists.
7. **Common Seal**
   Being an artificial person, a LLP work on its own but it has to act through its partners. Hence, it may have a common seal which can be considered as its official signature. [Section 14(*c*)]. It should be noted that it is not mandatory for a LLP to have a common seal. If it decides to have one, then it shall remain under the custody of some responsible official and it shall be a fixed in the presence of at least 2 designated partners of the LLP.
8. **Limited Liability**
   Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26). The liability of the partners will be limited to their agreed contribution in the LLP.
9. **Management of Business**
   The partners in the LLP are entitled to manage the business of LLP. However, only the designated partners are responsible for legal compliances.
10. **Minimum and Maximum number of Partners**
    Every LLP shall have least two partners and shall also have at least 2 individuals as designated partners. It is mandatory that at least one of the designated partners shall be resident in India. Further, there is no maximum limit of partners in LLP.
11. **Business for profit Only**
    LLP can be formed only for carrying on any lawful business with a view to earn profit. Thus, LLP cannot be formed for charitable or not-for-profit purpose.
12. **Investigation**
    The Central Government shall have powers to investigate the affairs of an LLP by appointment of competence authority.
13. **Compromise or Arrangement**
    Any compromise or arrangement including merger and amalgamation of LLPs shall be in accordance with the provisions of the LLP Act, 2008.
14. **Conversion into LLP**
    A firm, private company or an unlisted public company would be allowed to be converted into LLP in accordance with the provisions of LLP Act, 2008.

15. **E-Filing of Documents**
Every form or application of document required to be led or delivered under the act and rules made thereunder, shall be led in computer readable electronic form on its website www.mca.gov.in and authenticated by a partner or designated partner of LLP by the use of electronic or digital signature.

16. **Foreign LLPs**
Section 2(1)(*m*) defines foreign limited liability partnership "as a limited liability partnership formed, incorporated, or registered outside India which established a place of business within India". Foreign LLP can become a partner in an Indian LLP.

***Advantages of LLP Form***

The following are the advantages of LLP form of business organization:

1. It is easier to form a LLP as compared to a company.
2. The partners of a LLP enjoy limited liability.
3. It operates on the basis of an agreement.
4. It is not rigid as far as capital structure is concerned.
5. It provides flexibility without imposing detailed legal and procedural requirements.
6. It is easy to dissolve an LLP as compared to a Company.

### Q.4 Essential elements to incorporate LLP

**Ans.** Under the LLP Act, 2008, the following elements are very essential to form a LLP in India:

1. Persons intending to incorporate a LLP shall decide a name for the LLP.
2. A LLP shall execute a limited liability partnership agreement between the partners *inter se* or between the LLP and its partners. In the absence of any agreement the provisions as set out in First Schedule of LLP Act, 2008 will be applied.
3. Then they shall complete and submit the incorporation document in the form prescribed with the Registrar electronically, along with the prescribed fees.
4. There must be at least two partners for incorporation of LLP [Individual or body corporate].
5. A LLP shall have a registered office in India so as to send and receive communications;
6. It should appoint atleast two individuals as designated partners who will be responsible for number of duties including doing of all acts, matters and things as are required to be done by the LLP. At least one of them should be resident in India. Each designated partner shall hold a Designated Partner Identification Number (DPIN) which is allotted by MCA.



7. As soon as the process is completed, a certificate of registration shall be issued which shall contain a Limited Liability Partnership Identification Number (LLPIN)

**Steps or process for incorporating an LLP**

**Step 1: Reservation of name**

- The first step while incorporating a LLP is the reservation of name of LLP.
- The name of a LLP shall not be similar to that of an existing LLP, Company or a Partnership Firm.
- The applicant has to file e-form 1, for ascertaining the availability and reservation of name. 6 names in order of preference can be indicated.
- The name should contain the suffix "Limited Liability Partnership" or "LLP".

**Step 2: Incorporation**

- In the second step, the applicant has to file e-form 2 for incorporating a new LLP.
- This form contains the details of the proposed LLP and the Partners and Designated Partners along with their consent to act as such.

**Step 3: Execute a LLP Agreement**

- It is mandatory to execute LLP Agreement. [Sec. 23]
- LLP agreement shall be filed with the registrar in e-form 3 within 30 days of incorporation of LLP.
- The contents of the LLP Agreement are enumerated below:
  1. Name of LLP
  2. Name and address of partners and designated partners
  3. Form of contribution & interest on contribution
  4. Profit sharing ratio
  5. Remuneration of Partners
  6. Rights & Duties of Partners
  7. Proposed Business
  8. Rules for governing LLP.

## DIFFERENCES

### Q.1 Partnership and Joint Venture

**Ans. Partnership and Joint Venture:**

- When two or more persons join together, to do business on joint account on regular basis & to share the profits or losses such relationship is known as partnership & the persons are known as partners.

- When two or more persons join temporarily to do a particular job or work & to share profits or losses, is known as joint venture & the persons are known as co-venturer's.
- Partnership is a relationship between persons who have agreed to share profits or losses of a business carried on by all or any of them acting for all.
- Whereas, a joint venture is a contractual agreement whereby two or more parties undertake an economic activity which is subject to joint control.
- Thus joint venture is a temporary partnership formed for a particular economic activity or venture.
- The following additional differences exist between joint venture and other forms of partnership.
  1. Accrual basis of accounting is followed in case of partnership and a joint venture generally follows cash basis of accounting.
  2. The financial results of a partnership are obtained at regular intervals *i.e.* on annual basis. On the other hand, the financial results of a joint venture are obtained generally at the end of the venture.

## Q.2 LLP and Partnership firm

**Ans. LLP and Partnership firm:**

| Sr. No. | Basis | LLP | Partnership |
|---|---|---|---|
| 1 | Regulating Act | The Limited Liability Partnership Act, 2008. | The Indian Partnership Act, 1932. |
| 2 | Body corporate | It is a body corporate. | It is not a body corporate. |
| 3 | Separate legal entity | It is a legal entity separate from its members. | It is a group of persons with no separate legal entity. |
| 4 | Creation | It is created by a legal process called registration under the LLP Act, 2008. | It is created by an agreement between the partners. |
| 5 | Registration | Registration is mandatory. LLP can sue and be sued in its own name. | Registration is voluntary. Only the registered partnership firm can sue the third parties. |
| 6 | Perpetual succession | The death, insanity, retirement or insolvency of the partner(s) does not affect its existence of LLP. Members may join or leave but its existence continues forever. | The death, insanity, retirement or insolvency of the partner(s) may affect its existence. It has no perpetual succession. |
| 7 | Name | Name of the LLP to contain the word Limited Liability Partners (LLP) as suffix. | No guidelines. The partners can have any name as per their choice. |



| Sr. No. | Basis | LLP | Partnership |
|---|---|---|---|
| 8 | Liability | Liability of each partner limited to the extent to agreed contribution except in case of wilful fraud. | Liability of each partner is unlimited. It can be extended upto the personal assets of the partners. |
| 9 | Mutual agency | Each partner can bind the LLP by his own acts but not the other partners. | Each partner can bind the firm as well as other partners by his own acts. |
| 10 | Designated partners | At least two designated partners and atleast one of them shall be resident in India. | There is no provision for such partners under the Indian Partnership Act, 1932. |
| 11 | Common seal | It may have its common seal as its official signatures. | There is no such concept in partnership. |
| 12 | Legal compliances | Only designated partners are responsible for all the compliances and penalties under this Act. | All partners are responsible for all the compliances and penalties under the Act. |
| 13 | Annual filing of documents | LLP is required to file:<br>(*i*) Annual statement of accounts<br>(*ii*) Statement of solvency<br>(*iii*) Annual return with the registration of LLP every year | Partnership firm is not required to file any annual document with the registrar of firms. |
| 14 | Foreign partnership | Foreign nationals can become a partner in a LLP. | Foreign nationals cannot become a partner in a partnership firm. |
| 15 | Minor as partner | Minor cannot be admitted to the benefits of LLP. | Minor can be admitted to the benefits of the partnership with the prior consent of the existing partners. |

## Q.3 LLP & Limited Liability Company

**Ans. LLP & Limited Liability Company:**

| Sr. No. | Basis | LLP | Limited Liability Company |
|---|---|---|---|
| 1 | Regulating Act | The LLP Act, 2008. | The Companies Act, 2013. |
| 2 | Members/ Partners | The persons who contribute to LLP are known as partners of the LLP. | The persons who invest the money in the shares are known as members of the company. |
| 3 | Internal governance structure | The internal governance structure of a LLP is governed by agreement between the partners. | The internal governance structure of a company is regulated by statute (*i.e.*, Companies Act, 2013). |

| Sr. No. | Basis | LLP | Limited Liability Company |
|---|---|---|---|
| 4 | Name | Name of the LLP to contain the word "Limited Liability Partnership" or "LLP" as suffix. | Name of the public company to contain the word "limited" and Private company to contain the word "Private limited" as suffix. |
| 5 | Number of members/ partners | Minimum - 2 members<br>Maximum - No such limit on the members in the Act.<br>The members of the LLP can be individuals/or body corporate through the nominees. | Private company: Minimum - 2 members:<br>Maximum - 200 members<br>Public company:<br>Minimum - 7 members<br>Maximum - No such limit on the members.<br>Members can be organizations, trusts, another business form or individuals. |
| 6 | Liability of members/ partners | Liability of a partners is limited to the extent of agreed contribution except in case of wilful fraud. | Liability of a member is limited to the amount unpaid on the shares held by them. |
| 7 | Management | The business of the company managed by the partners including the designated partners authorized in the agreement. | The affairs of the company are managed by board of directors elected by the shareholders. |
| 8 | Minimum number of directors/ designated partners | Minimum 2 designated partners. | Private Co. - 2 directors<br>Public Co. - 3 directors |

## TRUE OR FALSE

**Q.1 A partner who devotes more time to a business than other partners is entitled to get a salary.**

**Ans. False:** No partner is entitled for salary unless it is provided for in the partnership deed.

**Q.2 Partners can share profits or losses in their capital ratio, when there is no agreement.**

**Ans. False:** If there is no agreement profits or losses are to be shared equally among the partners.

**Q.3 The business of partnership firm must be carried on by all the partners.**

**Ans. False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

**Q.4 Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio.**

**Ans. False:** When a new partner brings in cash for goodwill, it is taken away by the old partners in their sacrificing ratio.



**Q.5 Goodwill is fictitious asset.**

**Ans. False:** Goodwill is an intangible asset.

**Q.6 Goodwill is in the nature of personal account.**

**Ans. False:** Goodwill is an intangible asset so it is in nature of real account.

**Q.7 If a partner retires, then other partners have a gain in their profit sharing ratio.**

**Ans. True:** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio unless otherwise agreed.

**Q.8 Minor can be admitted to the benefits of LLP.**

**Ans. False:** Minor cannot be admitted to the benefits of LLP.

**Q.9 The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm.**

**Ans. False:** The objective of taking a joint life policy is to enable the firm to make payment to the legal representatives of a deceased partner or to the retiring partner.

**Q.10 LLP has no separate legal entity.**

**Ans. False:** LLP has separate legal entity.

**Q.11 LLP Partners act as agents of LLP and other partners.**

**Ans. False:** LLP Partners act as agents of LLP and not of other partners.

**Q.12 When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.** **[May 2018, 2 Marks]**

**Ans. True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

**Q.13 Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.** **[May 2019, 2 Marks]**

**Ans. False:** LLP is governed by LLP Act, 2008.

**Q.14 A Partnership firm cannot own any Assets.** **[Nov. 2019, 2 Marks]**

**Ans. True:** Since a partnership firm does not have separate entity it cannot own any asset in its own name. The property of the firm is actually the joint property of all the partners.

**Q.15 In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.** **[Nov. 2020, 2 Marks]**

**Ans. False:** Profit & Loss on Revaluation account is transferred to old partners only in their old ratio.

**Q.16 Business of partnership comes to an end on death of a partner.** **[July 2021, 2 Marks]**

**Ans. False:** In the event of death of a partner, business of partnership does not end because surviving partners may agree to carry on the business of the firm.

**Q.17 The court has the option to order dissolution of a firm where a partner has becomes of unsound mind.**

**Ans. True:** The court has the option to order dissolution of a firm where a partner has becomes of unsound mind.

**Q.18 In case of dissolution of a firm a revaluation account is prepared.**

**Ans. False:** In case of Dissolution of a firm a realisation account is prepared.

**Q.19 Maximum loss method is the only method of piecemeal distribution.**

**Ans. False:** Piecemeal distribution involves two methods: Maximum Loss Method & Highest Relative Capital Method.

## PRACTICAL QUESTIONS

**Q.1 A, B & C were partners in a firm. Their partnership deed provides the following:-**

**(a) Interest on capital will be allowed @ 10% p.a**
**(b) Interest on drawing will be charged @ 10% p.a**
**(c) A is entitled for ₹ 2000 per month as salary**
**(d) 10% of the net profit is to be transferred to reserve**
**(e) A is entitled for 10% of Net profit as his commission**
**(f) B is entitled for 10% of Net profit as his commission after charging his commission**
**(g) C is entitled for 10% of Net Profit as his commission after charging A's commission, B's commission & his own commission**
**(h) Profits were to be shared in the following manner:**
**(i) Upto ₹ 30,000 in equal ratio**
**(ii) Above ₹ 30,000 in 5:3:2**

**On 1st January 2015, their capital were ₹ 60,000, ₹ 80,000 & ₹ 50,000 respectively. During the year they withdrew ₹ 8,000, ₹ 12,000 & ₹ 6,000 respectively as their drawings. During the year 2015, the firm earned Net profit of ₹ 1,62,000, it was later discovered that while calculating profit of the year, depreciation of ₹ 18,000 on Plant was overlooked.**

**Prepare Profit & Loss Appropriation Account for year 2015.**

**Solution:**

**Profit & Loss Appropriation Account**
**for the year ended 31st, December 2015**

| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| To Interest on Capital: | | By Net Profit | 1,62,000 | |
| A 6000 | | - Dep. overlooked | (18,000) | 1,44,000 |



| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| B 8000 | | By Interest on Drawings: | | |
| C 5000 | 19,000 | A | 400 | |
| To Salary: A (2000 × 12) | 24,000 | B | 600 | |
| To Reserve (144000 × 10%) | 14,400 | C | 300 | 1,300 |
| To Commission: | | | | |
| A (144000 × 10%) | 14,400 | | | |
| B (144000 × 10/110) | 13,091 | | | |
| C (144000-14400-13091= 116509 × 10/110) | 10,592 | | | |
| To Divisible Profit[1]: | | | | |
| A (10,000+9,909) | 19,909 | | | |
| B (10,000+5,945) | 15,945 | | | |
| C (10,000+3,963) | 13,963 | | | |
| Total | 1,45,300 | | Total | 1,45,300 |

**Working Notes:**

**1. Calculation of Divisible Profit:-**

49817 → 30000 → A =10,000; B= 10,000; C= 10,000

19817 → A 5/10 = 9,909; B 3/10 = 5,945; C 2/10 = 3,963

**Q.2 A, B, C were partners in a firm sharing profit in the ratio 5:3:2. They distributed their profits of ₹ 30,000 of the year in equal ratio. Give necessary entry for the effect.**

**Solution:**

| | A (₹) | B (₹) | C (₹) | Total (₹) |
|---|---|---|---|---|
| Wrong Distribution (1:1:1) | 10,000 | 10,000 | 10,000 | **30,000** |
| Correction Distribution (5:3:2) | 15,000 | 9,000 | 6,000 | **30,000** |
| | **5,000** (short) | **1,000** (excess) | **4,000** (excess) | |

**Rectified Entry:-**

| | | | |
|---|---|---|---|
| B's Capital A/c | Dr. | 1,000 | |
| C's Capital A/c | Dr. | 4,000 | |
| To A's Capital A/c | | | 5,000 |
| (Being the adjustment made for profit divided in wrong ratio) | | | |

**Q.3 The Chartered Accountants X, Y and Z form a partnership, profits being divisible in the ratio of 3:2:1 subject to the following:**

**i. Z's share of profit is guaranteed to be not less than ₹ 15,000 p.a.**

**ii. Y gives guarantee to the effect that gross fees earned by him for the firm shall be equal to his average gross fee of the preceding five years when he was carrying on profession alone (which average works out at ₹ 25,000).**

**The profit for the first year of the Partnership is ₹ 75,000. The gross fees earned by Y for the firm are ₹ 16,000. You are required to show the distribution of profits.**

**Solution:**

| | | |
|---|---|---|
| Profit as given | | 75,000 |
| Shortfall to be contributed by Y (25,000 - 16,000) | | 9,000 |
| Total Profit | | 84,000 |
| Z's share (1/6) ₹ 14,000 | | |
| Minimum allowed to Z | | 15,000 |
| Balance for X and Y | | 69,000 |
| X's 3/5 | 41,400 | |
| Y's 2/5 | 27,600 | 69,000 |
| | | Nil |

**Summary**

| Partner | Share | Adjustment | Total |
|---|---|---|---|
| X | 41,400 | | 41,400 |
| Y | 27,600 | - 9,000 | 18,600 |
| Z | 15,000 | | 15,000 |
| | 84,000 | | 75,000 |

**Q.4 A and B were in partnership sharing profits and losses in the ratio of 3:2. In appreciation of the services of their clerk C. Who was in receipt of a salary of ₹ 2,400 p.a. and a commission of 5% on the net profit after charging such salary and commission. They took him into partnership as from 1st April, 2015, giving him one-eight share of profits.**

**The agreement provided that any excess over his former remuneration to which, C becomes entitled will be born by A and B in the ratio of 2:3.**

**The profit for the year ended 31st March, 2016, amounted to ₹ 44,400.**

**Prepare statement showing the distribution of the profit amongst all the partners.**

**Solution:**

(*i*) Share of 'C' as partner 44,400 × 1/8 = 5,550

(*ii*) C's remuneration as clerk

| | |
|---|---|
| Profit | 44,400 |
| (-) Salary to clerk | 2,400 |
| Profit before commission | 42,000 |
| (-) Commission 42000×5/105 | 2,000 |
| Profit after Salary & comm. | 40,000 |

Total remuneration to 'C' 2,400 + 2,000 = 4,400



(*iii*) Excess to 'C' (i) - (ii) = 5,550 - 4,400 = 1,150 to be borne by A & B as follows:

A : 2/5 × 1150 = 460
B : 3/5 × 1150 = 690
1150

**Summary:**

| Partner | Share | Adjustment | Total |
|---|---|---|---|
| A (40,000 × 3/5) | 24,000 | - 460 | 23,540 |
| B (40,000 × 2/5) | 16,000 | - 690 | 15,310 |
| | 40,000 | | |
| C | 4,400 | + 1,150 | 5,550 |
| | 44,400 | | 44,400 |

**Q.5 X, Y & Z start business in partnership, X put in ₹ 20,000 for the whole year, Y puts ₹ 30,000 at first and increases it to ₹ 40,000 at the end of four months but withdraws ₹ 20,000 at the end of six months, while Z puts ₹ 40,000 at first but withdraws ₹ 10,000 at the end of nine-months. At the end of the year how should they divide a profit of ₹ 79,000 on the basis of effective capital employed by each partner?**

**Solution:**

| | Particulars | Capital o/s | Months | Product |
|---|---|---|---|---|
| (*i*) | X puts in 20,000 | 20,000 | 12 | 2,40,000 |
| (*ii*) | Y puts in 30,000 at beginning | 30,000 | 4 | 1,20,000 |
| | Adds 10,000 at end of 4 month | 40,000 | 2 | 80,000 |
| | Withdraws 20,000 at end of 6 month | 20,000 | 6 | 1,20,000 |
| | | | 12 | 3,20,000 |
| (*iii*) | Z puts in 40,000 at beginning | 40,000 | 9 | 3,60,000 |
| | Withdraws 10,000 at end of 9 month | 30,000 | 3 | 90,000 |
| | | | 12 | 4,50,000 |

Profit = ₹ 79,000

To be divided in the ratio of effective capital, which in monthly terms is 2,40,000: 3,20,000 : 4,50,000, among X, Y & Z. *i.e.* 24 : 32 : 45

| | |
|---|---|
| X's share = 79,000 × 24/101= | 18,772 |
| Y's share = 79,000 × 32/101= | 25,030 |
| Z's share = 79,000 × 45/101= | 35,198 |
| | 79,000 |

**Q.6 Partners A & B are sharing in the ratio of 3:2 (*i.e.* 3/5 & 2/5). They admit C. Calculate new ratio in the following alternative cases.**

**Solution:**

**(1) 'C' is admitted with 1/6th share.**

C's share is 1/6th of the total profit.

∴ Balance profit left for A & B = 1 – 1/6 = 5/6.

Because nothing is specified we will assume that A & B will share balance in old ratio.

∴ A's share = 5/6 × 3/5 = 15/30 = 3/6 & B's share = 5/6 × 2/5 = 10/30 = 2/6

Thus the new ratio of A, B & C will be 3/6, 2/6 & 1/6 or 3:2:1

**(2) 'C' is admitted with 1/6th share & 'A' & 'B' decided to share equally in future.**

'C' share = 1/6 ∴ Balance is 5/6

which will be shared equally by A & B.

∴ A's share $=\frac{5}{6}\times\frac{1}{2}=\frac{2.5}{6}=\frac{5}{12}$, and B's share $=\frac{5}{6}\times\frac{1}{2}=\frac{2.5}{6}=\frac{5}{12}$

Thus the New Ratio of A, B & C = 5/12, 5/12, 2/12 OR 5:5:2

**(3) 'C' is admitted with 1/6th share, which he purchased from B.**

C's share = 1/6 which will come from B

∴ B's New share = 2/5 – 1/6 = 12/30 – 5/30 = 7/30.

∴ A's New share will remain as the old share *i.e.* 3/5 = 18/30.

Thus, the New Ratio of A, B & C will be 3/5, 7/30 & 1/6. *i.e.* 18/30, 7/30, 5/30 *i.e.* 18:7:5

**(4) 'C' is admitted with 1/6th share which he bought from A & B in 2:3 ratio.**

C's share is 1/6

Purchased from 'A' 1/6 × 2/5 = 2/30

Purchased from 'B' 1/6 × 3/5 = 3/30

∴ A's share 3/5 – 2/30 = 18/30 – 2/30 = 16/30 & B's share 2/5 – 3/30 = 12/30 - 3/30 = 9/30

Thus, the New Ratio of A, B, C will be 16/30, 9/30 & 5/30 *i.e.* 16:9:5

**(5) 'C' is admitted. He purchased 1/3rd of A's share & 2/3rd of B's share.**

C's share = Purchased from A + Purchased from B

Purchased from A = 3/5 × 1/3 = 1/5 *i.e.* 3/15

Purchased from B = 2/5 × 2/3 = 4/15

∴ A's share = 3/5 – 1/5 = 2/5 = 6/15

B's share = 2/5 – 4/15 = 6/15 – 4/15 = 2/15

C's share = 1/5 + 4/15 = 3/15 + 4/15 = 7/15

Thus, the New Ratio of A, B, C will be 6/15, 2/15 & 7/15 *i.e.* 6:2:7.



(1) When we say new partner is purchasing share that means old partners are selling their share. Similarly in case of death/retirement, outgoing partner will sell his share and other will purchase it.

(2) Similarly ratios will be worked out in case of Retirement/Death. In such cases wording may be like outgoing partners sells his share or other partner purchases share from the outgoing partner. When nothing is specified, it can be assumed that the remaining partner will continue to share in their old ratio.

**Q.7 X, Y and Z were sharing profits and losses in the ratio of 1/2: 1/3: 1/6 respectively. The firm had insured the partner's lives severally. The surrender values of the life policies appearing in the balance sheet as at 31st March, 2016 were - X for ₹ 5,000, Y for ₹ 4,000 and Z for ₹ 3,000. The surrender values represents 50% of the sum assured in each case. Y and Z decide to share equally in future. Give the necessary journal entries assuming (a) If X retires on 31-3-2016 (b) If X dies on 31-3-2016.**

**Solution:**

| Date | Particulars | | L.F. | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|---|
| 31-3-16 | **Case (a)** | | | | |
| | No entry is to be passed since policies appear at surrender value and its real value is also surrender value, hence no unaccounted/undivided profit. | | | | |
| 31-3-16 | **Case (b)** | | | | |
| | Insurance Company's A/c | Dr. | | 10,000 | |
| | To X's Life Policy A/c | | | | 10,000 |
| | (Being the claim due on X's death recorded by crediting X's Life Policy A/c) | | | | |
| | X's Life Policy A/c | Dr. | | 5,000 | |
| | To X's Capital A/c | | | | 2,500 |
| | To Y's Capital A/c | | | | 1,667 |
| | To Z's Capital A/c | | | | 833 |
| | (Being the transfer of balance in X's life policy A/c being profit) | | | | |

**Q.8 A, B and C were partners sharing profits, and losses in the ratio of 2:2:1. C retired on 1st July, 2015 on which date the capitals of A, B and C after all necessary adjustments stood at ₹ 74,000, ₹ 63,750 and 42,250 respectively. A and B continued to carry on the business for six months without settling the accounts of C. During the period of six months from 1-7-2015, a profit of ₹ 20,500 is earned by the use of the firm's property. State which of the two options available u/s 37 of the Indian Partnership Act, 1932 should be exercised by C.**

**Solution:**

(*i*) Share in the subsequent profits attributable to the use of his balance.

$$\frac{₹\ 42,250}{₹\ 1,80,000}\times ₹\ 20,500 = ₹\ 4,812$$

(*ii*) Interest @ 6% p.a. on the use of his balance = ₹ 42,250 × 6/12 × 6/100
= ₹ 1,267.50

C should exercise option (i) since the amount payable to him under this option is more as compared to the amount payable to him under option (*ii*).

**Q.9 X and Y are in partnership sharing profits and losses as 3:2. They admit Z into the firm, Z paying a premium (share in goodwill) of ₹ 36,000 for 1/6th share of the profits. As between themselves, X and Y agree to share future profits and losses equally. Draft journal entry showing the appropriation of premium (goodwill) money.**

**Solution:**

| Partners | X | Y | Z |
|---|---|---|---|
| Old Ratio | 3 or (3/5) | 2 or (2/5) | - |

Z is given 1/6th *i.e.* 2/12th share therefore balance for X & Y is 10/12 which is shared by them equally *i.e.* 5/12th, 5/12th hence:

| | | | |
|---|---|---|---|
| New Ratio | 5 or (5/12) | 5 or (5/12) | 2 or (2/12) |
| Ratio of Sacrifice | X = 3/5 – 5/12 | = 11/60 | |
| (Old Ratio-New Ratio) | Y = 2/5 – 5/12 | = –1/60 | |
| | Z = 0 – 1/6 | = –10/60 | |

This means that 'X' has sacrificed 11/60, whereas 'Y' has gained 1/60 & 'Z' has gained 10/60. 'Z' is bringing ₹ 36,000 as Goodwill for 10/60 share.

∴ Total goodwill of the firm $= \frac{36{,}000 \times 60}{10} = 2{,}16{,}000$

Y is also gaining (means his new ratio is higher)

∴ He will also have to contribute towards goodwill to the extent of his gain.

∴ His contribution = 2,16,000 × 1/60 = 3,600

X has sacrificed in favour of Y and Z

∴ He should get the credit for it.

**Q.10 A and B were partners in 1:1. They admitted C as a new partner for 1/5th share. At the time of his admission following Revaluation were made:-**

**Building of ₹ 60,000 at ₹ 1,00,000**

**Plant of ₹ 40,000 at ₹ 30,000**

**Creditors of ₹ 50,000 at ₹ 70,000**

**At the time of revaluation some unrecorded investment of ₹ 20,000 were found.**

**Show necessary Accounting treatment in the following cases:-**

**Case I. When Revised figures of Assets and Liabilities were to be shown in the Balance Sheet of the New Firm (or When Revaluation A/c is to be prepared)**



**Case II. When Revised figures of Assets and Liabilities were not to be taken in the Balance Sheet of the New Firm (or When Memorandum Revaluation Account is to be prepared)**

**Solution:-**

**Case I:-**

**Revaluation Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Plant | 10,000 | By Building | 40,000 |
| To Creditors | 20,000 | By Investment | 20,000 |
| To Profit on Revaluation: | | | |
| A's Capital A/c | 15,000 | | |
| B's Capital A/c | 15,000 | | |
| Total | **60,000** | Total | **60,000** |

**Journal entries:-**

| | | | |
|---|---|---|---|
| 1. Building A/c | Dr. | 40,000 | |
| Investment A/c | Dr. | 20,000 | |
| To Revaluation A/c | | | 60,000 |
| (Being increase in the value of assets recorded) | | | |
| 2. Revaluation A/c | Dr. | 30,000 | |
| To Plant A/c | | | 10,000 |
| To Creditors A/c | | | 20,000 |
| (Being reduction in the value of plant & increase in creditors recorded) | | | |
| 3. Revaluation A/c | Dr. | 30,000 | |
| To A's Capital A/c | | | 15,000 |
| To B's Capital A/c | | | 15,000 |
| (Being transfer of profit on revaluation to old partners in their old profit sharing ratio) | | | |

**Case II:-**

**Memorandum Revaluation Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Plant | 10,000 | By Building | 40,000 |
| To Creditors | 20,000 | By Investment | 20,000 |
| To Profit on Revaluation: | | | |
| A's Capital A/c (Old Ratio) | 15,000 | | |
| B's Capital A/c (Old Ratio) | 15,000 | | |
| Total | **60,000** | Total | **60,000** |

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Building | 40,000 | By Plant | 10,000 |
| To Investment | 20,000 | By Creditors | 20,000 |
| | | By Loss on Revaluation: | |
| | | A's Capital A/c (New Ratio) | 12,000 |
| | | B's Capital A/c (New Ratio) | 12,000 |
| | | C's Capital A/c (New Ratio) | 6,000 |
| Total | 60,000 | Total | 60,000 |

| Particulars | A | B | C |
|---|---|---|---|
| Profit on Revaluation (in old ratio) Cr. | 15,000 | 15,000 | -- |
| Loss on Revaluation (in new ratio) Dr. | 12,000 | 12,000 | 6,000 |
| | 3,000 Cr. | 3,000 Cr. | 6,000 Dr. |

| | | | |
|---|---|---|---|
| C's Capital A/c | Dr. | 6,000 | |
| To A's Capital A/c | | | 3,000 |
| To B's Capital A/c | | | 3,000 |
| (Being adjustment of profit or loss on revaluation made among the partners) | | | |

**Q.11 A and B were partners in a firm in equal ratio. They admit C as a new partner for 1/5th share. C introduced the required sum of capital and his share of goodwill of ₹ 4,000 in cash. On the date the following balances appears in the books of the firm:**

| | |
|---|---|
| **A's Capital A/c** | **36,000** |
| **B's Capital A/c** | **24,000** |
| **Profit on Revaluation** | **12,000** |
| **General Reserve** | **6,000** |
| **Profit & Loss (Dr. Balance)** | **6,000** |
| **Workmen Compensation Fund** | **5,000** |

**There was Workmen Compensation liability of ₹ 1000. Calculate the amount of capital of the Incoming Partner.**

**Solution:**

| Particulars | A (₹) | B (₹) |
|---|---|---|
| Balance | 36,000 | 24,000 |
| + Profit on Revaluation | 6000 | 6,000 |
| + General Reserve | 3,000 | 3,000 |
| - Profit & Loss (Dr. Balance) | (3,000) | (3,000) |



| Particulars | A (₹) | B (₹) |
|---|---|---|
| + Workmen Compensation Fund [5,000-1,000] | 2,000 | 2,000 |
| + Share in Goodwill | 2,000 | 2,000 |
| Total | 46,000 | 34,000 |

**Working Note:-**

| | ₹ |
|---|---|
| Total capital of A & B for 4/5th Share (46,000+34,000) | 80,000 |
| Total capital of the firm (on the basis of capital of A&B) (80,000×5/4) | 1,00,000 |
| ∴ Capital of C for 1/5th Share (1,00,000×1/5) | 20,000 |

**Q.12 A and B were partners in a firm. They admit C for 1/5th share. C introduced ₹ 40,000 as his Capital. On the date following balances appeared in the books of the firm:**

| | |
|---|---|
| **A's Capital A/c** | **47,000** |
| **B's Capital A/c** | **32,000** |
| **Loss on Revaluation** | **1,000** |
| **General Reserve** | **3,000** |
| **Investment Fluctuation fund** | **20,000** |

**On the date Investment of the firm of ₹ 50,000 was valued at ₹ 42,000. Give necessary accounting treatment regarding Goodwill.**

**Solution:**

| Particulars | A (₹) | B (₹) |
|---|---|---|
| Balance in Capital A/c | 47,000 | 32,000 |
| - Loss on Revaluation | 500 | 500 |
| + General Reserve | 1,500 | 1,500 |
| + Investment Fluctuation Fund (20,000 – 8,000) [1:1] | 6,000 | 6,000 |
| | **54,000** | **39,000** |

**Calculation of Hidden Goodwill:-**

| | | |
|---|---|---|
| **I.** Total Capital of the Firm on the basis of C's share (40,000 × 5) | = | ₹ 2,00,000 |
| **II.** Capital of A, B & C (54,000 + 39,000 + 40,000) | = | ₹ 1,33,000 |
| Hidden Goodwill of the firm **(I-II)** | = | ₹ 67,000 |
| ∴ C's Share of Goodwill (67,000 x 1/5) | = | ₹ 13,400 |

**Journal Entry:-**

| | | | |
|---|---|---|---|
| C's Current A/c | Dr. | 13,400 | |
| To A's Capital A/c | | | 6,700 |
| To B's Capital A/c | | | 6,700 |

(Being incoming partner's current account debited for his share of goodwill & credited to old partners in their sacrificing ratio)

**Q.13 Messrs Dalal, Banerji and Malick is a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as on 31st March, 2016, is shown as below:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 12,850 | Land and Building | 25,000 |
| Outstanding Liabilities | | 1,500 | Furniture | 6,500 |
| General Reserve | | 6,500 | Stock of Goods | 11,750 |
| Capital Account: | | | Sundry Debtors | 5,500 |
| Mr. Dalal | 12,000 | | Cash-in-hand | 140 |
| Mr. Banerji | 12,000 | | Cash-at-Bank | 960 |
| Mr. Malick | 5,000 | 29,000 | | |
| | | 49,850 | | 49,850 |

**The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2016 on the following terms:**

**(a) Mr. Mistri shall bring ₹ 5,000 towards his capital and required sum of goodwill.**

**(b) The value of stock should be increased by ₹ 2,500.**

**(c) Provision for bad and doubtful debts should be provided at 10% of the debtors.**

**(d) Furniture should be depreciated by 10%.**

**(e) The value of land and buildings should be enhanced by 20%.**

**(f) The value of the goodwill be fixed at ₹ 15,000.**

**(g) General Reserve will be transferred to the Partners' Capital Accounts.**

**(h) The new profit sharing ratio of Dalal, Banerji, Malick and Mistri shall be 5:5:3:2.**

**(i) The Outstanding liabilities include ₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.**

**Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, and (iii) The Balance Sheet of the firm as newly constituted.**

**Solution:**

**Dr. Revaluation A/c Cr.**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Provision for bad & doubtful debts | | 550 | By Stock-in-trade | 2,500 |
| To Furniture and fittings | | 650 | By Land and Building | 5,000 |
| To Profit on Revaluation transferred to | | | | |
| Dalal | 2,520 | | | |
| Banerji | 2,520 | | | |
| Malick | 1,260 | 6,300 | | |
| | | 7,500 | | 7,500 |



**Capital Accounts of Partners**

| Particulars | Dalal (₹) | Banerji (₹) | Malick (₹) | Mistri (₹) | Particulars | Dalal (₹) | Banerji (₹) | Malick (₹) | Mistri (₹) |
|---|---|---|---|---|---|---|---|---|---|
| To Dalal's Capital A/c | | | | 1,000 | By Balance b/d | 12,000 | 12,000 | 5,000 | -- |
| To Banerji's Capital A/c | | | | 1,000 | By General Reserve | 2,600 | 2,600 | 1,300 | -- |
| To Balance c/d | 19,120 | 18,120 | 7,560 | 5,000 | By Cash [5000 + 2000] | -- | -- | -- | 7,000 |
| | | | | | By Mistri's Capital A/c | 1,000 | 1,000 | -- | -- |
| | | | | | By Outstanding Liability | 1,000 | -- | -- | -- |
| | | | | | By Revaluation | 2,520 | 2,520 | 1,260 | -- |
| | 19,120 | 18,120 | 7,560 | 7,000 | | 19,120 | 18,120 | 7,560 | 7,000 |

**Balance Sheet of M/s. Dalal, Banerji, Malick & Mistri as on 1st April, 2016**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Sundry Creditors | | 12,850 | Land & Building | | 30,000 |
| Outstanding Liabilities | | 500 | Furniture | | 5,850 |
| Capital Accounts of Partners | | | Stock of Goods | | 14,250 |
| Mr. Dalal | 19,120 | | Sundry Debtors | 5,500 | |
| Mr. Banerji | 18,120 | | Less: Provision | 550 | 4,950 |
| Mr. Malick | 7,560 | | Cash-in-hand | | 140 |
| Mr. Mistri | 5,000 | 49,800 | Cash-at-Bank | | 7,960 |
| | | 63,150 | | | 63,150 |

**Working Note:**

**1. Calculation of Sacrifice/Gain of Partners:-**

| | Old | | New | | |
|---|---|---|---|---|---|
| Dalal | 2/5 | – | 5/15 | = | 1/15 Sacrifice |
| Banerji | 2/5 | – | 5/15 | = | 1/15 Sacrifice |
| Malick | 1/5 | – | 3/15 | = | Nil |
| Mistri | Nil | – | 2/15 | = | –2/15 Gain |

**2. Goodwill Treatment:-**

| | | |
|---|---|---|
| Mistri's Capital A/c ($15000 \times 2/15$) Dr. | 2,000 | |
| To Dalal's Capital A/c ($15000 \times 1/15$) | | 1,000 |
| To Banerji's Capital A/c ($15000 \times 1/15$) | | 1,000 |
| (Being adjustment for goodwill made among the partners) | | |

**Q.14 Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms Balance Sheet as on 31-3-2016 was as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capital Accounts** | | | **Fixed Assets** | **3,00,000** |
| **Gopal** | **1,20,000** | | **Investments** | **50,000** |
| **Govind** | **80,000** | **2,00,000** | **Current Assets** | **2,00,000** |
| **Long Term Loan** | | **2,00,000** | **Loans and Advances** | **1,00,000** |
| **Current Liabilities** | | **2,50,000** | | |
| | | **6,50,000** | | **6,50,000** |

**Due to financial difficulties, they have decided to admit Guru as a Partner in the firm from 1-4-2016 on the following terms:**

**Guru will be paid 40% of the profits. Guru will bring in cash ₹ 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years purchase of 3 years normal average profits of the firm and Guru will bring in cash for his share of Goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.**

***The profits of the previous three years were as follows:***

- **For the year ended 31-3-2014 Profit ₹ 20,000 (includes insurance claim received of ₹ 40,000).**
- **For the year ended 31.3.2015 Loss ₹ 80,000 (includes voluntary retirement compensation paid ₹ 1,10,000).**
- **For the year ended 31.3.2016 Profit of ₹ 1,05,000 (includes a profit of ₹ 25,000 on the sale of assets).**

***It was decided to revalue the assets on 31.3.2016 as follows:***

| | |
|---|---|
| **Fixed Assets** | **4,00,000** |
| **Investments** | **Nil** |
| **Current Assets** | **1,80,000** |
| **Loans and Advances** | **1,00,000** |

**The new profit sharing ratio after the admission of Guru was 35:25:40.**

**Pass Journal Entries on admission, show goodwill calculation and prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 1.4.2016 after the admission of Guru.**

**Solution:**

## Calculation & Adjustment for Goodwill.

| Year | 31.3.2014 | 31.3.2015 | 31.3.2016 |
|---|---|---|---|
| Profit as given | Cr. 20,000 | Dr. 80,000 | Cr. 1,05,000 |
| Reversal of abnormal/non-recurring items: | | | |
| Insurance claim received | Dr. 40,000 | | |
| Retirement compensation paid | | Cr. 1,10,000 | |



| Year | 31.3.2014 | 31.3.2015 | 31.3.2016 |
|---|---|---|---|
| Profit on sale of assets | | | Dr. 25,000 |
| Normal profit | Dr. 20,000 | Cr. 30,000 | Cr. 80,000 |

Average future maintainable profit = -20000+30,000 + 80,000 = 90,000 ÷ 3 = 30,000

Goodwill = 30,000 × 2 = 60,000

**Adjustment of Goodwill:**

| *Profit on account of goodwill* | *Gopal* | *Govind* | *Guru* |
|---|---|---|---|
| Credit in Old ratio (Raise the goodwill) | Cr. 36,000 | Cr. 24,000 | — |
| Debit in New ratio (Reverse the goodwill) | Dr. 21,000 | Dr. 15,000 | Dr. 24,000 |
| Difference (Cr.: Sacrifice and Dr.: Gain) | Cr. 15,000 | Cr. 9,000 | Dr. 24,000 |

**Entry:**

| | | |
|---|---|---|
| Cash A/c | Dr. 24,000 | |
| To Gopal | | 15,000 |
| To Govind | | 9,000 |

**Capital Account**

| Particulars | Gopal | Govind | Guru | Particulars | Gopal | Govind | Guru |
|---|---|---|---|---|---|---|---|
| To Balance c/f | 1,53,000 | 1,01,000 | 1,00,000 | By Balance b/f | 1,20,000 | 80,000 | — |
| | | | | By Cash A/c | — | — | 1,00,000 |
| | | | | By Cash (Goodwill adjustment) A/c | 15,000 | 9,000 | — |
| | | | | By Revaluation A/c | 18,000 | 12,000 | — |
| | 1,53,000 | 1,01,000 | 1,00,000 | | 1,53,000 | 1,01,000 | 1,00,000 |

**Revaluation A/c**

| Particulars | | | ₹ | Particulars | ₹ |
|---|---|---|---|---|---|
| To Investment A/c | | | 50,000 | By Fixed asset A/c | 1,00,000 |
| To Current assets A/c | | | 20,000 | | |
| To Profit A/c | Gopal | 18,000 | | | |
| | Govind | 12,000 | 30,000 | | |
| | | | 1,00,000 | | 1,00,000 |

## Balance Sheet as on 1st April 2016

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | | | Fixed assets | 4,00,000 | |
| Gopal | 1,53,000 | | Current assets | 1,80,000 | |
| Govind | 1,01,000 | | Cash/Bank | 1,24,000 | 3,04,000 |
| Guru | 1,00,000 | 3,54,000 | Loans and advances | | 1,00,000 |
| Long term loan | | 2,00,000 | | | |
| Liabilities | | 2,50,000 | | | |
| | | 8,04,000 | | | 8,04,000 |

**Q.15 The Balance Sheet of A & B, a partnership firm, as at 31st March, 2016 is as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Account: | | | Goodwill | 14,000 |
| A | 26,400 | | Land and Building | 14,400 |
| B | 33,600 | 60,000 | Furniture | 2,200 |
| Contingency Reserve | | 6,000 | Stock | 26,000 |
| Sundry Creditors | | 9,000 | Sundry Debtors | 6,400 |
| | | | Cash at Bank | 12,000 |
| | | 75,000 | | 75,000 |

**A & B share profits and losses as 1:2, They agree to admit C (who is also in business on his own) as a third partner from 1-4-2016.**

**The Assets are revalued as under:**

**Goodwill - ₹ 18,000, Land and Building ₹ 30,000, Furniture ₹ 6,000.**

**C brings the following assets into the partnership Goodwill ₹ 6,000, Furniture ₹ 2,800, Stock ₹ 13,600.**

**Profits in the new firm are to be shared equally by the three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.**

**Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.**

**Solution:**

**Capital Account**

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| To Goodwill A/c (in old ratio) | 4,667 | 9,333 | -- | By Balance b/d | 26,400 | 33,600 | -- |
| To Goodwill A/c (in new ratio) | 2,000 | 2,000 | 2,000 | By Contingency res. A/c | 2,000 | 4,000 | -- |
| To B's Capital A/c | -- | -- | 6,000 | By Revaluation A/c | 6,467 | 12,933 | -- |
| To Balance c/f | 45,200 | 45,200 | 45,200 | By Goodwill A/c | -- | -- | 6,000* |
| | | | | By Furniture A/c | -- | -- | 2,800 |
| | | | | By Stock A/c | -- | -- | 13,600 |
| | | | | By C's Capital A/c(1) | -- | 6,000 | -- |
| | | | | By Cash/Bank A/c | 17,000 | -- | 30,800 |
| Total | 51,867 | 56,533 | 53,200 | Total | 51,867 | 56,533 | 53,200 |

**Revaluation A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Profit A/c | | | By Building A/c | 15,600 |
| A | 6,467 | | By Furniture A/c | 3,800 |
| C | 12,933 | 19,400 | | |
| | | 19,400 | | 19,400 |



**Cash/Bank A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Balance b/f | | 12,000 | By Balance c/d | 59,800 |
| To Capital A/c | | | | |
| A | 17,000 | | | |
| C | 30,800 | 47,800 | | |
| | | 59,800 | | 59,800 |

**Balance Sheet**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital | | | Land & Building | 30,000 |
| A | 45,200 | | Furniture | 8,800 |
| B | 45,200 | | Stock | 39,600 |
| C | 45,200 | 1,35,600 | Sundry Debtors | 6,400 |
| Sundry Creditors | | 9,000 | Cash/Bank | 59,800 |
| | | 1,44,600 | | 1,44,600 |

* It represents personal goodwill of incoming partner, brought by C as asset, later on written off in new ratio.

**Working Notes:-**

**(1) Goodwill Treatment:-**

C's Capital A/c (18000 × 1/3) Dr. 6,000

To B's Capital A/c (18000 × 1/3) 6,000

(Being adjustment for goodwill made between the partners)

**(2) Calculation of Sacrifice/Gain:-**

A $\frac{1}{3}-\frac{1}{3}$ = Nil

B $\frac{2}{3}-\frac{1}{3}$ = 1/3 sacrifice

C $\text{Nil}-\frac{1}{3}$ = –1/3 Gain

**Adjustment of Capital:**

- Capital can be adjusted if required by the question.
- It can be adjusted in any ratio and taking anybody's capital as base.
- But if not clarified in the question then adjust in profit sharing ratio.
- If not clarified take total capital as base, in this case partner whose capital is short will bring cash and cash will be repaid to the partner whose capital is excess. Total capital will remain unchanged.
- If highest capital (highest capital per share of profit) is taken as base then other partners capital will fell short and they will contribute the required

cash (in this question it was hinted that partner or partners shall bring cash). Total capital will increase.

- If smallest capital (smallest capital per share of profit) is taken as base then other partners capital will show excess capital and the same will be repaid to them.
- Adjustment of capital can be done through cash or through current account.

**Q.16 The following is the balance sheet of A and B who share profits and losses as 4/7 and 3/7:**

| | ₹ | | ₹ |
|---|---|---|---|
| **Creditors** | **15,000** | **Land and Buildings** | **36,000** |
| **Bills payable** | **5,000** | **Machinery** | **20,000** |
| **Capital Accounts** | | **Furniture** | **2,000** |
| **A : 45,000** | | **Stock** | **25,000** |
| **B : 35,000** | **80,000** | **Sundry Debtors** | **16,000** |
| | | **Cash** | **1,000** |
| | **1,00,000** | | **1,00,000** |

**They agree to take C into partnership and give him a share of 20 paise in the rupee subject to the following terms and conditions:**

*i.* **C is to contribute capital @ ₹ 12000 for each 10 paise share in the rupee.**

*ii.* **Land and Buildings are to be increased to ₹ 40000.**

*iii.* **Machinery is to be depreciated by 10% and Furniture by ₹ 500.**

*iv.* **Stock is to be appreciated by ₹ 1000.**

*v.* **Goodwill of the firm is to be valued at 2 years' purchase of average profits of the last three years. (Profits for the last three years were ₹ 14500, ₹ 20000 and ₹ 22500.)**

*vi.* **A provision of 2½% is to be made for bad debts and another of ₹ 2500 for outstanding expenses.**

*vii.* **A trade creditor for ₹ 1600 is not traceable for a number of years and the amount is to be written back.**

**Show Journal entries and capital accounts of the partners assuming no goodwill account is to be opened and the book values of assets and liabilities are not to be disturbed.**

**Also prepare the Balance Sheet of the new firm.**

**Solution:**

**Working notes**

(1) *New profit sharing ratio :*

C comes for 20 paise share in the rupee, *i.e.*, for $\frac{1}{5}$ share, the share left for A and B is $\left(1-\frac{1}{5}\right)$ or $\frac{4}{5}$



So, A's share is $\frac{4}{7}$ of $\frac{4}{5}$ or $\frac{16}{35}$

And, B's share is $\frac{3}{7}$ of $\frac{4}{5}$ or $\frac{12}{35}$

Hence, new ratio is $\frac{16}{35} : \frac{12}{35} : \frac{7}{35}$

*Value of Goodwill :*

*Average profit of the last three years* : $\frac{1,500+20,000+22,500}{3}$ = ₹ 19,000

Value of Goodwill on the basis of 2 years' purchase ₹ 19,000 × 2 = ₹ 38,000

(2) *Profit/Loss on revaluation:*

| | ₹ | ₹ |
|---|---|---|
| Value of assets to be increased : | | |
| Land and Buildings | 4,000 | |
| Stock | 1,000 | |
| Goodwill | 38,000 | + 43,000 |
| *Value of assets to be reduced :* | ₹ | ₹ |
| Machinery | 2,000 | |
| Furniture | 500 | –2,500 |
| Provision to be made for : | | |
| Bad Debts | 400 | |
| Outstanding Expenses | 2,500 | – 2,900 |
| Liabilities to be written back : | | |
| Trade Creditors | | +1,600 |
| Profit on Revaluation & Goodwill | | + 39,200 |

(3) *Adjustment required :-*

| | *A* | *B* | *C* |
|---|---|---|---|
| Profit credited in the old ratio of 4 : 3 | +22,400 | + 16,800 | -- |
| Profit written back in the new ratio of 16 : 12 : 7 | –17,920 | –13,440 | – 7,840 |
| Net adjustment | + 4,480 | + 3,360 | –7,840 |

**Journal Entry**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| | Cash A/c (12,000 × 2) | Dr. | 24,000 | |
| | To C's Capital A/c | | | 24,000 |
| | (Capital introduced by C's on his admission @ ₹ 12,000 for each 10 paise share in the rupee) | | | |
| | C's Capital A/c | Dr. | 7,840 | |
| | To A's Capital A/c | | | 4,480 |
| | To B's Capital A/c | | | 3,360 |
| | (Adjustment for Goodwill & Revaluation of assets and liabilities without altering the book values on admission of C) | | | |

**Capital A/c**

Dr. | Cr.

| | A ₹ | B ₹ | C ₹ | | A ₹ | B ₹ | C ₹ |
|---|---|---|---|---|---|---|---|
| To Capital of A&B | -- | -- | 7,840 | By Balance b/f | 45,000 | 35,000 | -- |
| To Balance c/d | 49,480 | 38,360 | 16,160 | By Cash | -- | -- | 24,000 |
| | | | | By Capital of C | 49,480 | 38,360 | -- |
| | 49,480 | 38,360 | 24,000 | | 49,480 | 38,360 | 24,000 |
| | | | | By Balance b/d | 49,480 | 38,360 | 16,160 |

**Balance Sheet as at .....**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Creditors | | 15,000 | Land & Buildings | 36,000 |
| Bills Payable | | 5,000 | Machinery | 20,000 |
| Capital Accounts : | | | Furniture | 2,000 |
| A | 49,480 | | Stock | 25,000 |
| B | 38,360 | | Sundry Debtors | 16,000 |
| C | 16,160 | 1,04,000 | Cash (1,000 + 24,000) | 25,000 |
| | | 1,24,000 | | 1,24,000 |

**Q.17 On 31st March 2016, the Balance Sheet of M/s. Ram, Rahul and Rohit sharing profits and losses in proportion to their capitals, stood as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Accounts: | | | Land & Buildings | 2,00,000 |
| Ram | 3,00,000 | | Machinery | 2,00,000 |
| Rahul | 2,00,000 | | Closing Stock | 1,00,000 |
| Rohit | 1,00,000 | 6,00,000 | Sundry Debtors | 2,00,000 |
| Sundry Creditors | | 2,00,000 | Cash and Bank Balances | 1,00,000 |
| | | 8,00,000 | | 8,00,000 |

**On 31st March, 2016, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on that date on the following basis:**

1. **Land and Buildings be appreciated by 30%.**
2. **Machinery be depreciated by 20%.**
3. **Closing stock to be valued at ₹ 80,000.**
4. **Provision for bad debts be made at 5%.**
5. **Old credit balances of Sundry Creditors ₹ 10,000 be written back.**
6. **Joint Life Policy of the partners surrendered and cash obtained ₹ 60,000.**
7. **Goodwill of the entire firm be valued at ₹ 1,80,000 and Ram's share of the Goodwill be adjusted in the Accounts of Rahul and Rohit who share the future profits equally. No Goodwill account being raised.**
8. **Total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.**



9. **Amount due to Ram is to be settled on the following basis: 50% on retirement & the balance 50% within 1 year.**

**Prepare Revaluation Account, Capital Account of Partners, Rahul & Rohit. Loan Account of Ram, Cash Account and Balance Sheet as on 1.4.16 of M/s. Rahul and Rohit.**

**Solution:**

**Capital A/c**

| Particulars | Ram | Rahul | Rohit | Particulars | Ram | Rahul | Rohit |
|---|---|---|---|---|---|---|---|
| To Ram (Goodwill) A/c | — | 30,000 | 60,000 | By Balance A/c | 3,00,000 | 2,00,000 | 1,00,000 |
| To Cash/Bank A/c | 2,10,000 | — | — | By J. L. Policy A/c | 30,000 | 20,000 | 10,000 |
| To Ram's loan A/c | 2,10,000 | — | — | By Rahul | 30,000 | — | — |
| To Balance c/d | — | 1,90,000 | 50,000 | By Rohit | 60,000 | | |
| | 4,20,000 | 2,20,000 | 1,10,000 | | 4,20,000 | 2,20,000 | 1,10,000 |
| To Balance c/f (Adjusted) | | 3,00,000 | 3,00,000 | By Balance b/d | — | 1,90,000 | 50,000 |
| | | | | By Cash/Bank A/c | — | 1,10,000 | 2,50,000 |
| | — | 3,00,000 | 3,00,000 | | — | 3,00,000 | 3,00,000 |

**Revaluation A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Machinery A/c | 40,000 | By Land & Building A/c | 60,000 |
| To Stock A/c | 20,000 | By Creditors A/c | 10,000 |
| To Provision for bad debt A/c | 10,000 | | |
| | 70,000 | | 70,000 |

**Cash/Bank A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/f | 1,00,000 | By Ram A/c | 2,10,000 |
| To Joint life policy A/c | 60,000 | By Balance c/f | 3,10,000 |
| To Rahul A/c | 1,10,000 | | |
| To Rohit A/c | 2,50,000 | | |
| | 5,20,000 | | 5,20,000 |

Adjustment of Goodwill

| | | |
|---|---|---|
| Rahul | Dr. 30,000 | |
| Rohit | Dr. 60,000 | |
| To Ram | | 90,000 |

**Joint Life Policy A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Profit transferred : Ram A/c | 30,000 | By Cash A/c (Policy surrendered as specified in the question. Otherwise it | 60,000 |

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Rahul A/c | 20,000 | Can be revalued at surrender value & | |
| Rohit A/c | 10,000 | Credit to old partner in old ratio) | |
| | 60,000 | | 60,000 |

**Balance Sheet as on 1st April, 2016**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital A/c | | | Land and building | | 2,60,000 |
| Rahul | 3,00,000 | | Machinery | | 1,60,000 |
| Rohit | 3,00,000 | 6,00,000 | Closing stock | | 80,000 |
| Creditors | | 1,90,000 | Debtors | 2,00,000 | |
| Ram loan | | 2,10,000 | (–) Provision for bad debt | 10,000 | 1,90,000 |
| | | | Cash balance | | 3,10,000 |
| | | 10,00,000 | | | 10,00,000 |

**Q.18 Dowell & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The Balance Sheet of the firm as at 31st March, 2016 is as under:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capital:** | | | **Land** | **10,000** |
| **Mr. A** | **80,000** | | **Buildings** | **2,00,000** |
| **Mr. B** | **20,000** | | **Plant and Machinery** | **1,30,000** |
| **Mr. C** | **30,000** | **1,30,000** | **Furniture** | **43,000** |
| **Reserves (Unappropriated Profit)** | | **20,000** | **Investments** | **12,000** |
| **Long Term Debt** | | **3,00,000** | **Stock** | **1,30,000** |
| **Bank Overdraft** | | **44,000** | **Debtors** | **1,39,000** |
| **Trade Creditors** | | **1,70,000** | | |
| **Total** | | **6,64,000** | **Total** | **6,64,000** |

**It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2016. For this purpose, the following adjustments are to be made:**

*i.* **Goodwill is to be valued at ₹ 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.**

*ii.* **Buildings and Plant & Machinery are to be depreciated by 5 per cent and 20 per cent respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20 per cent is to be made on debtors to cover doubtful debts.**

*iii.* **In the reconstituted firm, the total capital will be ₹ 2 lakhs will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.**



*iv.* **The surplus funds, if any, will be used for repaying the Bank Overdraft.**

*v.* **The amount due to the retiring partner shall be transferred to his loan account.**

**You are to prepare:**

(*a*) **Revaluation A/c;**

(*b*) **Partner's Capital Accounts;**

(*c*) **Bank Account; and**

(*d*) **Balance Sheet of the reconstituted firm as on 1st April, 2016.**

**Solution:**

**Capital Account**

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|---|---|---|---|---|---|---|---|---|---|
| To A & B A/c (Goodwill adjustment) | — | — | 20,000 | 20,000 | By Balance b/f | 80,000 | 20,000 | 30,000 | — |
| To Investment A/c | — | 15,000 | — | — | By Reserve A/c | 10,000 | 6,000 | 4,000 | — |
| To Revaluation A/c | 30,400 | 18,240 | 12,160 | -- | By C & D A/c (Goodwill adjustment) | 10,000 | 30,000 | — | — |
| To B's loan A/c | — | 22,760 | — | | By Balance c/d | — | — | — | 20,000 |
| To Balance c/d | 69,600 | — | 1,840 | — | | | | | |
| | 1,00,000 | 56,000 | 34,000 | 20,000 | | 1,00,000 | 56,000 | 34,000 | 20,000 |
| To Balance b/d | — | — | — | 20,000 | By Balance b/d | 69,600 | — | 1,840 | — |
| To Closing balance c/d (Adjusted capital) | 80,000 | | 80,000 | 40,000 | By Cash/Bank A/c | 10,400 | | 78,160 | 60,000 |
| Total | 80,000 | — | 80,000 | 60,000 | Total | 80,000 | — | 80,000 | 60,000 |

₹ 2,00,000 capital balance is written in new ratio 2:2:1 and the shortfall in capital account then is contributed by the new partners A, C & D.

**Revaluation Account**

| Particulars | ₹ | Particulars | | | ₹ |
|---|---|---|---|---|---|
| To Building A/c | 10,000 | By Investment A/c (profit) | | | 3,000 |
| To Plant and Machinery A/c | 26,000 | By Loss | A | 30,400 | |
| To Provision for bad debt A/c | 27,800 | | B | 18,240 | |
| | | | C | 12,160 | 60,800 |
| | 63,800 | | | | 63,800 |

**Cash/Bank Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To A A/c | 10,400 | By Bank overdraft A/c | 44,000 |
| To C A/c | 78,160 | By Balance c/f | 1,04,560 |
| To D A/c | 60,000 | | |
| | 1,48,560 | | 1,48,560 |

**Table of Goodwill Adjustment**

| | A | B | C | D |
|---|---|---|---|---|
| Credit in old ratio | 50,000 | 30,000 | 20,000 | — |
| Debit in new ratio | 40,000 | — | 40,000 | 20,000 |
| Difference (*i.e.* sacrifice/gain) | Cr. 10,000 | Cr. 30,000 | Dr. 20,000 | Dr. 20,000 |

C's A/c Dr. 20,000
D's A/c Dr. 20,000
To A's A/c 10,000
To B's A/c 30,000

**Balance Sheet as on 1st April, 2016**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | | | Land | | 10,000 |
| A | 80,000 | | Building | | 1,90,000 |
| C | 80,000 | | Plant and Machinery | | 1,04,000 |
| D | 40,000 | 2,00,000 | Furniture | | 43,000 |
| Long term debt | | 3,00,000 | Stock | | |
| Creditors | | 1,70,000 | Debtors | 1,39,000 | |
| B's loan | | 22,760 | (-) Provision | 27,800 | 1,11,200 |
| | | | Cash/Bank | | 1,04,560 |
| | | 6,92,760 | | | 6,92,760 |

**Q.19 X, Y and Z are partners sharing profits and losses in the proportion of 3:2:2 respectively. The Balance Sheet of the firm as on 1-1-2016 was as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capital Accounts:** | | | **Plant and Machinery** | **36,000** |
| | | | **Furniture** | **14,000** |
| **X** | **50,000** | | **Stock** | **56,000** |
| **Y** | **40,000** | | **Sundry Debtors** | **48,000** |
| **Z** | **35,000** | **1,25,000** | **Cash-at-Bank** | **9,000** |
| **Bank overdraft** | | **10,000** | | |
| **Sundry Creditors** | | **28,000** | | |
| | | **1,63,000** | | **1,63,000** |

**X retired on 1-1-2016, on which date R is admitted as a new partner. For the purpose of adjusting the rights as between old partners, goodwill to be valued at ₹ 42,000 and Sundry Debtors and Stock to be reduced by ₹ 8,000 and to ₹ 50,000 respectively. X is to receive ₹ 22,000 in cash on the date of retirement and the balance due to him is to remain as loan at 8% p.a. Repayment of loan to be made at the end of each year by annual instalments representing 25% of the future profit before charging interest on loan. R is to bring in ₹ 50,000 in cash as his capital on the date of admission. The new partners are to share profits and losses equally after paying the interest on X's loan.**

**The net profit for the year ended 31st Dec., 2016, is ₹ 32,000 before taking into account the instalment payable to X.**

**You are required to show :**

**(a) Profit and Loss Appropriation Account for the year ended 31st Dec., 2016.**

**(b) Capital Accounts of the new partners; and**

**(c) X's Loan Account as on 31st Dec., 2016.**



**Solution:**

**Revaluation Account**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Debtors A/c | 8,000 | By Loss transf. X | 6,000 | |
| To Stock A/c | 6,000 | Y | 4,000 | |
| | | Z | 4,000 | 14,000 |
| | 14,000 | | | 14,000 |

**Capital Accounts**

| Particulars | X (₹) | Y (₹) | Z (₹) | R (₹) | Particulars | X (₹) | Y (₹) | Z (₹) | R (₹) |
|---|---|---|---|---|---|---|---|---|---|
| To X's A/c | -- | 2,000 | 2,000 | 14,000 | By Balance b/f | 50,000 | 40,000 | 35,000 | -- |
| To Revaluation A/c (loss) | 6,000 | 4,000 | 4,000 | -- | By YZR A/c | 18,000 | -- | -- | -- |
| To Cash/Bank A/c | 22,000 | -- | -- | -- | By Cash/Bank A/c | -- | -- | -- | 50,000 |
| To X's Loan A/c | 40,000 | -- | -- | -- | | | | | |
| To Balance c/d | -- | 34,000 | 29,000 | 36,000 | | | | | |
| Total | 68,000 | 40,000 | 35,000 | 50,000 | Total | 68,000 | 40,000 | 35,000 | 50,000 |
| To Balance c/f | -- | 43,600 | 38,600 | 45,600 | By Balance b/d | -- | 34,000 | 29,000 | 36,000 |
| | | | | | By Profit & Loss A/c | -- | 9,600 | 9,600 | 9,600 |
| Total | -- | 43,600 | 38,600 | 45,600 | Total | -- | 43,600 | 38,600 | 45,600 |

Working Notes:

1. Calculation of Gain/Sacrifice:-

New Ratio – Old Ratio

X Nil $-\frac{3}{7}$ $=$ $-\frac{3}{7}$ or $-\frac{9}{21}$ Sacrifice

Y $\frac{1}{3}-\frac{2}{7}$ $=$ $\frac{7-6}{21}=\frac{1}{21}$ Gain

Z $\frac{1}{3}-\frac{2}{7}$ $=$ $\frac{7-6}{21}=\frac{1}{21}$ Gain

R $\frac{1}{3}-$ Nil $=$ $\frac{1}{3}$ or $\frac{7}{21}$ Gain

**2. Goodwill Treatment:—**

| | | | |
|---|---|---|---|
| Y($42,000 \times 1/21$) | Dr. | 2,000 | |
| Z($42,000 \times 1/21$) | Dr. | 2,000 | |
| R($42,000 \times 7/21$) | Dr. | 14,000 | |
| To X ($42,000 \times 9/21$) | | | 18,000 |

(Being adjustment for goodwill made between the partners)

**X's Loan Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c (loan + interest) (8000+3200) | 11,200 | By Capital A/c | 40,000 |
| To Balance c/d | 32,000 | By Interest A/c | 3,200 |
| | 43,200 | | 43,200 |

Repayment of loan is 25% of profit before interest *i.e.* $32,000 \times 25\% =$ ₹ 8,000/- paid together with the interest accrued for the year ₹ 3,200/-

**P&L Appropriation Account**
**For the year ended 31.12.2016**

| Particulars | | | ₹ | Particulars | ₹ |
|---|---|---|---|---|---|
| To Interest on loan | | | 3,200 | By Profit as per P&L A/c | 32,000 |
| To Profit transferred | X | 9600 | | | |
| | Y | 9600 | | | |
| | Z | 9600 | 28,800 | | |
| | | | 32,000 | | 32,000 |

**Q.20 A, B and C were in partnership sharing profit and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31-12-2016, subject to final adjustment, were as under:**

**Trial Balance**

| | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| **Capital and Drawings Accounts:** | **A** | **24,000** | **1,50,000** |
| | **B** | **36,000** | **75,000** |
| | **C** | **36,000** | **90,000** |
| **Land and Buildings** | | **1,20,000** | — |
| **Furniture and Fixtures** | | **22,500** | — |
| **Stock** | | **1,87,500** | — |
| **Debtors** | | **30,000** | — |



| | Dr. ₹ | Cr. ₹ |
|---|---|---|
| **Bank** | **60,000** | — |
| **Creditors** | — | **45,000** |
| **Profit for the year before interest** | — | **1,56,000** |
| **TOTAL** | **5,16,000** | **5,16,000** |

**Adjustment: C died on 30-6-16. The partnership deed provided that:**

1. **Interest was to be credited on capital accounts of partners at 10% p.a. on the opening balance.**
2. **On the death of a partner, (*i*) Goodwill to be valued at 3 years' purchase of average annual profits of 3 years up to the date of death, after deducting interest on capital employed at 8% p.a. & a fair remuneration for each partners; (*ii*) Fixed assets were to be valued by a valuer & all other assets-liabilities to be taken at book value.**
3. **Wherever necessary, profit or loss should be apportioned on a time basis.**
4. **The amount due to the deceased partner's estate was to receive interest @ 12% p.a. from the date of the death until paid.**

**You ascertain that:**

(*a*) **Profits for three years, before charging partner's interest were: 2013- ₹ 1,68,000; 2014- ₹ 1,89,000; 2015- ₹ 1,80,000;**

(*b*) **The independent valuation at the date of death revealed: Land and Building ₹ 1,50,000; Furniture & Fixtures ₹ 15,000;**

(*c*) **A fair remuneration for each of the partners would be ₹ 37,500 p.a. & that capital employed in the business to be taken as ₹ 3,90,000 throughout.**

**It was agreed among the partners that:**

(*i*) **Goodwill was not to be shown as an asset of the firm as on 31-12-16. Therefore adjustment for goodwill was to be made in Capital A/c;**

(*ii*) **A & B would share equally from the date of death of C;**

(*iii*) **Depreciation on revised value of assets would be ignored.**

**You are required to prepare: (*a*) Partner's Capital Accounts and (*b*) Balance Sheet of the firm as on 31-12-16.**

**Solution:**

Dr. **(1) Partners' Capital Account** Cr.

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| To Drawings A/c | 24,000 | 36,000 | 36,000 | By Balance b/d | 1,50,000 | 75,000 | 90,000 |
| To C Capital A/c (Goodwill adj.) | 9,990 | 19,980 | — | By Revaluation A/c | 9,000 | 6,750 | 6,750 |
| | | | | By A A/c (goodwill adj.) | — | — | 9,990 |
| To C's Executors A/c | — | — | 1,13,895 | By B A/c (goodwill adj.) | — | — | 19,980 |
| To Balance c/d | 1,94,868 | 81,903 | — | By Interest on Capital | 15,000 | 7,500 | 4,500 |
| | | | | By P & L Appropriation A/c | 54,858 | 48,633 | 18,675 |
| | 2,28,858 | 1,37,883 | 1,49,895 | | 2,28,858 | 1,37,883 | 1,49,895 |

**Balance Sheet as on 31-12-2016**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Account | - A 1,94,868<br>- B 81,903 | 2,76,771 | Land and Building | 1,50,000 |
| | | | Furniture and Fittings | 15,000 |
| | | | Stock | 1,87,500 |
| C's Executors A/c | | 1,20,729 | Debtors | 30,000 |
| Creditors | | 45,000 | Bank | 60,000 |
| | | 4,42,500 | | 4,42,500 |

**(1) Revaluation Account**

Dr. Cr.

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Furniture and Fixt-ures A/c | | 7,500 | By Land and Building A/c | 30,000 |
| To Partners' Capital A/c | A-9,000<br>B-6,750<br>C-6,750 | 22,500 | | |
| | | 30,000 | | 30,000 |

**(2) Adjustment in regard to Goodwill**

| Particulars | | ₹ |
|---|---|---|
| Aggregate profits for three years upto the date of death (30-6-2016) are as follows: | | |
| Profit for 2013-14 : 1/2 of ₹ 1,68,000 + 1/2 of ₹ 1,89,000 | | 1,78,500 |
| Profit for 2014-15 : 1/2 of ₹ 1,89,000 + 1/2 of ₹ 1,80,000 | | 1,84,500 |
| Profit for 2015-16 : 1/2 of ₹ 1,80,000 + 1/2 of ₹ 1,56,000 | | 1,68,000 |
| Total profits for three years | | 5,31,000 |
| Average profit (₹ 5,31,000/3) | | 1,77,000 |
| *Less:* Interest on capital employed (8% on ₹ 3,90,000) | 31,200 | |
| Fair remuneration to partners (₹ 37,500 × 3) | 1,12,500 | 1,43,700 |
| Adjusted average profit for goodwill | | 33,300 |
| Goodwill is the purchase of 3 years' profit = 3 × ₹ 33,300 | | 99,900 |

| Partners | A | B | C |
|---|---|---|---|
| Right of goodwill before death (₹) Cr. (4:3:3) | 39,960 | 29,970 | 29,970 |
| Right of goodwill after death (1:1) (₹) Dr. | 49,950 | 49,950 | — |
| Gain (+)/Sacrifice (-) (₹) | Dr. (+) 9,990 | Dr. (+)19,980 | Cr.(-)29,970 |

**(3) Profit & Loss Appropriation Account**

Dr. Cr.

| Particulars | 1-1-16 to 30-6-16 | 1-7-16 to 31-12-16 | Particulars | 1-1-16 to 30-6-16 | 1-7-16 to 31-12-16 |
|---|---|---|---|---|---|
| To Interest on Capital A/c | | | By Profit & Loss A/c | 78,000 | 78,000 |
| - A | 7,500 | 7,500 | | | |
| - B | 3,750 | 3,750 | | | |
| - C | 4,500 | — | | | |
| To Interest on C's Executors Loan A/c - 12% | — | 6,834 | | | |
| To Profit transferred | | | | | |
| - A | 24,900 | 29,958 | | | |
| - B | 18,675 | 29,958 | | | |
| - C | 18,675 | — | | | |
| | 78,000 | 78,000 | | 78,000 | 78,000 |



**(4) C's Executor Loan Account**

Dr. Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance c/f | 1,20,729 | By C's Capital A/c | 1,13,895 |
| | | By P&L Appropriation A/c | 6,834 |
| | 1,20,729 | | 1,20,729 |

**Q.21 Firm ABC consist of 3 partners A, B and C, sharing profits and losses in the ratio 5:3:2 respectively. The partner A died on February 20, 2016, Profit and Loss Account for the period upto date of death and Balance Sheet as on that date were prepared. The Balance Sheet as on that date was as given by the side.**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital | | | Goodwill | 6,000 |
| A | 12,000 | | Machinery | 35,000 |
| B | 16,000 | | Furniture | 6,000 |
| C | 12,000 | 40,000 | Stock | 9,000 |
| Loan from A | | 5,000 | Debtors | 15,000 |
| General Reserve | | 7,000 | Cash in hand | 3,000 |
| Creditors | | 22,000 | | |
| | | 74,000 | | 74,000 |

**In addition to the assets shown above, the firm had 3 life policies in the name of each partner, for insured value of 20,000 each, the premium of which were charged to Profit & Loss Account.**

**According to the partnership deed, on death of partner, the asset and liabilities are to be revalued by a valuer. The revalued figures were :**

**(1) Goodwill ₹ 21,000, Machinery ₹ 45,000, Debtors are subject and to a provision for doubtful debts at 10% and Furniture at ₹ 7,000.**

**(2) Provision for taxation to be created for ₹ 1,500.**

**(3) Death-claim for policy in the name of A will be realised in full & the surrender values of the other 2 policies were ₹ 7,500 each.**

**The business will be continued by B & C, henceforth sharing profits and losses equally. The net balance due to A is transferred to a Loan account which will be paid off later.**

**Show Capital Account, Revaluation Account and the new Balance Sheet of the firm.**

**Solution:**

### Journal Entries

| Sr. No. | Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| 1. | Reserve A/c | Dr. | 7,000 | |
| | To A's A/c | | | 3,500 |
| | To B's A/c | | | 2,100 |
| | To C's A/c | | | 1,400 |
| | (Reserves transferred in old ratio) | | | |
| 2. | A | Dr. | 3,000 | |
| | B | Dr. | 1,800 | |
| | C | Dr. | 1,200 | |
| | To Goodwill A/c | | | 6,000 |
| | (Being goodwill written off among old partners in their old ratio) | | | |
| 3. | B (21,000 × 2/10) | Dr. | 4,200 | |
| | C (21,000 × 3/10) | Dr. | 6,300 | |
| | To A (21,000 × 5/10) | | | 10,500 |
| | (Being adjustment for goodwill made between the partners) | | | |
| 4. | Machinery A/c | Dr. | 10,000 | |
| | Furniture A/c | Dr. | 1,000 | |
| | To Revaluation A/c | | | 11,000 |
| | (Asset value appreciated) | | | |
| 5. | Revaluation A/c | Dr. | 3,000 | |
| | To Provision for BDD | | | 1,500 |
| | To Tax provision A/c | | | 1,500 |
| | (Provision increased) | | | |
| 6. | Revaluation A/c | Dr. | 8,000 | |
| | To A | | | 4,000 |
| | To B | | | 2,400 |
| | To C | | | 1,600 |
| | (Profit on revaluation transferred in old ratio) | | | |
| 7. | A | Dr. | | 20,000 |
| | To Cash/Bank A/c | | | 20,000 |
| | (Claim money utilised to settle A's Account) | | | |
| 8. | Cash A/c | Dr. | 20,000 | |
| | To Profit on JLP A/c | | | 20,000 |
| | (Claim received due to 'A's death) | | | |
| 9. | Joint Life Policy A/c | Dr. | 15,000 | |
| | To Profit on JLP A/c | | | 15,000 |
| | (Two policies revalued) | | | |



| Sr. No. | Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| 10. | Profit on Joint Life Policy A/c | Dr. | 35,000 | |
| | To A | | | 17,500 |
| | To B | | | 10,500 |
| | To C | | | 7,000 |
| | (Profit transferred in old ratio) | | | |

### Capital Account

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| To Goodwill (written off) | 3,000 | 1,800 | 1,200 | By Balance b/d | 12,000 | 16,000 | 12,000 |
| To A | -- | 4,200 | 6,300 | By Reserve A/c | 3,500 | 2,100 | 1,400 |
| To Cash/Bank A/c (Claim money utilized) | 20,000 | -- | -- | By B | 4,200 | -- | -- |
| To A's Loan A/c | 24,500 | -- | -- | By C | 6,300 | -- | -- |
| To Balance c/d | -- | 25,000 | 14,500 | By Revaluation A/c (profit) | 4,000 | 2,400 | 1,600 |
| | | | | By Joint Life Policy (profit) | 17,500 | 10,500 | 7,000 |
| **Total** | **47,500** | **31,000** | **22,000** | **Total** | **47,500** | **31,000** | **22,000** |

### Revaluation Account

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Provision for doubtful debts | | 1,500 | By Machinery A/c | 10,000 |
| To Provision for taxation A/c | | 1,500 | By Furniture A/c | 1,000 |
| To Profit trf. to Capital A/c | | | | |
| A | 4,000 | | | |
| B | 2,400 | | | |
| C | 1,600 | 8,000 | | |
| | | 11,000 | | 11,000 |

### A's (Legal heirs/representatives) Loan Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance c/d | 29,500 | By Balance b/d | 5,000 |
| | | By A's Capital A/c | 24,500 |
| | 29,500 | | 29,500 |

### Profit on Joint Life Policy Account

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Profit trf. to Capital Account | | | By Cash/Bank A/c (Claim on A's policy) | 20,000 |
| A | 17,500 | | By Joint Life Policy A/c (Revaluation) (2 Joint life policy of B & C) (7,500 × 2) | 15,000 |
| B | 10,500 | | | |
| C | 7,000 | 35,000 | | |
| | | 35,000 | | 35,000 |

**Balance Sheet**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Capital | | | Machinery | | 45,000 |
| B | 25,000 | | Furniture | | 7,000 |
| C | 14,500 | 39,500 | Stock | | 9,000 |
| Loan from A | | 29,500 | Debtors | 15,000 | |
| Provision for tax | | 1,500 | (-) Provision for BDD | 1,500 | 13,500 |
| Creditors | | 22,000 | Cash in hand | | 3,000 |
| | | | Joint Life Policy | | 15,000 |
| | | 92,500 | | | 92,500 |

**Working Note:**

**1. Calculation of Gain/Sacrifice:**

New Old

A Nil $-\frac{5}{10}$ = $-\frac{5}{10}$ Sacrifice

B $\frac{1}{2}-\frac{3}{10}$ = $\frac{5-3}{10}=\frac{2}{10}$ Gain

C $\frac{1}{2}-\frac{2}{10}$ = $\frac{5-2}{10}=\frac{3}{10}$ Gain

**Q.22 A, B and C are partners in a firm sharing profits and losses as 8:5:3. The Balance Sheet as at 31st December, 2015 was as follows:**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| **Sundry Creditors** | **1,50,000** | **Cash** | **40,000** |
| **General Reserve** | **80,000** | **Bills Receivable** | **50,000** |
| **Partner's Loan Accounts:** | | **Sundry Debtors** | **60,000** |
| **A** | **40,000** | **Stock** | **1,20,000** |
| **B** | **30,000** | **Fixed Assets** | **2,80,000** |
| **Partner's Capital Accounts:** | | | |
| **A** | **1,00,000** | | |
| **B** | **80,000** | | |
| **C** | **70,000** | | |
| | **5,50,000** | | **5,50,000** |

**From 1st January, 2016 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:**

**(a) The fixed assets should be valued at ₹ 3,31,000;**

**(b) A provision of 5% on sundry debtors be made for doubtful debts;**



**(c) The goodwill of the firm at this date be valued at three years' purchase of the average net profit of the last five years before charging insurance premium; and**

**(d) The stock be reduced to ₹ 1,12,000.**

**There is a joint life insurance policy for ₹ 2,00,000 for which an annual premium of ₹ 10,000 is paid, the premium being charged to Profit and Loss Account. The surrender value of the policy on 31st December, 2015 was ₹ 78,000.**

**The net profits of the firm for the last five years were ₹ 14,000, ₹ 17,000, ₹ 20,000, ₹ 22,000 and ₹ 27,000.**

**Goodwill and the surrender value of the joint life policy was not to appear in the books.**

**Draft Journal Entries necessary to adjust the capital accounts of the partners and prepare the revised Balance Sheet.**

**Solution:**

**M/s. A, B and C**

**Journal Entries**

| | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| 1.1.16 | Fixed Assets A/c | Dr. | 51,000 | |
| | To Revaluation A/c | | | 51,000 |
| | (Being increase in the value of fixed assets) | | | |
| | Revaluation A/c | Dr. | 11,000 | |
| | To Stock A/c | | | 8,000 |
| | To Provision for Doubtful Debts A/c | | | 3,000 |
| | (Being reduction in the value of stock and provision for doubtful debts @ 5% created on sundry debtors) | | | |
| | Revaluation A/c | Dr. | 40,000 | |
| | To A's Capital A/c | | | 20,000 |
| | To B's Capital A/c | | | 12,500 |
| | To C's Capital A/c | | | 7,500 |
| | (Being transfer of profit on revaluation to partners in their old profit sharing ratio of 8:5:3) | | | |
| | General Reserve A/c | Dr. | 80,000 | |
| | To A's capital A/c | | | 40,000 |
| | To B's capital A/c | | | 25,000 |
| | To C's capital A/c | | | 15,000 |
| | (Being transfer of general reserve in old ratio of 8:5:3) | | | |
| | B's capital A/c | Dr. | 10,500 | |
| | C's capital A/c | Dr. | 21,000 | |
| | To A's Capital A/c | | | 31,500 |
| | (Being adjustment for goodwill and joint life policy without raising the same in the books. For calculation refer working note) | | | |

**Balance sheet (revised)**
**As on 1st January, 2016**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Sundry Creditors | | 1,50,000 | Cash | | 40,000 |
| Partner's Loan Accounts: | | | Bills Receivable | | 50,000 |
| A | 40,000 | | Sundry Debtors | 60,000 | |
| B | 30,000 | 70,000 | *Less:* Provision | 3,000 | 57,000 |
| Partner's Capital Accounts: | | | Stock | | 1,12,000 |
| A | 1,91,500 | | Fixed Assets | | 3,31,000 |
| B | 1,07,000 | | | | |
| C | 71,500 | 3,70,000 | | | |
| | | 5,90,000 | | | 5,90,000 |

**Working Note:**

| **Adjustment for Goodwill and Joint Life Policy** | ₹ |
|---|---|
| Profit for 5 years (14,000+ 17,000+20,000+22,000+27,000) | 1,00,000 |
| Average profit per year (1,00,000 ÷ 5) | 20,000 |
| *Add:* Insurance premium per annum | 10,000 |
| Average profit before charging premium | 30,000 |
| Value of goodwill at three year's purchase (3×30,000) | 90,000 |
| *Add:* Surrender value of joint life policy | 78,000 |
| Total amount of unaccounted profit requiring adjustment without changing book value | 1,68,000 |

| Adjustment for Goodwill & Joint-life Policy | A ₹ | B ₹ | C ₹ |
|---|---|---|---|
| Raised goodwill & joint Life Policy in old profit sharing ratio 8:5:3 | 84,000 (Cr.) | 52,500 (Cr.) | 31,500 (Cr.) |
| *Less:* Written off in new profit sharing ratio of 5:6:5 | 52,500 (Dr.) | 63,000 (Dr.) | 52,500 (Dr.) |
| Net effect in Capital Accounts | 31,500 (Cr.) | 10,500 (Dr.) | 21,000 (Dr.) |

**Q.23 A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| **Capital Accounts** | | | **Building** | | **10,00,000** |
| **A** | **8,00,000** | | **Furniture** | | **2,40,000** |
| **B** | **4,20,000** | | **Office equipments** | | **2,80,000** |
| **C** | **4,00,000** | **16,20,000** | **Stock** | | **2,50,000** |
| **Sundry Creditors** | | **3,70,000** | **Sundry debtors** | **3,00,000** | |
| **General Reserves** | | **3,60,000** | **Less: Provision for Doubtful debts** | **30,000** | **2,70,000** |



| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| | | **Joint life policy** | **1,60,000** |
| | | **Cash at Bank** | **1,50,000** |
| | **23,50,000** | | **23,50,000** |

**B retired on 1st April, 2018 subject to the following conditions:**

**(i) Office Equipments revalued at ₹ 3,27,000.**

**(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000.**

**(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.**

**(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000**

**(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:**

| Year | ₹ |
|---|---|
| 2014 | 90,000 |
| 2015 | 1,40,000 |
| 2016 | 1,20,000 |
| 2017 | 1,30,000 |

**(vi) Amount due to B is to be transferred to his Loan Account**

**Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. [May 2018, 10 Marks]**

**Solution :**

**Revaluation A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Furniture A/c | | 40,000 | By Office equipment A/c | 47,000 |
| To Stock A/c | | 50,000 | By Building A/c | 5,00,000 |
| To Joint life policy A/c | | 10,000 | By Provision for doubtful debts A/c | 15,000 |
| To Partners' capital A/cs: | | | | |
| A | 2,31,000 | | | |
| B | 1,54,000 | | | |
| C | 77,000 | 4,62,000 | | |
| | | 5,62,000 | | 5,62,000 |

**Partners' Capital A/c**

| Particulars | A ₹ | B ₹ | C ₹ | Particulars | A ₹ | B ₹ | C ₹ |
|---|---|---|---|---|---|---|---|
| To B's capital A/c | 90,000 | - | 30,000 | By Balance b/d | 8,00,000 | 4,20,000 | 4,00,000 |
| To B's loan A/c | | 8,14,000 | | By General Reserve A/c | 1,80,000 | 1,20,000 | 60,000 |
| To Balance c/d | 11,21,000 | | 5,07,000 | By Revaluation reserve A/c | 2,31,000 | 1,54,000 | 77,000 |
| | | | | By As capital A/c | | 90,000 | |
| | | | | By C's capital A/c | | 30,000 | |
| | 12,11,000 | 8,14,000 | 5,37,000 | | 12,11,000 | 8,14,000 | 5,37,000 |

**Balance Sheet as on 1.4.2018 (After B's retirement)**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital accounts: | | | Building | | 15,00,000 |
| A | 11,21,000 | | Furniture | | 2,00,000 |
| C | 5,07,000 | 16,28,000 | Office equipment | | 3,27,000 |
| B's loan account | | 8,14,000 | Stock | | 2,00,000 |
| Sundry creditors | | 3,70,000 | Sundry debtors | 3,00,000 | |
| | | | Less: Provision for doubtful debts | (15,000) | 2,85,000 |
| | | | JLP | | 1,50,000 |
| | | | Cash at bank | | 1,50,000 |
| | | 28,12,000 | | | 28,12,000 |

Working Notes: Calculation of goodwill:

1. Average of last 4 year's profit
   = (90,000+1,40,000+1,20,000+1,30,000)/4 = ₹ 1,20,000
2. Goodwill at three years' purchase = ₹ 1,20,000 × 3 = ₹ 3,60,000

**Goodwill adjustment**

| | Share of goodwill (Old ratio) | Share of goodwill (New ratio) | Adjustment |
|---|---|---|---|
| A | 1,80,000 | 2,70,000 | 90,000 (Dr.) |
| B | 1,20,000 | - | 1,20,000 (Cr.) |
| C | 60,000 | 90,000 | 30,000 (Dr.) |

**Q.24 Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ration of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below :**

| Liabilities | | (₹) | Assets | (₹) |
|---|---|---|---|---|
| Trade Payables | | 22,500 | Land & Buildings | 37,000 |
| Outstanding Liabilities | | 2,200 | Furniture & Fixtures | 7,200 |
| General Reserve | | 7,800 | Closing stock | 12,600 |
| Capital Accounts : | | | Trade Receivables | 10,700 |
| Dinesh | 15,000 | | Cash in hand | 2,800 |
| Ramesh | 15,000 | | Cash at Bank | 2,200 |
| Naresh | 10,000 | 40,000 | | |
| | | 72,500 | | 72,500 |

**The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following terms :**

**(i) Suresh shall bring ₹ 8,000 towards his capital.**

**(ii) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.**

**(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.**



**(iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.**

**(v) The new profit sharing ratio shall be divided equally among the partners.**

**The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.**

**Prepare (i) Revaluation Account, (ii) Capital Accounts of the Partners, (iii) Balance Sheet of the firm after admission of Suresh. [Nov. 2018, 15 Marks]**

**Solution :**

**Revaluation A/c**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Furniture & Fixtures A/c | | 720 | By Stock A/c | 1,400 |
| To Provision for Bad & Doubtful Debts A/c | | 535 | By Land & Buildings A/c | 5,600 |
| To Capital A/c: | | | | |
| Dinesh | 2872 | | | |
| Ramesh | 1915 | | | |
| Naresh | 958 | 5745 | | |
| | | 7,000 | | 7,000 |

**Partner's Capital A/c**

| Particulars | Dinesh | Ramesh | Naresh | Suresh | Particulars | Dinesh | Ramesh | Naresh | Suresh |
|---|---|---|---|---|---|---|---|---|---|
| To Dinesh | — | — | 1,125 | 3,375 | By Balance b/d | 15,000 | 15,000 | 10,000 | — |
| To Ramesh | — | — | 375 | 1,125 | By General Reserve A/c | 3,900 | 2,600 | 1,300 | — |
| To Balance c/d | 26,972 | 21,015 | 10,758 | 3,500 | By Cash A/c | — | — | — | 8,000 |
| | | | | | By Naresh | 1,125 | 375 | — | — |
| | | | | | By Suresh | 3,375 | 1,125 | — | — |
| | | | | | By Outstanding Liabilities A/c | 700 | — | — | — |
| | | | | | By Revaluation A/c | 2,872 | 1,915 | 958 | — |
| | 26,972 | 21,015 | 12,258 | 8,000 | | 26,972 | 21,015 | 12,258 | 8,000 |

**Working Note:**

**Calculation of Sacrificing Ratio**

Sacrificing Ratio = Old Ratio-New Ratio

Dinesh = $\frac{3}{6}-\frac{1}{4}=\frac{3}{12}$ (Sacrifice)

Ramesh= $\frac{2}{6}-\frac{1}{4}=\frac{1}{12}$ (Sacrifice)

Naresh = $\frac{1}{6}-\frac{1}{4}=\frac{1}{12}$ (Gain)

Suresh = Nil $-\frac{1}{4}=-\frac{1}{4}$ (Gain)

Sacrifice by Mr. Dinesh $= 18{,}000 \times \frac{3}{12} = 4{,}500$

Sacrifice by Mr. Ramesh $= 18{,}000 \times \frac{1}{12} = 1{,}500$

**Cash A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 2,800 | By Balance c/d | 10,800 |
| To Suresh | 8,000 | | |
| | **10,800** | | **10,800** |

**Balance Sheet of the new firm as on 1.4.2018**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Trade Payables | | 22,500 | Land & Buildings | | 42,600 |
| Outstanding Liabilities | | 1,500 | Furniture & Fixtures | | 6,480 |
| Capital Accounts: | | | Closing Stock | | 14,000 |
| Dinesh | 26,972 | | Trade Receivables | 10,700 | |
| Ramesh | 21,015 | | Less: Prov. for Bad Debts | 535 | 10,165 |
| Naresh | 10,758 | | Cash in hand | | 10,800 |
| Suresh | 3,500 | 62,245 | Cash at Bank | | 2,200 |
| | | **86,245** | | | **86,245** |

**Note:** The effect of above calculation is that extra ₹ 1,000 to Z is borne by X & Y in their profit sharing ratio *i.e.* 3:2.

**Q.25 Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as.**

| Liabilities | Amount | Assets | | Amount |
|---|---|---|---|---|
| Creditors | 20,000 | Land and Building | | 1,50,000 |
| General Reserve | 12,000 | Investments | | 65,000 |
| Capital Accounts : | | Stock in trade | | 15,000 |
| Monika | 1,00,000 | Trade receivables | 35,000 | |
| Yedhant | 75,000 | Less : Provision for doubtful debt | 2,000 | 33,000 |
| Zoya | 75,000 | Cash in hand | | 7,000 |
| | | Cash at bank | | 12,000 |
| | **2,82,000** | | | **2,82,000** |

**In order to arrive at the balance due to Zoya, it was mutually agreed that:**

**(i) Land and Building be valued at ₹ 1,75,000**

**(ii) Debtors were all good, no provision is required**

**(iii) Stock is valued at ₹ 13,500**

**(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.**



**(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.**

**(vi) The profit of the preceding five years ended 31st March were :**

| 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| 25,000 | 20,000 | 22,500 | 35,000 | 28,750 |

**You are required to prepare :**

**(1) Revaluation account**

**(2) Capital accounts of the partners and**

**(3) Balance sheet of the Firm as at 1st July 2018. [May 2019; 10 Marks]**

**Solution :**

**Revaluation Account**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Stock A/c | | 1,500 | By Land & Building A/c | 25,000 |
| To Profit on Revaluation: | | | By Provision for Doubtful Debts A/c | 2,000 |
| Monika | 8,500 | | | |
| Yedhant | 8,500 | | | |
| Zoya | 8,500 | 25,500 | | |
| | | **27,000** | | **27,000** |

**Capital Account**

| Particulars | M | Y | Z | Particulars | M | Y | Z |
|---|---|---|---|---|---|---|---|
| To Zoya | 4,375 | 4,375 | | By Balance b/d | 1,00,000 | 75,000 | 75,000 |
| To Z's executor's A/c | -- | -- | 98,125 | By Revaluation A/c. (Profit) | 8,500 | 8,500 | 8,500 |
| To Balance c/d | 1,08,125 | 83,125 | | By General Reserve A/c | 4,000 | 4,000 | 4,000 |
| | | | | By M & Y **(2)** | -- | -- | 8,750 |
| | | | | By Profit & Loss Suspense A/c **(3)** | -- | -- | 1,875 |
| | **1,12,500** | **87,500** | **98,125** | | **1,12,500** | **87,500** | **98,125** |

**Balance Sheet of the firm as at 1st July, 2018 (after death)**

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| **Capital A/c:-** | | | Land & Building | 1,75,000 |
| Monika | 1,08,125 | | Investments | 65,000 |
| Yedhant | 83,125 | 1,91,250 | Stock | 13,500 |
| Creditors | | 20,000 | Debtors | 35,000 |
| Zoya's Executor's A/c | | 98,125 | Cash in Hand | 7,000 |
| | | | Cash at Bank | 12,000 |
| | | | Profit & Loss Suspense A/c | 1,875 |
| | | **3,09,375** | | **3,09,375** |

**Working Notes:**

**(1) Calculation of Goodwill**

Profits of the past five years:

| | |
|---|---|
| 2014 | 28,750 |
| 2015 | 35,000 |
| 2016 | 22,500 |
| 2017 | 20,000 |
| 2018 | 25,000 |
| | 1,31,250 |

Average Profit $= \frac{131250}{5}$

= ₹ 26,250

=26,250 × 1 year purchase

= **₹ 26,250**

**(2) Treatment of Goodwill**

| | | | |
|---|---|---|---|
| Monika | Dr. | 4,375 | |
| Yedhant | Dr. | 4,375 | |
| | To Zoya | | 8,750 |

(Being goodwill adjusted in the gaining ratio 1:1)

**(3) Calculation of Zoya's share of profit, upto the date of death**

Profits of the past three years:

| | |
|---|---|
| 2016 | 22,500 |
| 2017 | 20,000 |
| 2018 | 25,000 |
| | 67,500 |

Average Profit $= \frac{67500}{3}$ = ₹ 22,500

=22,500 × 3/12× 1/3

= **₹ 1,875**

**Q.26 Arup and Swarup were partners. The partnership deed provides *inter alia*:**

**(*i*) That the annual accounts be balanced on 31st December each year;**

**(*ii*) That the profits be allocated as follows:**

**Arup: One-half; Swarup: One-third and Carried to reserve account: One Sixth;**

**(*iii*) That in the event of death of a partner, his executor will be entitled to the following:**



**(1) The capital to his credit at the date of death;**

**(2) His proportionate share of profit to date of death based on the average profits of the last three completed years; and**

**(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years**

**Trial Balance as on 31st December, 2018**

| Particulars | Debit (₹) | Credit (₹) |
|---|---|---|
| Arup's Capital | | 90,000 |
| Swarup's Capital | | 60,000 |
| Reserve | | 45,000 |
| Bills receivable | 50,000 | |
| Investment | 55,000 | |
| Cash | 1,10,000 | |
| Trade payables | | 20,000 |
| Total | 2,15,000 | 2,15,000 |

**The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.**

**Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executors Account as would appear in the firms' ledger transferring the amount to the Loan account. [Nov. 2019, 10 Marks]**

**Solution :**

**(A) Share of profits**

Average profits $= \frac{51000+39000+45000}{3}$ = ₹ 45000

Swarup's share of profits $= 45000 \times \frac{4}{12} \times \frac{2}{5}$ = **₹ 6000**

**(B) Share of Goodwill**

Average profits = ₹ 45000

Goodwill = Average profits × No. of years purchase

= 45000 × 3 = ₹ 135000

Swarup's share of goodwill $= 135000 \times \frac{2}{5}$ = **₹ 54000**

**(C) Swarup's Executors' A/c**

| Date | Particulars | J.F | Amount | Date | Particulars | J.F | Amount |
|---|---|---|---|---|---|---|---|
| 2018 May 1 | To Swarup's Executors' | | | 2018 Jan 1 | By Capital A/c | | 60000 |

| Date | Particulars | J.F | Amount | Date | Particulars | J.F | Amount |
|---|---|---|---|---|---|---|---|
| | Loan A/c (bal. fig.) | | 138000 | May 1 | By Reserves A/c (2/5 of ₹ 45000) | | 18000 |
| | | | | " " | By P/L Suspense A/c | | 6000 |
| | | | | " " | By Arup's Capital A/c (Share of Goodwill) | | 54000 |
| | Total | | 138000 | | Total | | 138000 |

**Q.27 M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:**

**Balance Sheet of M/s. TB as on 30-6-2020**

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|
| A's Capital A/c | 1,24,000 | Land | 1,20,000 |
| B's Capital A/c | 96,000 | Building | 2,20,000 |
| C's Capital A/c | 1,60,000 | Plant & Machinery | 4,00,000 |
| Long Term Loan | 4,20,000 | Investments | 42,000 |
| Bank Overdraft | 54,000 | Inventories | 1,36,000 |
| Trade Payables | 2,13,000 | Trade Receivables | 1,59,000 |
| | 10,77,000 | | 10,77,000 |

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made :

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be ₹ 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

**You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. [Nov. 2020, 10 Marks]**



**Solution:**

**Revaluation A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Building A/c | 11,000 | By Investments A/c | 4,000 |
| To Plant and Machinery A/c | 80,000 | By Loss transferred to | |
| To Trade Receivable A/c | 23,850 | A(3/10) 33,255 | |
| | | B(2/10) 22,170 | |
| | | C(5/10) 55,425 | 1,10,850 |
| Total | 1,14,850 | Total | 1,14,850 |

**Partner's Capital A/c**

| Particulars | A (₹) | B (₹) | C (₹) | D (₹) | Particulars | A (₹) | B (₹) | C (₹) | D (₹) |
|---|---|---|---|---|---|---|---|---|---|
| To Revaluation A/c (loss) | 33,255 | 22,170 | 55,425 | -- | By Balance b/d | 1,24,000 | 96,000 | 1,60,000 | -- |
| To B's & C's Cap. A/c(2) | -- | -- | -- | 90,000 | By D's Capital A/c(2) | -- | 60,000 | 30,000 | -- |
| To Investments A/c | -- | 46,000 | -- | -- | By Bank A/c(3) (Bal. fig.) | 29,255 | -- | 25,425 | 2,10,000 |
| To B's Loan A/c (Bal. fig.) | -- | 87,830 | -- | -- | | | | | |
| To Balance c/d | 1,20,000 | -- | 1,60,000 | 1,20,000 | | | | | |
| Total | 1,53,255 | 1,56,000 | 2,15,425 | 2,10,000 | Total | 1,53,255 | 1,56,000 | 2,15,425 | 2,10,000 |

**Working Notes:-**

**1. Calculation of Sacrifice/Gain:**

**Old Share - New Share**

$A = \frac{3}{10} - \frac{3}{10} \quad = \text{NIL}$

$B = \frac{2}{10} - \text{NIL} \quad = \frac{2}{10}$ (Sacrifice)

$C = \frac{5}{10} - \frac{4}{10} \quad = \frac{1}{10}$ (Sacrifice)

$D = \text{NIL} - \frac{3}{10} \quad = -\frac{3}{10}$ (Gain)

**2. Goodwill Treatment:**

| | | | | |
|---|---|---|---|---|
| (3,00,000 × 3/10) | D's Capital A/c | Dr. | 90,000 | |
| (3,00,000 × 2/10) | To B's Capital A/c | | | 60,000 |
| (3,00,000 × 1/10) | To C's Capital A/c | | | 30,000 |

**3. Capital Adjustment:**

Total Capital of the firm: ₹ 4,00,000

| | A $\left(\frac{3}{10}\right)$ | C $\left(\frac{4}{10}\right)$ | D $\left(\frac{3}{10}\right)$ |
|---|---|---|---|
| Capital in the New firm | ₹ 1,20,000 | ₹ 1,60,000 | ₹ 1,20,000 |
| **Less:** Capital balance | ₹ 90,745 | ₹ 1,34,575 | ₹ 1,20,000 |
| | **Short ₹ 29,255** | **Short ₹ 25,425** | -- |

**Q.28 The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:**

**(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.**

**(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.**

**(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.**

**(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.**

**(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.**

**(vi) That the partnership books to be closed annually on 31st December.**

**P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business. An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off. The trading results of the firm (before charging interest on capital) had been as follows :**

**2017 : Profit ₹ 29,340**
**2018 : Profit ₹ 26,470**
**2019 : Loss ₹ 8,320**
**2020 : Profit ₹ 13,470**

**You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.**

**Note : Impact for unrecorded liability not to be given in earlier years.**

**[Jan. 2021, 10 Marks]**



**Solution :**

**P's Capital A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To P's Drawings A/c | 30,000 | By Balance b/d | 30,000 |
| To P & L Adj. A/c (2/4 of ₹ 6,000) (Share in Unrecorded Liability) | 3,000 | By P's Current A/c | 5,000 |
| To Bal. trf. to P's Executor's A/c (Amount Due to P's Legal heir) | 38,465 | By Interest on Capital A/c | 2,400 |
| | | By P & L App. A/c (1) | 4,735 |
| | | By Insurance Policies A/c (2) | 17,500 |
| | | By Q & R (3) | 11,830 |
| **Total** | **71,465** | **Total** | **71,465** |

**Working Note:-**

**1. Share in Profit:-**

| | ₹ |
|---|---|
| Profit of Year 2020 | 13,470 |
| **Less:-** Interest on Capital | (4,000) |
| **Net Profit** | **9,470** |
| Share of P (9,470 × 2/4) | 4,735 |

**2. Share in Life Insurance Policies:-**

| | ₹ |
|---|---|
| P's Policies | 25,000 |
| Share in Q and R's Policies (50,000 × 20%) | 10,000 |
| **Total** | **35,000** |
| Share of P (35,000 × 2/4) | 17,500 |

**3. Valuation of Goodwill:-**

Average Profit before Interest on Capital = $\frac{(29340 + 26470 - 8320)}{3} = 15,830$

**Less:** Interest on Capital = (30000+12000+8000) × 8% = (4,000)

Average Profit after Interest on Capital **11,830**

Goodwill of the firm = 11,830 × 2 = ₹ 23,660

P's Share of Goodwill = $23660 \times \frac{2}{4}$ = **₹ 11,830**

**Q.29 Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:**

2017 - Nil
2018 - ₹ 900
2019 - ₹ 2,000
2020 - ₹ 3,600

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis). [July 2021, 5 Marks]

**Solution :**

**Joint Life Policy A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 10 June, 2017 | To Bank A/c | 3,000 | 31 Dec., 2017 | By Profit & Loss A/c | 3,000 |
| | **Total** | **3,000** | | **Total** | **3,000** |
| 10 June, 2018 | To Bank A/c | 3,000 | 31 Dec., 2018 | By Profit & Loss A/c | 2,100 |
| | | | | By Balance c/d | 900 |
| | **Total** | **3,000** | | **Total** | **3,000** |
| 1st Jan, 2019 | To Balance b/d | 900 | 31 Dec., 2019 | By Profit & Loss A/c | 1,900 |
| 10 June, 2019 | To Bank A/c | 3,000 | | By Balance c/d | 2,000 |
| | **Total** | **3,900** | | **Total** | **3,900** |
| 1st Jan, 2020 | To Balance b/d | 2,000 | 31 Dec., 2020 | By Profit & Loss A/c | 1,400 |
| 10 June, 2020 | To Bank A/c | 3,000 | | By Balance c/d | 3,600 |
| | **Total** | **5,000** | | **Total** | **5,000** |
| 1st Jan, 2021 | To Balance b/d | 3,600 | 15 April, 2021 | By Bank A/c | 3,600 |
| | **Total** | **3,600** | | **Total** | **3,600** |

**Q.30** It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms :

(*i*) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(*ii*) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly instalments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September, 2020 and Partner's Capital account balances on that date were : Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended



31st March, 2017 - ₹ 70,400
31st March, 2018 - ₹ 56,320
31st March, 2019 - ₹ 48,160
31st March, 2020 - ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor. [July 2021, 10 Marks]

**Solution :**

**Ram's Capital A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Ram's Current A/c | 1,920 | By Balance b/d | 21,600 |
| To Ram Executor A/c (transferred) | 1,00,802 | By Laxman's & Bharat's Capital | 81,122 |
| | **1,02,722** | | **1,02,722** |

**Working Note:-**

**1. Calculation of Goodwill**

(*a*) Average Profit $= \dfrac{70,400 + 56,320 + 48,160 + 17,408}{4}$

$= ₹\ 48,072$

(*b*) Goodwill $=$ Average Profit $\times$ Number of years purchase

$= ₹\ 48,072 \times 3$

$= ₹\ 1,44,216$

(*c*) Ram's Share in Goodwill $= 1,44,216 \times \dfrac{9}{16}$

$= ₹\ 81121.5$ or $₹\ 81,122$

**Ram's Executors A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.2021 | To Bank A/c (25,200.5+2,520) | 27,720.50 | 1.10.2020 | By Ram Capital A/c | 1,00,802.00 |
| " | To Balance c/d | 75,601.50 | 31.3.2021 | By Interest (1,00,802 × 2.5%) | 2,520.00 |
| | **Total** | **1,03,322.00** | | **Total** | **1,03,322.00** |
| 30.9.2021 | To Bank A/c (25,200.5+1,890) | 27,090.50 | 1.4.2021 | By Balance b/d | 75,601.50 |
| 31.3.2022 | To Bank A/c (25,200.5+1,260) | 26,460.50 | 30.9.2021 | By Interest (75,601.5 × 2.5%) | 1,890.00 |
| " | To Balance c/d | 25,200.50 | 30.3.2022 | By Interest (50,401 × 2.5%) | 1,260.00 |
| | **Total** | **78,751.50** | | **Total** | **78,751.50** |

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 30.9.2022 | To Bank A/c | 25,830.50 | 1.4.2022 | By Balance b/d | 25,200.50 |
| | | | 30.9.2022 | By Interest (25,200.50 × 2.5%) | 630.00 |
| | Total | **25,830.50** | | Total | **25,830.50** |

- Amount of each instalment (Without interest) $= \frac{1,00,802}{4} =$ ₹25,200.50

**Q.31 A, B and C are partners in a firm. On 1st April, 2019, their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.**

**As per the provisions of partnership deed :**

**(1) C was entitled for a salary of ₹ 5000 p.a.**

**(2) All the partners were entitled to interest on capital at 5% p.a.**

**(3) Profits and losses were to be shared in the ratio of Capitals of the partners.**

**Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March, 2021 of ₹ 45,000, was divided equally without providing for the above adjustments.**

**You are required to pass an adjustment journal entry to rectify the above errors.** **[Dec. 2021, 5 Marks]**

**Solution:**

| | A | | B | | C |
|---|---|---|---|---|---|
| Capital of Partners | ₹ 50000 | | ₹ 25000 | | ₹ 25000 |
| Capital Ratio | 2 | : | 1 | : | 1 |

**Adjustment Table**

| **I. Amount which have been distributed** | **A ₹** | **B ₹** | **C ₹** | **Total ₹** |
|---|---|---|---|---|
| As divisible profit [₹ 33,000+₹ 45,000] in [1 : 1 : 1] | 26,000 | 26,000 | 26,000 | 78,000 |
| **Total** | **26,000** | **26,000** | **26,000** | **78,000** |
| **II. Amount which should have been distributed** | | | | |
| As Salary [for 2 years] | -- | -- | 10,000 | 10,000 |
| As Interest on capital [for 2 years] | 5,000 | 2,500 | 2,500 | 10,000 |
| As divisible profit [in 2 : 1 : 1] [₹ 78,000 – ₹ 10,000 – ₹ 10,000 = ₹ 58,000] | 29,000 | 14,500 | 14,500 | 58,000 |
| **Total** | **34,000** | **17,000** | **27,000** | **78,000** |
| | **Short ₹ 8000** | **Excess ₹ 9000** | **Short ₹ 1000** | |



**Adjustment Journal Entry : -**

B's Current A/c Dr. ₹ 9000

To A's Current A/c ₹ 8000

To C's Current A/c ₹ 1000

(Being adjustment entry made among the partners to rectify wrong distribution of profits of last two years)

**Q.32 A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th. As at 31st March, 2021, following is the Balance Sheet of A and B:**

**Balance Sheet as at 31st March, 2021**

| Liabilities | | (₹) | Assets | (₹) |
|---|---|---|---|---|
| Capital accounts: | | | Cash in hand | 1,15,000 |
| A | 2,85,000 | | Cash at bank | 1,10,000 |
| B | 1,55,000 | 4,40,000 | Sundry debtors | 1,60,000 |
| Creditors | | 3,75,000 | Stock | 2,00,000 |
| General reserve | | 60,000 | Bills receivable | 30,000 |
| | | | Land and building | 2,50,000 |
| | | | Office furniture | 10,000 |
| | | 8,75,000 | | 8,75,000 |

**They agreed to take C into Partnership on 1st April, 2021 on the following terms :**

**(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.**

**(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.**

**(iii) Stock and Furniture be reduced by 10%.**

**(iv) A provision @ 5% for doubtful debts be created on debtors.**

**(v) Land and building be appreciated by 20%.**

**(vi) Capital Accounts of the partners be readjusted on the basis of their profit-sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.**

**Prepare Revaluation Account and Partners Capital Accounts.** **[Dec. 2021, 10 Marks]**

**Solution :**

**Revaluation A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Stock A/c | 20,000 | By Land & Building A/c | 50,000 |
| To Furniture A/c | 1,000 | | |

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Provision for Doubtful Debts A/c | 8,000 | | |
| To A's Capital A/c | 15,750 | | |
| To B's Capital A/c | 5,250 | | |
| **TOTAL** | **50,000** | **TOTAL** | **50,000** |

**Working Note :**

**(1) Calculation of New Ratio :**

$$1 - \frac{1}{5} = \frac{4}{5}$$

$$A = \frac{4}{5} \times \frac{3}{4} = \frac{3}{5}$$

$$B = \frac{4}{5} \times \frac{1}{4} = \frac{1}{5}$$

$$C = \frac{1}{5}$$

A : B : C = 3/5 : 1/5 : 1/5 or 3 : 1 : 1

Sacrificing Ratio = 3 : 1

**(2) Treatment of Goodwill :**

C's is share in goodwill $= ₹\ 2,00,000 \times \frac{1}{5} = ₹\ 40,000$

| | | |
|---|---|---|
| C's Current A/c Dr. | 40,000 | |
| To A's Capital A/c | | 30,000 |
| To B's Capital A/c | | 10,000 |

(Being amount of goodwill credited to sacrificing partners in their sacrificing ratio *i.e.* 3 : 1)

**Partners' Capital Account**

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| To B Current A/c (3) | -- | 45,250 | -- | By Bal. b/d | 2,85,000 | 1,55,000 | -- |
| To Balance c/d | 4,20,000 | 1,40,000 | 1,40,000 | By Revaluation A/c | 15,750 | 5,250 | |
| | | | | By General Reserve A/c | 45,000 | 15,000 | |
| | | | | By Bank A/c | --- | --- | 1,40,000 |



| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| | | | | By C's Current A/c | 30,000 | 10,000 | -- |
| | | | | By A's Current A/c (3) | 44,250 | -- | -- |
| **TOTAL** | **4,20,000** | **1,85,250** | **1,40,000** | **TOTAL** | **4,20,000** | **1,85,250** | **1,40,000** |

**(3) Capital Adjustments :**

Total Capital of the New Firm $= 1,40,000 \times 5 = ₹\ 7,00,000$

₹ 7,00,000

$A = ₹\ 7,00,000 \times \frac{3}{5}$ $= ₹\ 4,20,000 - ₹\ 3,75,750$ (Bal.) $= ₹\ 44,250$ Deficit

$B = ₹\ 7,00,000 \times \frac{1}{5}$ $= ₹\ 1,40,000 - ₹\ 1,85,250$ (Bal.) $= ₹\ 45,250$ Surplus

$C = ₹\ 7,00,000 \times \frac{1}{5}$ $= ₹\ 1,40,000$

| | | |
|---|---|---|
| A's Current A/c Dr. | 44,250 | |
| To A's Capital A/c | | 44,250 |

| | | |
|---|---|---|
| B's Capital A/c Dr. | 45,250 | |
| To B's Current A/c | | 45,250 |

**Q.33 Mr. X gives the following particulars in respect of business carried on by him:**

| Particulars | Amount (₹ ) |
|---|---|
| Capital Invested in business | 9,00,000 |
| Market rate of interest on investment | 8% |
| Rate of risk return on capital invested in business | 3% |
| Remuneration per annum from alternative employment of proprietor if he was not engaged in business | 36,000 |

**The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.**

**Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years. [June 2022, 5 Marks]**

**Solution :**

**Calculation of Goodwill by Super Profit Method**

***a.*** Calculation of Average Profit

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No.of years}}$$

$$= \frac{2,40,000 + 2,16,000 + 3,00,000 - 36,000}{4}$$

$$= ₹1,80,000$$

Less: Annual Remuneration = (36,000)

Average Profits $= 1,44,000$

b. Normal Profit $=$ Capital Invested $\times \frac{\text{Rate of return}}{100}$

$= 9,00,000 \times \frac{11}{100} = ₹99,000$

c. Super Profit $=$ Average Profit- Normal Profit

$= 1,44,000\text{-}99,000 = ₹\ 45,000$

d. Goodwill $=$ Super Profit $\times$ No. of years Purchase

$= ₹\ 45,000 \times 6 = ₹\ 2,70,000$

**Q.34 X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2021 was as follows:**

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| | | Building | 2,50,000 |
| **Capitals:** | | Machinery | 3,37,500 |
| X | 1,75,000 | Debtors | 3,25,000 |
| Y | 2,50,000 | Stock | 4,00,000 |
| Z | 4,00,000 | Bank | 62,500 |
| General Reserve | 3,00,000 | | |
| Trade Creditors | 2,50,000 | | |
| **Total** | **13,75,000** | **Total** | **13,75,000** |

Z retired from business on 1st April, 2021 on the following terms:

(i) Building to be appreciated by 25%.

(ii) X and Y to bring in additional capital of ₹ 5,00,000 each.

(iii) Machinery to be depreciated by 10%.

(iv) Stock is revalued at ₹ 3,72,250.

(v) Provision for Doubtful Debts to be created at 4%.

(vi) Goodwill was to be valued at 3 Years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.

(vii) Goodwill was not to be raised in the Books of Account.

(viii) Balance payable to Z was to be paid immediately.

**Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement. Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill. [June 2022, 10 Marks]**



**Solution :**

**Revaluation A/c**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Machinery A/c | 33,750 | By Building A/c | | 62,500 |
| To Stock A/c | 27,750 | By Capital A/c : | | |
| To Provision for Doubtful Debts A/c | 13,000 | X 1/6 | 2000 | |
| | | Y 2/6 | 4000 | |
| | | Z 3/6 | 6000 | 12,000 |
| **Total** | **74,500** | **Total** | | **74,500** |

**Partner's Capital A/c**

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| To Revaluation A/c | 2,000 | 4,000 | 6,000 | By Balance b/d | 1,75,000 | 2,50,000 | 4,00,000 |
| To Z Capital A/c (GW) | 1,20,000 | 2,40,000 | -- | By General Reserve | 50,000 | 1,00,000 | 1,50,000 |
| To Bank (bal. fig.) | -- | -- | 9,04,000 | By Bank | 5,00,000 | 5,00,000 | -- |
| To Balance c/d | 6,03,000 | 6,06,000 | -- | By X Cap. A/c (GW) | -- | -- | 1,20,000 |
| | | | | By Y Cap. A/c (GW) | | | 2,40,000 |
| **Total** | **7,25,000** | **8,50,000** | **9,10,000** | **Total** | **7,25,000** | **8,50,000** | **9,10,000** |

**Bank A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 62,500 | By Z Capital A/c | 9,04,000 |
| To X Capital A/c | 5,00,000 | By Balance c/d | 1,58,500 |
| To Y Capital A/c | 5,00,000 | | |
| **Total** | **10,62,500** | **Total** | **10,62,500** |

**Working Note:-**

**1. Calculation of Goodwill**

Average Profit $= \frac{2,75,000 + 2,50,000 + 1,95,000}{3}$

$= ₹\ 2,40,000$

Goodwill of the firm $=$ Average Profit $\times$ No. years of purchase

$= 2,40,000 \times 3 = ₹\ 7,20,000$

Z's share of Goodwill $= 7,20,000 \times \frac{3}{6} = ₹\ 3,60,000$

**2. Adjustment entry for goodwill treatment**

| Date | Particulars | | L.F | Dr. | Cr. |
|---|---|---|---|---|---|
| | X Capital A/c | Dr. | | 1,20,000 | |
| | Y Capital A/c | Dr. | | 2,40,000 | |
| | To Z Capital A/c | | | | 3,60,000 |
| | (Being Z share in goodwill debited in continuing partners in their gaining ratio 1:2) | | | | |

**Q.35 X and Y are in partnership business sharing profits and losses in the ratio of 2:3.**

**Their Balance Sheet as at 31st March, 2022 is as follows :**

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Capital Accounts | | Building | 60,000 |
| X | 60,000 | Plant | 45,000 |
| Y | 1,40,000 | Furniture | 23,500 |
| General Reserve | 40,000 | Debtors | 38,400 |
| Creditors | 42,600 | Bills receivable | 12,500 |
| Bills payable | 15,400 | Stock | 42,600 |
| Salary payable | 2,000 | Bank | 78,000 |
| | 3,00,000 | | 3,00,000 |

**On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at ₹ 1,20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows :**

**(i) Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.**

**(ii) Out of total Debtors, ₹ 2,400 is Bad and 5% provision is to be provided for bad and doubtful debts.**

**(iii) Building is to be appreciated by 75%.**

**(iv) Actual liability towards salary payable is ₹ 1,200 only.**

**You are required to show the following accounts in the books of the firm:**

**(1) Revaluation Account**

**(2) Partner's Capital Accounts**

**(3) Balance sheet of the Firm after Admission of Z. [Dec. 2022, 10 Marks]**



**Solution :**

**(1) Revaluation A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Plant A/c | | 5,000 | By Building A/c | 45,000 |
| To Stock A/c | | 600 | By Salary Payable A/c | 800 |
| To Furniture A/c | | 3,500 | | |
| To Bills Receivables A/c | | 500 | | |
| To Debtors A/c | | 2,400 | | |
| To Provision for debts A/c (36000 × 5%) | | 1,800 | | |
| To Partner's Capital: | | | | |
| X 2/5 | 12,800 | 32,000 | | |
| Y 3/5 | 19,200 | | | |
| Total | | 45,800 | Total | 45,800 |

**(2) Partner's Capital A/c**

| Particulars | X (₹) | Y (₹) | Z (₹) | Particulars | X (₹) | Y (₹) | Z (₹) |
|---|---|---|---|---|---|---|---|
| To X's Capital A/c | -- | -- | 9,600 | By Balance b/d | 60,000 | 1,40,000 | -- |
| To Y' Capital A/c | -- | -- | 14,400 | By Revaluation A/c (Profit) | 12,800 | 19,200 | -- |
| To Balance c/d | 98,400 | 1,97,600 | 76,000 | By General Res. A/c | 16,000 | 24,000 | -- |
| | | | | By Bank A/c | -- | -- | 1,00,000 |
| | | | | By Z's Capital A/c (GW) | 9,600 | 14,400 | -- |
| Total | 98,400 | 1,97,600 | 1,00,000 | Total | 98,400 | 1,97,600 | 1,00,000 |

**(3) Balance Sheet as at 1 April, 2022 after admission of Z**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital A/c:- | | | Building | | 1,05,000 |
| X | 98,400 | | Plant | | 40,000 |
| Y | 1,97,600 | | Furniture | | 20,000 |
| Z | 76,000 | 3,72,000 | Debtors | 38,400 | |
| Creditors | | 42,600 | Less: Bad Debts | (2,400) | |
| Bills Payable | | 15,400 | Less: Provision | (1,800) | 34,200 |
| Salary Payable | | 1,200 | Bills Receivable | | 12,000 |
| | | | Stock | | 42,000 |
| | | | Bank [₹ 78,000+ ₹ 1,00,000] | | 1,78,000 |
| Total | | 4,31,200 | Total | | 4,31,200 |

**Q.36 R and S are partners in a firm with a capital of 14,00,000 and 12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹ 6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using:**

**(i) Capitalization method**

**(ii) Super Profit method, if the goodwill is valued at 6 years purchase of super profits.** **[Dec. 2022, 5 Marks]**

**Solution :**

**(i) Calculation of Goodwill by Capitalisation Method:-** ₹

Normal value of business = $\frac{6500000}{20} \times 100$ = 32,50,000

**Less:** Capital employed of R & S [₹14,00,000+₹12,00,000] = (26,00,000)

Value of Goodwill = ₹ 6,50,000

**(ii) Calculation of Goodwill by Super Profit Method:-**

| | |
|---|---|
| Actual profit | ₹ 6,50,000 |
| **Less:** Normal Profit [20% of ₹ 26,00,000] | ₹ 5,20,000 |
| Super Profit | = ₹ 1,30,000 |

Goodwill = Super Profit × No. of year purchase

= ₹ 1,30,000 × 6 = ₹ 7,80,000

**Q.37 X and Y were partners in a firm, sharing profit and losses in the ratio of 3:2. They admit Z for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2022 were 1,80,00,000.**

**Calculate share of profit for each partner when:**

**(i) Guarantee is given by firm**

**(ii) Guarantee is given by A and B equally.** **[June 2023, 5 Marks]**

**Solution :**

**(i) When Guarantee is given by Firm**

**Profit & loss Appropriation A/c for the year ending on 31 March, 2022**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To X's Capital A/c (3/5 of ₹ 1,30,00,000) | 78,00,000 | By Net Profit | 1,80,00,000 |
| To Y's Capital A/c (2/5 of ₹ 1,30,00,000) | 52,00,000 | | |
| To Z's Capital A/c (1/6 of ₹ 1,80,00,000 Or ₹ 50,00,000 whichever is less) | 50,00,000 | | |
| Total | 1,80,00,000 | Total | 1,80,00,000 |



**(ii) When Guarantee is given by A & B equally**

**Profit & loss Appropriation A/c for the year ending on 31 March, 2022**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To X's Capital A/c (3/5 of ₹ 1,50,00,000) | 90,00,000 | | By Net Profit | 1,80,00,000 |
| Less: Deficiency for Z | 10,00,000 | 80,00,000 | | |
| To Y's Capital A/c (2/5 of ₹ 1,50,00,000) | 60,00,000 | | | |
| Less: Deficiency for Z | 10,00,000 | 50,00,000 | | |
| To Z's Capital A/c (1/6 of ₹ 1,80,00,000) | 30,00,000 | | | |
| Add: Deficiency | 20,00,000 | 50,00,000 | | |
| | Total | 1,80,00,000 | Total | 1,80,00,000 |

**Q.38 A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:**

| | Debit | Credit |
|---|---|---|
| | Amount (₹) | Amount (₹) |
| **Capital Accounts:** | | |
| A | | 2,25,000 |
| B | | 1,12,500 |
| C | | 1,35,000 |
| **Current Account:** | | |
| A | 36,000 | |
| B | 54,000 | |
| C | 54,000 | |
| **Land and Building** | 1,80,000 | |
| **Furniture and Fixtures** | 33,750 | |
| **Stock** | 2,81,250 | |
| **Debtors** | 45,000 | |

| | Debit | Credit |
|---|---|---|
| | Amount (₹) | Amount (₹) |
| | 90,000 | |
| Bank Account | | 2,34,000 |
| Profit for the year before charging interest | | 67,500 |
| Creditors | 7,74,000 | 7,74,000 |
| Total | | |

Regarding Goodwill may be made separately, instead of through Revaluation Account C died on 30th June, 2022. The partnership deed provided that:

(a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.

(b) On the death of partner:

(i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10% p.a. and a fair remuneration for each of the partners.

(ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and

(c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:

(i) Profit for three years, before charging partners' interest were:

| | |
|---|---|
| 2019 | 2,52,000 |
| 2020 | 2,83,500 |
| 2021 | 2,70,000 |

(ii) The independent valuation on the date of death revealed:

| | |
|---|---|
| Land and Building | ₹ 2,25,000 |
| Furniture and Fixtures | ₹ 22,500 |

(iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.

It was agreed between the partners that:

(1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.

(2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.

(3) A and B would share profits equally from the date of death of C.

(4) Depreciation on revised value of assets would be ignored.

You are required to prepare:

(A) Partners' Capital Account and Current Account; and



(B) Balance Sheet of the firm as on 31st December, 2022. Working should be done correct to the nearest rupee.

[June 2023, 20 Marks]

**Solution :**

**Partner's Capital A/c**

| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
|---|---|---|---|---|---|---|---|
| To C's Current A/c (trf) | | | 19,305 | By Balance b/d | 2,25,000 | 1,12,500 | 1,35,000 |
| To C's Capital A/c (GW) | 11,475 | 22,950 | | By Revaluation A/c (1) | 13,500 | 10,125 | 10,125 |
| To C's Executor's A/c | | | 1,60,245 | By C's A/c (GW) | | | 11,475 |
| To Balance c/d | 2,27,025 | 99,675 | | By B's A/c (GW) | | | 22,950 |
| Total | 2,38,500 | 1,22,625 | 1,79,550 | Total | 2,38,500 | 1,22,625 | 1,79,550 |

**Current A/c**

| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
|---|---|---|---|---|---|---|---|
| 30 June | | | | 30 June | | | |
| To Balance b/d | 36,000 | 54,000 | 54,000 | By Balance b/d | -- | -- | -- |
| To Balance c/d | 70,028 | 29,662 | | By Interest on Capital A/c | 13,500 | 6,750 | 8,100 |
| | | | | By P&L appro. A/c (profit) | 35,460 | 26,595 | 26,595 |
| | | | | By C's Capital A/c (transfer) | | | 19,305 |
| | | | | 31 Dec., | | | |
| | | | | By Interest on Capital A/c | 13,500 | 6,750 | |
| | | | | By P & L appro. A/c (profit) | 43,568 | 43,567 | |
| Total | 1,06,028 | 83,663 | 54,000 | Total | 1,06,028 | 83,662 | 54,000 |

**Balance Sheet as on 31st Dec., 2016**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital A/c:- | | | Land & Building | 2,25,000 |
| A | 2,27,025 | | Furniture & Fittings | 22,500 |
| B | 99,675 | 3,26,700 | Stock | 2,81,250 |
| Current A/c:- | | | Debtors | 45,000 |
| A | 70,028 | | Bank | 90,000 |
| B | 29,662 | 99,690 | | |
| C's Executor's A/c[4] | | 1,69,860 | | |
| Creditors | | 67,500 | | |
| Total | | 6,63,750 | Total | 6,63,750 |

**Working Note:-**

**(1) Revaluation A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Furniture & Fixtures A/c | | 11,250 | By Land & Building A/c | 45,000 |
| To Partner's Capital: | | | | |
| A 4/10 | 13,500 | | | |
| B 3/10 | 10,125 | | | |
| C 3/10 | 10,125 | 33,750 | | |
| Total | | 45,000 | Total | 45,000 |

**(2) Adjustment in regard to Goodwill**

| | | Amount (₹) |
|---|---|---|
| Aggregate profits for three years up the date of death (30 June, 2022) are as follows: | | |
| Profit for year 2019, of 6 months, ₹ 2,52,000/2 | 1,26,000 | |
| Profit for year 2020 | 2,83,500 | |
| Profit for year 2021 | 2,70,000 | |
| Profit for year 2022 upto 30 June, ₹ 2,34,000/2 | 1,17,000 | |
| Total profits for 3 years | 7,96,500 | |
| Average profit (₹ 7,96,500/3 ) | | 2,65,500 |
| Less: Interest on capital employed (10% on ₹ 58,5000 ) | | (58,500) |
| Fair remuneration to partners (₹ 56,250 × 3) | | (1,68,750) |
| Adjusted average profit for goodwill | | 38,250 |
| Goodwill is the purchase of 3 years profit = 3 × ₹ 38,250 | | ₹ 1,14,750 |

**Calculation of Gaining Ratio**

Old ratio of A:B:C = 4:3:3



New ratio of A:B = 1:1

Gain = New – old

$A = \frac{1}{2} - \frac{4}{10} = \frac{5-4}{10} = \frac{1}{10}$ **(Gain)**

$B = \frac{1}{2} - \frac{3}{10} = \frac{5-3}{10} = \frac{2}{10}$ **(Gain)**

$C = \text{Nil} - \frac{3}{10} = -\frac{3}{10}$ **(Sacrifice)**

**Goodwill Treatment:-**

| | | | |
|---|---|---|---|
| A's Capital A/c $\left(1,14,750 \times \frac{1}{10}\right)$ | Dr. | 11,475 | |
| B's Capital A/c $\left(1,14,750 \times \frac{2}{10}\right)$ | Dr. | 22,950 | |
| To C's Capital A/c $\left(1,14,750 \times \frac{3}{10}\right)$ | | | 34,425 |

(Being adjustment for goodwill made)

**(3) Profit & loss Appropriation Account for the year ended 31st December, 2022**

| Particulars | Upto 30 June | Upto 31 Dec. | Particulars | Upto 30 June | Upto 31 Dec. |
|---|---|---|---|---|---|
| To Interest on Capital A/c | | | By Profit & Loss A/c | 1,17,000 | 1,17,000 |
| A | 13,500 | 13,500 | | | |
| B | 6,750 | 6,750 | | | |
| C | 8,100 | -- | | | |
| To Interest on C's Executor's Loan A/c | | 9,615 | | | |
| To Profit transferred | | | | | |
| A 4/10 | 35,460 | 43,568 | | | |
| B 3/10 | 26,595 | 43,567 | | | |
| C 3/10 | 26,595 | -- | | | |
| Total | 1,17,000 | 1,17,000 | Total | 1,17,000 | 1,17,000 |

### (4) C's Executor's Loan A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance c/d | 1,69,860 | By C's Capital A/c (trf.) | 1,60,245 |
| | | By P&L Appropriation A/c (intt.) | 9,615 |
| Total | 1,69,860 | Total | 1,69,860 |

**Q.39 L, M and N were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31-3-2016, when the Balance Sheet of the firm appeared as under:**

**Balance Sheet of the firm as on 31-3-2016**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 4,25,250 | Plant and Machinery | 7,97,850 |
| Bank Overdraft | | 4,54,837 | Furniture | 48,487 |
| Joint Life Policy | | | | |
| Reserve | | 1,99,125 | Stock | 1,77,525 |
| Loan from Mrs. L | | 1,12,500 | Sundry Debtors | 4,00,500 |
| Capital Accounts: | | | Joint Life Policy | 1,99,125 |
| | | | Commission | |
| L | 3,15,000 | | Receivable | 1,05,413 |
| M | 1,68,750 | | Cash in Hand | 36,562 |
| N | 90,000 | 5,73,750 | | |
| | | 17,65,462 | | 17,65,462 |

**The following details are relevant for dissolution:**

**(i)** The joint life policy was surrendered for ₹ 1,74,375.

**(ii)** L took over plant and machinery for ₹ 6,75,000.

**(iii)** L also agreed to discharge bank overdraft and loan from Mrs. L.

**(iv)** Furniture and stocks were divided equally between L and M at an agreed valuation of ₹ 2,70,000.

**(v)** Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

**(vi)** Commission receivable was received in time.

**(vii)** A bill discounted was subsequently returned dishonoured and proved valueless ₹ 23,062 (including ₹ 375 noting charges).

**(viii)** L paid the expenses of dissolution amounting to ₹ 13,500.



**You are required to prepare:**

**(i) Realisation Account**

**(ii) Partners' Capital Accounts and**

**(iii) Cash Account.**

**[CA Inter RTP]**

**Solution:**

### Realisation A/c

| | ₹ | ₹ | | ₹ | ₹ |
|---|---|---|---|---|---|
| To Assets: | | | By liabilities | | |
| Plant & Machinery A/c | | 7,97,850 | Sundry Creditors A/c | | 4,25,250 |
| | | | Joint Life Policy | | |
| Furniture A/c | | 48,487 | Reserve A/c | | 1,99,125 |
| Stock A/c | | 1,77,525 | Cash A/c: | | |
| Sundry Debtors A/c | | 4,00,500 | Joint Life Policy | | 1,74,375 |
| Joint Life Policy A/c | | 1,99,125 | Commission Receivable | | 1,05,413 |
| Commission Receivable | | 1,05,413 | By L's Capital A/c: | | |
| To L's Capital A/c: | | | Plant and | | |
| Dissolution Expenses | | 13,500 | Machinery | 6,75,000 | |
| To Cash A/c: | | | Furniture, Stocks | 1,35,000 | 8,10,000 |
| Bill dishonoured | | 23,062 | By M's Capital A/c: | | |
| To Partner's Capital Accounts: | | | Furniture and stocks | | 1,35,000 |
| (Profit on realisation) | | | | | |
| L | 41,851 | | | | |
| M | 27,900 | | | | |
| N | 13,950 | 83,701 | | | |
| | | 18,49,163 | | | 18,49,163 |

### Partners' Capital A/c's

| | L | M | N | | L | M | N |
|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To Realisation A/c: | | | | By Balance b/d | 3,15,000 | 1,68,750 | 90,000 |
| Plant and Machinery | 6,75,000 | - | - | By Bank Overdraft A/c | 4,54,837 | - | |
| Furniture, Stocks | 1,35,000 | 1,35,000 | | By Loan from Mrs. L A/c | 1,12,500 | - | |
| To Cash A/c | 1,27,688 | 61,650 | 1,03,950 | By Realisation A/c: | | | |

| | L | M | N | | L | M | N |
|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| (Balancing figure) | | | | Dissolution Expenses | 13,500 | | |
| | | | | Profit on realisation | 41,851 | 27,900 | 13,950 |
| | 9,37,688 | 1,96,650 | 1,03,950 | | 9,37,688 | 1,96,650 | 1,03,950 |

**Cash A/c**

| | | | |
|---|---|---|---|
| To Balance b/d | 36,562 | By Realisation A/c: Bill dishonoured | 23,062 |
| To Realisation A/c: Joint Life Policy Commission | 1,74,375 | By Partners' Capital Accounts: | |
| Receivable A/c | 1,05,413 | L | 1,27,688 |
| | | M | 61,650 |
| | | N | 1,03,950 |
| | 3,16,350 | | 3,16,350 |

*Note:*
There will be no entry for assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

**Q.40 P, Q and R are partners sharing profits and losses in the ratio of 2: 2: 1. Their Balance Sheet as on 31st March, 2009 is as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capital Accounts:** | | | **Plant & Machinery** | 1,08,000 |
| **P** | 1,20,000 | | **Fixtures** | 24,000 |
| **Q** | 48,000 | | **Stock** | 60,000 |
| **R** | 24,000 | 1,92,000 | **Sundry debtors** | 48,000 |
| **Reserve fund** | | 60,000 | **Cash** | 60,000 |
| **Creditors** | | 48,000 | | |
| | | 3,00,000 | | 3,00,000 |

**They decided to dissolve the firm. The following are the amounts realized from the assets:**

| | ₹ |
|---|---|
| **Plant and Machinery** | 1,02,000 |
| **Fixtures** | 18,000 |
| **Stock** | 84,000 |
| **Sundry debtors** | 44,400 |

**Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. A bill for ₹ 4,200 due for sales tax was received during the course of realization and this was also paid.**

**You are required to prepare:**

**(a) Realization account**

**(b) Partners' capital accounts**

**(c) Cash account.** **[CA Inter Nov. 2009, 6 Marks]**



***Solution:***

**Realisation A/c**

| Particulars | Amount | | | Amount |
|---|---|---|---|---|
| To Debtors A/c | 48,000 | By Creditors A/c | | 48,000 |
| To Stock A/c | 60,000 | By Cash A/c (assets realized): | | |
| To Fixtures A/c | 24,000 | Plant & Machinery | 1,02,000 | |
| To Plant and machinery A/c | 1,08,000 | Fixtures | 18,000 | |
| To Cash A/c (Creditors) | 45,600 | Stock | 84,000 | |
| To Cash A/c (Sales Tax) | 4,200 | Debtors | 44,400 | 2,48,400 |
| To Cash A/c (realisation expenses) | 1,500 | | | |
| To Profit on realisation | | | | |
| P 2,040 | | | | |
| Q 2,040 | | | | |
| R 1,020 | 5,100 | | | |
| | 2,96,400 | | | 2,96,400 |

**Partners' Capital A/c**

| Particulars | P | Q | R | Particulars | P | Q | R |
|---|---|---|---|---|---|---|---|
| To Cash A/c (Bal. fig.) | 1,46,040 | 74,040 | 37,020 | By Balance b/d | 1,20,000 | 48,000 | 24,000 |
| | | | | By Reserve fund | 24,000 | 24,000 | 12,000 |
| | | | | By Realisation A/c (Profit) | 2,040 | 2,040 | 1,020 |
| | 1,46,040 | 74,040 | 37,020 | | 1,46,040 | 74,040 | 37,020 |

**Cash A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Balance b/d | 60,000 | By Realisation A/c (Creditors) | 45,600 |
| To Realisation A/c (assets realized) | 2,48,400 | By Realisation A/c (Expenses) | 1,500 |
| | | By Realisation A/c (Sales tax) | 4,200 |
| | | By Partners' Capital Accounts | |
| | | P | 1,46,040 |
| | | Q | 74,040 |
| | | R | 37,020 |
| | 3,08,400 | | 3,08,400 |

**Q.41 A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4: 1: 2: 3. The following is their Balance Sheet as at 31st March, 2014:**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 6,00,000 | Sundry Debtors | 7,00,000 |
| Capital A/cs: | | | *Less*: Doubtful Debts | (1,00,000) |
| A | 14,00,000 | | | 6,00,000 |
| S | 6,00,000 | 20,00,000 | Cash in hand | 2,80,000 |
| | | | Stocks | 4,00,000 |
| | | | Other Assets | 6,20,000 |
| | | | Capital A/cs: | |
| | | | V | 4,00,000 |
| | | | R | 3,00,000 |
| | | 26,00,000 | | 26,00,000 |

**On 31st March, 2014, the firm is dissolved and the following points are agreed upon:**

**(a) A is to takeover sundry debtors at 80% of book value.**

**(b) S is to take over the stocks at 95% of the value.**

**(c) R is to discharge sundry creditors.**

**(d) Other assets realise ₹ 6,00,000 and the expenses of realisation come to ₹ 60,000.**

**(e) V is found insolvent and ₹ 43,800 is realized from his estate.**

**You are required to prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.**

**[CA Inter RTP]**

**Solution :**

**Realisation A/c**

| | ₹ | | ₹ |
|---|---|---|---|
| To Sundry Debtors | 7,00,000 | By Sundry Creditors | 6,00,000 |
| To Stock | 4,00,000 | By Provision for Doubtful Debts | 1,00,000 |
| To Other assets | 6,20,000 | By A's Capital A/c (Debtors) | 5,60,000 |
| To R's Capital A/c (Creditors) | 6,00,000 | By S's Capital A/c (stock) | 3,80,000 |
| To Cash | | By Cash (Other assets) | 6,00,000 |
| Expenses on realization | 60,000 | By A's Capital A/c 56,000 | |
| | | By V's Capital A/c 14,000 | |
| | | By R's Capital A/c 28,000 | |
| | | By S's Capital A/c 42,000 | 1,40,000 |
| | | (Loss on realisation) | |
| | 23,80,000 | | 23,80,000 |



**Partners' Capital A/c's**

| | A | V | R | S | | A | V | R | S |
|---|---|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Balance b/f | | 4,00,000 | 3,00,000 | | By Balance b/f | 14,00,000 | – | – | 6,00,000 |
| To Realisation (Debtors) | 5,60,000 | – | – | – | By Realisation (Creditors) | – | – | 6,00,000 | – |
| To Realisation (Stock) | | | | 3,80,000 | By Balance c/d | | 4,14,000 | | |
| To Realisation (loss) | 56,000 | 14,000 | 28,000 | 42,000 | | | | | |
| To Balance c/d | 7,84,000 | – | 2,72,000 | 1,78,000 | | | | | |
| | 14,00,000 | 4,14,000 | 6,00,000 | 6,00,000 | | 14,00,000 | 4,14,000 | 6,00,000 | 6,00,000 |
| To Balance b/d | – | 4,14,000 | – | – | By Balance b/d | 7,84,000 | – | 2,72,000 | 1,78,000 |
| To V's A/c | 2,59,140 | – | – | 1,11,060 | By Cash | – | 43,800 | | |
| To Cash | 5,24,860 | – | 2,72,000 | 66,940 | By A | – | 2,59,140 | | |
| | | | | | By S | | 1,11,060 | | |
| | 7,84,000 | 4,14,000 | 2,72,000 | 1,78,000 | | 7,84,000 | 4,14,000 | 2,72,000 | 1,78,000 |

**Cash A/c**

| | ₹ | | | ₹ | ₹ |
|---|---|---|---|---|---|
| To Balance b/d | 2,80,000 | By Realisation A/c (expenses) | | | 60,000 |
| To Realisation A/c | 6,00,000 | By Capital A/c | | | |
| To V's Capital A/c | 43,800 | | A | 5,24,860 | |
| | | | R | 2,72,000 | |
| | | | S | 66,940 | 8,63,800 |
| | 9,23,800 | | | | 9,23,800 |

*Note:*

V's deficiency will be borne by A and S in the ratio of 7: 3 *i.e.* on opening capitals of ₹ 14,00,000 and ₹ 6,00,000. R will not bear any portion of the loss since at the time of dissolution he had a debit balance in his capital account.

**Q.42 A, B, C and D are sharing profits and losses in the ratio 5: 5: 4: 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2010 when their Balance Sheet was as under:**

| Liabilities | Amount (₹ ) | Assets | Amount (₹ ) |
|---|---|---|---|
| Capital | | Building | 1,20,000 |
| A | 90,000 | Stock | 85,500 |
| B | 90,000 | Investments | 29,000 |
| C | - | Debtors | 42,000 |
| D | 35,000 | Cash | 14,500 |
| General reserve | 24,000 | C | 15,000 |

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Trade creditors | 47,000 | | |
| Bills payable | 20,000 | | |
| | 3,06,000 | | 3,06,000 |

Following information is given to you:

**(i)** A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.

**(ii)** Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

**(iii)** A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.

**(iv)** The other assets realized as follows:

Building 105% of book value

Stock ₹ 78,000

Investments The rest of investments were sold at a profit of ₹ 4,800

Debtors The rest of the debtors were realized at a discount of 12%

**(v)** The bills payable was settled at a discount of ₹ 400.

**(vi)** The expenses of dissolution amounted to ₹ 4,900

**(vii)** It was found out that realization from C's private assets would only be ₹ 4,000.

**Prepare the necessary Ledger Accounts. [CA Inter Nov. 2010, 16 Marks]**

**Solution :**

**Realisation A/c**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Building | | 1,20,000 | By Trade creditors | | 47,000 |
| To Stock | | 85,500 | By Bills payable | | 20,000 |
| To Investment | | 29,000 | By Cash | | |
| To Debtors | | 42,000 | Building | 1,26,000 | |
| To Cash-creditors paid (W. N.1) | | 37,828 | Stock | 78,000 | |
| To Cash-expenses | | 4,900 | Investments (W.N. 2) | 23,000 | |
| To Cash-bills payable (20,000-400) | | 19,600 | Debtors (W.N. 3) | 33,176 | 2,60,176 |
| To Partners' Capital A/cs | | | By Debtors-unrecorded | | 4,300 |
| A | 171 | | By Investments-unrecorded | | 7,900 |
| B | 171 | | | | |

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| C | 137 | | | |
| D | 69 | 548 | | |
| | | 3,39,376 | | 3,39,376 |



**Cash A/c**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Balance b/d | | 14,500 | By Realisation-creditors paid | 37,828 |
| To Realisation - assets realized | | | By Realisation-bills payable | 19,600 |
| Building | 1,26,000 | | By Realisation-expenses | 4,900 |
| Stock | 78,000 | | By Capital account | |
| Investments | 23,000 | | A | 90,528 |
| Debtors | 33,176 | 2,60,176 | B | 90,528 |
| To C's capital A/c. | | 4,000 | D | 35,292 |
| | | 2,78,676 | | 2,78,676 |

**Partners' Capital A/c's**

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|---|---|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Balance b/d | | | 15,000 | | By Balance b/d | 90,000 | 90,000 | - | 35,000 |
| To Debtors-misappropriation | | | 4,300 | | By General reserve | 7,500 | 7,500 | 6,000 | 3,000 |
| To Investment-misappropriation | | | 7,900 | | By Realisation profit | 171 | 171 | 137 | 69 |
| To C's capital A/c (W.N. 4) | 7,143 | 7,143 | | | By Cash A/c | | | 4,000 | |
| | | | | | By A's capital A/c | | | 7,143 | |
| | | | | | By B's capital A/c | | | 7,143 | |
| To Cash A/c | 90,528 | 90,528 | | 35,292 | By D's capital A/c | | | 2,777 | |
| | 97,671 | 97,671 | 27,200 | 38,069 | | 97,671 | 97,671 | 27,200 | 38,069 |

**Working Notes:**

**1. Amount paid to creditors**

| | ₹ | ₹ |
|---|---|---|
| Book value | | 47,000 |
| *Less*: Creditors taking over investments | | (8,400) |
| | | 38,600 |
| *Less*: Discount @ 2% | | (772) |
| | | 37,828 |

**2. Amount received from sale of investments**

| | ₹ |
|---|---|
| Book value | 29,000 |
| *Less*: Misappropriated by C | (5,400) |
| | 23,600 |

| | |
|---|---|
| *Less:* Taken over by a creditor | (5,400) |
| | 18,200 |
| *Add:* Profit on sale of investments | 4,800 |
| | 23,000 |

**3. Amount collected from debtors**

| | ₹ |
|---|---|
| Book value | 42,000 |
| *Less:* Unrecorded receipt | (4,300) |
| | 37,700 |
| *Less:* Discount @ 12% | (4,524) |
| | 33,176 |

**4. Deficiency of C**

| | ₹ |
|---|---|
| Balance of capital as on 31st March, 2010 | 15,000 |
| Debtors-misappropriation | 4,300 |
| Investment-misappropriation | 7,900 |
| | 27,200 |
| *Less:* Realisation Profit | (137) |
| General reserve | (6,000) |
| Contribution from private assets | (4,000) |
| Net deficiency of capital | 17,063 |

This deficiency of ₹ 17,063 in C's capital account will be shared by other partners A, B and D in their capital ratio of 90: 90: 35

Thus,

A's share of deficiency $= [17{,}063 \times (90/215)] =$ ₹ 7,143

B's share of deficiency $= [17{,}063 \times (90/215)] =$ ₹ 7,143

D's share of deficiency $= [17{,}063 \times (35/215)] =$ ₹ 2,777

**Q.43 P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:**

| Liabilities | | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|---|
| **Capital Accounts** | | | **Land & building** | **2,46,000** |
| **P** | **1,68,000** | | **Furniture & fixtures** | **65,000** |
| **Q** | **1,08,000** | **2,76,000** | **Stock** | **1,00,000** |
| **General reserve** | | **95,000** | **Debtors** | **72,500** |
| **Capital reserve** | | **25,000** | **Cash in hand** | **15,500** |
| **Sundry creditors** | | **36,000** | **Capital overdrawn:** | |
| **Mortgage loan** | | **1,10,000** | **R 25,000 S 18,000** | **43,000** |
| | | **5,42,000** | | **5,42,000** |

**(i) The assets were realized as under:**

| | ₹ |
|---|---|
| **Land & building** | **2,30,000** |
| **Furniture & fixtures** | **42,000** |



| | |
|---|---|
| **Stock** | **72,000** |
| **Debtors** | **65,000** |

**(ii) Expenses of dissolution amounted to ₹ 7,800.**

**(iii) Further creditors of ₹ 18,000 had to be met.**

**(iv) R became insolvent and nothing was realized from his private estate.**

**Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.**

**[CA Inter Nov. 2011, 16 Marks]**

**Solution :**

**Realisation A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Land and building | 2,46,000 | By Sundry creditors | 36,000 |
| To Furniture and fixtures | 65,000 | By Mortgage loan | 1,10,000 |
| To Stock | 1,00,000 | By Cash account - | |
| To Debtors | 72,500 | Land and building | 2,30,000 |
| To Cash A/c (expenses on dissolution) | 7,800 | Furniture & fixtures | 42,000 |
| To Cash A/c (creditors ₹ 36,000 + ₹ 18,000) | 54,000 | Stock | 72,000 |
| To Cash A/c (Mortgage loan) | 1,10,000 | Debtors | 65,000 |
| | | By Partners' capital accounts (Loss 4:3:2:1) P = 40,120 Q = 30,090 R = 20,060 S = 10,030 | 1,00,300 |
| | 6,55,300 | | 6,55,300 |

**Partners' Capital A/c**

| Particulars | P | Q | R | S | Particulars | P | Q | R | S |
|---|---|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Balance b/d | - | - | 25,000 | 18,000 | By Balance b/d | 1,68,000 | 1,08,000 | | |
| To Realization A/c (Loss) | 40,120 | 30,090 | 20,060 | 10,030 | By General Reserve | 38,000 | 28,500 | 19,000 | 9,500 |
| To R's Capital A/c (Deficiency) | 12,636 | 8,424 | - | - | By Capital Reserve | 10,000 | 7,500 | 5,000 | 2,500 |

| Particulars | P | Q | R | S | Particulars | P | Q | R | S |
|---|---|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Cash A/c | 2,03,364 | 1,35,576 | | | By Cash A/c (realization loss) - notional entry | 40,120 | 30,090 | - | 10,030 |
| | | | | | By P's Capital A/c | | | 12,636 | |
| | | | | | By Q's Capital A/c | | | 8,424 | |
| | | | | | By Cash A/c | | | | 6,000 |
| | 2,56,120 | 1,74,090 | 45,060 | 28,030 | | 2,56,120 | 1,74,090 | 45,060 | 28,030 |

**Cash A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Balance b/d | 15,500 | By Realization A/c: | |
| To Realization A/c: | | Expenses on dissolution | 7,800 |
| Land and building | 2,30,000 | Creditors (36,000+18,000) | 54,000 |
| Furniture & fixtures | 42,000 | Mortgage loan | 1,10,000 |
| Stock | 72,000 | By P's capital A/c | 2,03,364 |
| Debtors | 65,000 | By Q's capital A/c | 1,35,576 |
| To P, Q, S's capital A/cs (40,120+30,090+10,030) | 80,240 | | |
| To S's capital A/c | 6,000 | | |
| | 5,10,740 | | 5,10,740 |

**Working Note:**

As per Garner Vs. Murray rule, solvent partners have to bear loss of insolvent partner in their capital ratio.

**Computation of Capital Ratio (of Solvent Partners)**

| | P (₹) | Q (₹) | S (₹) |
|---|---|---|---|
| Opening capital | 1,68,000 | 1,08,000 | (18,000) |
| *Add:* General reserve | 38,000 | 28,500 | 9,500 |
| Capital reserve | 10,000 | 7,500 | 2,500 |
| | 2,16,000 | 1,44,000 | (6,000) |

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216: 144 = 3: 2



Deficiency of R = ₹ {(25,000 + 20,060) - (19,000 + 5,000)} = ₹ 45,060 - ₹ 24,000 = ₹ 21,060.

Deficiency of R will be shared by P & Q in the capital ratio of 3: 2 *i.e.*

P = ₹ 21,060 × 3/5 = ₹ 12,636

Q = ₹ 21,060 × 2/5 = ₹ 8,424

**Q.44 A and B are in equal partnership. Their Balance Sheet stood as under on 31st March, 20X1 when the firm was dissolved:**

| Particular | ₹ | Particulars | ₹ |
|---|---|---|---|
| Creditors A/c | 4,800 | Plant & Machinery | 2,500 |
| A's Capital A/c | 750 | Furniture | 500 |
| | | Debtors | 1,000 |
| | | Stock | 800 |
| | | Cash | 200 |
| | | B's drawings | 550 |
| | 5,550 | | 5,550 |

**The assets realized as under:**

| | ₹ |
|---|---|
| Plant & Machinery | 1,250 |
| Furniture | 150 |
| Debtors | 400 |
| Stock | 500 |

**The expenses of realisation amounted to ₹ 775. A's private estate is not sufficient even to pay his private debts, whereas B's private estate has a surplus of ₹ 200 only. Show necessary ledger accounts to close the books of the firm.**

**Solution :**

**Realisation A/c**

| Particular | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Sundry Assets: | | By Cash A/c: | | |
| Plant & Machinery | 2,500 | Plant & Machinery | 1,250 | |
| Furniture | 500 | Furniture | 150 | |
| Debtors | 1,000 | Debtors | 400 | |
| Stock | 800 | Stock | 500 | 2,300 |
| Cash A/c-expenses | 175 | By Partners' Capital A/c & Loss on realisation (Bal.fig.) | | |
| | | A | 1,337 | |
| | | B | 1,338 | 2,675 |
| | 4,975 | | | 4,975 |

### Cash A/c

| | ₹ | | ₹ |
|---|---|---|---|
| March 31, 20X1 | | March 31, 20X1 | |
| To Balance b/d | 200 | By Realisation A/c- expenses | 175 |
| To Realisation A/c - Sale of sundry assets | 2,300 | By Sundry Creditors A/c (Bal. fig.) | 2,525 |
| To B's Capital A/c | 200 | | |
| | 2,700 | | 2,700 |

### Sundry Creditors A/c

| | ₹ | | ₹ |
|---|---|---|---|
| To Cash A/c | 2,525 | By Balance b/d | 4,800 |
| To Deficiency A/c-transfer (bal.fig.) | 2,275 | | |
| | 4,800 | | 4,800 |

### Partners' Capital A/c's

| | A | B | | A | B |
|---|---|---|---|---|---|
| | ₹ | ₹ | | ₹ | ₹ |
| To Balance b/f | — | 550 | By Balance b/f | 750 | — |
| To Realisation A/ - loss | 1,337 | 1,338 | By Cash A/c | — | 200 |
| | | | By Deficiency A/c - transfer (bal.fig.) | 587 | 1,688 |
| | 1,337 | 1,888 | | 1,337 | 1,888 |

### Deficiency Account

| | ₹ | | ₹ |
|---|---|---|---|
| To Partners' Capital A/c | | By Sundry Creditors A/c | 2,275 |
| A | 587 | | |
| B | 1,688 | | |
| | 2,275 | | 2,275 |

**Q.45 A partnership firm was dissolved on 30th June, 2016. Its Balance Sheet on the date of dissolution was as follows:**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capitals:** | | | **Cash** | **10,800** |
| **A** | **76,000** | | **Sundry Assets** | **1,89,200** |
| **B** | **48,000** | | | |
| **C** | **36,000** | **1,60,000** | | |
| **Loan A/c - B** | | **10,000** | | |
| **Sundry Creditors** | | **30,000** | | |
| | | **2,00,000** | | **2,00,000** |



**The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:**

| | ₹ |
|---|---|
| **On 5th July, 2016** | **25,200** |
| **On 30th August, 2016** | **60,000** |
| **On 15th September, 2016** | **80,000** |

**The partners shared profits and losses in the ratio of 2: 2: 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.** **[CA Inter RTP]**

**Solution :**

**Statement showing distribution of cash amongst the partners**

| | | Creditors | B's Loan | A | B | C |
|---|---|---|---|---|---|---|
| **2016** | | ₹ | ₹ | ₹ | ₹ | ₹ |
| **June 30** | | | | | | |
| Balance b/d | | 30,000 | 10,000 | 76,000 | 48,000 | 36,000 |
| Cash balance less Provision for expenses (₹ 10,800 - ₹ 5,400) | | 5,400 | - | - | - | - |
| Balances unpaid | | 24,600 | 10,000 | 76,000 | 48,000 | 36,000 |
| **July 5** | | | | | | |
| 1st Instalment of ₹ 25,200 | | 23,600 | 1,600 | - | - | - |
| Discount received on full settlement | | 1,000 | 8,400 | 76,000 | 48,000 | 36,000 |
| *Less*: Transferred to Realization A/c | | 1,000 | | | | |
| | | *Nil* | | | | |
| **August 30** | | | | | | |
| 2nd instalment of ₹ 60,000 (W.N. 2) | | | 8,400 | 32,640 | 4,640 | 14,320 |
| Balance unpaid | | | *Nil* | 43,360 | 43,360 | 21,680 |
| **September 15** | | | | | | |
| Amount realized | ₹ 80,000 | | | | | |
| *Add*: Balance out of the Provision for Expenses A/c | 1,400 | | | | | |
| | 81,400 | | | 32,560 | 32,560 | 16,280 |
| Amount unpaid being loss on Realization in the ratio of 2: 2: 1 | | | | 10,800 | 10,800 | 5,400 |

**Working Notes:**

**1. Scheme of Distribution**

| | | A | B | C |
|---|---|---|---|---|
| | | ₹ | ₹ | ₹ |
| 1. | Present Capitals | 76,000 | 48,000 | 36,000 |
| 2. | Profit-sharing ratio | 2 | 2 | 1 |
| 3. | Capital per unit of Profit share (1/2) | 38,000 | 24,000 | 36,000 |
| 4. | Proportionate capitals taking B, whose capital is the least, as the basis | 48,000 | 48,000 | 24,000 |
| 5. | Excess capital (1-4) | 28,000 | Nil | 12,000 |
| 6. | Profit-sharing ratio | 2 | - | 1 |
| 7. | Excess capital per unit of Profit share (5/6) | 14,000 | | 12,000 |
| 8. | Proportionate capitals as between A and C taking C capital as the basis | 24,000 | - | 12,000 |
| 9. | Excess of A's Capital over C's Excess capital (5-8) | 4,000 | - | - |
| | Balance of Excess capital (5-9) | 24,000 | | 12,000 |
| | Distribution sequence: | | | |
| | First ₹ 4,000 (2: 0: 0) | 4,000 | - | - |
| | Next ₹ 36,000 (2: 0: 1) | 24,000 | - | 12,000 |
| | Balance ₹ 40,000 (2: 2: 1) | | | |

**2. Distribution of IInd instalment**

| | | Creditors | A | B | C |
|---|---|---|---|---|---|
| First | ₹ 8,400 | 8,400 | - | - | - |
| Next | ₹ 4,000 (2: 0: 0) | | 4,000 | - | - |
| Next | ₹ 36,000 (2: 0: 1) | | 24,000 | - | 12,000 |
| Balance | ₹ 11,600 (2: 2: 1) | | 4,640 | 4,640 | 2,320 |
| | 60,000 | 8,400 | 32,640 | 4,640 | 14,320 |

**Q.46 A partnership firm was dissolved on 30th June, 2018. Its Balance Sheet on the date of dissolution was as follows:**

| | ₹ | ₹ | | ₹ |
|---|---|---|---|---|
| **Capitals:** | | | **Cash** | **21,600** |
| **A** | **1,52,000** | | **Sundry Assets** | **3,78,400** |
| **B** | **96,000** | | | |
| **C** | **72,000** | **3,20,000** | | |
| **Loan A/c - B** | | **20,000** | | |
| **Sundry Creditors** | | **60,000** | | |
| | | **4,00,000** | | **4,00,000** |



**The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 58,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 10,800 but actual amount spent was ₹ 8,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:**

| | ₹ |
|---|---|
| **On 5th July, 2018** | **50,400** |
| **On 30th August, 2018** | **1,20,000** |
| **On 15th September, 2018** | **1,60,000** |

**The partners shared profits and losses in the ratio of 2: 2: 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.** **[CA Inter RTP]**

**Solution :**

**Statement showing distribution of cash amongst the partners**

| | Creditors | B's loan | A | B | C |
|---|---|---|---|---|---|
| **2018** | ₹ | ₹ | ₹ | ₹ | ₹ |
| **Jun-30** | | | | | |
| Balance b/d | 60,000 | 20,000 | 1,52,000 | 96,000 | 72,000 |
| Cash balance less Provision for expenses (₹ 21,600- ₹ 10,800) | 10,800 | - | - | - | - |
| Balances unpaid | 49,200 | 20,000 | 1,52,000 | 96,000 | 72,000 |
| **Jul-05** | | | | | |
| 1st Instalment of ₹ 50,400 | 47,200 | 3,200 | - | - | - |
| Discount received on full settlement | 2,000 | 16,800 | 1,52,000 | 96,000 | 72,000 |
| *Less*: Transferred to Realisation A/c | 2,000 | | | | |
| **Aug-30** | | | | | |
| 2nd instalment of ₹ 1,20,000 (W.N. 2) | | 16,800 | 65,280 | 9,280 | 28,640 |
| Balance unpaid | | | 86,720 | 86,720 | 43,360 |
| **Sep-15** | | | | | |
| Amount realized ₹ 1,60,000 | | | | | |
| *Add*: Balance out of the Provision for Expenses A/c 2,800 | | | | | |
| 1,62,800 | | | 65,120 | 65,120 | 32,560 |
| Amount unpaid being loss on Realisation in the ratio of 2: 2: 1 | | | 21,600 | 21,600 | 10,800 |

**Working Notes:**

**1. Scheme of Distribution**

| | | A ₹ | B ₹ | C ₹ |
|---|---|---|---|---|
| 1. | Present Capitals | 1,52,000 | 96,000 | 72,000 |
| 2. | Profit-sharing ratio | 2 | 2 | 1 |
| 3. | Capital per unit of Profit share (1/2) | 76,000 | 48,000 | 72,000 |
| 4. | Proportionate capitals taking B, whose capital is the least, as the basis | 96,000 | 96,000 | 48,000 |
| 5. | Excess capital (1-4) | 56,000 | Nil | 24,000 |
| 6. | Profit-sharing ratio | 2 | - | 1 |
| 7. | Excess capital per unit of Profit share (5/6) | 28,000 | | 24,000 |
| 8. | Proportionate capitals as between A and C taking C capital as the basis | 48,000 | - | 24,000 |
| 9. | Excess of A's Capital over C's Excess capital (5-8) | 8,000 | - | - |
| | Balance of Excess capital (5-9) | 48,000 | | 24,000 |
| | Distribution sequence: | | | |
| | First ₹ 8,000 (2: 0: 0) | 8,000 | - | - |
| | Next ₹ 72,000 (2: 0: 1) | 48,000 | - | 24,000 |
| | Balance ₹ 80,000 (2: 2: 1) | | | |

**2. Distribution of IInd instalment**

| | | *Creditors* | A | B | C |
|---|---|---|---|---|---|
| First | ₹ 16,800 | 16,800 | - | - | - |
| Next | ₹ 8,000 (2: 0: 0) | | 8,000 | - | - |
| Next | ₹ 72,000 (2: 0: 1) | | 48,000 | - | 24,000 |
| Balance | ₹ 23,200 (2: 2: 1) | | 9,280 | 9,280 | 4,640 |
| | ₹ 1,20,000 | 16,800 | 65,280 | 9,280 | 28,640 |

**Q.47 E, F and G were partners in a firm, sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows:**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| **Capital accounts:** | | | **Machinery** | **1,54,000** |
| **E** | **1,13,100** | | **Furniture & fittings** | **25,800** |
| **F** | **35,400** | | **Investments** | **5,400** |
| **G** | **31,500** | | **Stock** | **97,700** |
| | | **1,80,000** | **Debtors** | **56,400** |
| **Current accounts:** | | | **Bank** | **29,700** |
| **E** | **26,400** | | **Current account: F** | **18,000** |
| **G** | **6,000** | **32,400** | | |
| **Reserves** | | **1,08,000** | | |
| **Loan account: G** | | **15,000** | | |
| **Creditors** | | **51,600** | | |
| | | **3,87,000** | | **3,87,000** |



**The realization of assets is spread over the next few months as follows: February, Debtors, ₹ 51,900; March, Machinery, ₹ 1,39,500; April, Furniture, etc. ₹ 18,000; May, G agreed to take over investment at ₹ 6,300; June, Stock, ₹ 96,000.**

**Dissolution expenses, originally provided, were ₹ 13,500, but actually amounted to ₹ 9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹ 50,400, all cash received should be distributed at the end of each month in the most equitable manner.**

**You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method. [CA Inter Nov. 2018, 20 Marks]**

**Solution :**

**Statement Showing Distribution of Cash**

| | | Creditors ₹ | G 's Loan ₹ | E ₹ | F ₹ | G ₹ | Total |
|---|---|---|---|---|---|---|---|
| Feb: Balance due (including reserves and current A/c balances for partners) | | 51,600 | 15,000 | 1,93,500 | 53,400 | 55,500 | 3,02,400 |
| Cash available | 29,700 | | | | | | |
| Collection from debtors | 51,900 | | | | | | |
| | 81,600 | | | | | | |
| *Less:* prov for expenses | 13,500 | | | | | | |
| | 68,100 | | | | | | |
| Creditors & Loan paid (50,400 +15,000) | 65,400 | (50,400) | (15,000) | | | | |
| | | 1,200 | - | | | | |
| Discount written off | | (1,200) | | | | | |
| Available for E, F & G 2,700 | | - | | | | | |
| Maximum possible loss (3,02,400-2,700) =2,99,700 In ratio of 3:2:1 | | | | (1,49,850) | (99,900) | (49,950) | (2,99,700) |
| | | | | 43,650 | (46,500) | 5,550 | |
| Adjustment for F's deficiency in ratio of 1,13,100: 31,500 | | | | (36,370) | 46,500 | (10,130) | |
| | | | | 7,280 | - | (4,580) | |

| | Creditors ₹ | G's Loan ₹ | E ₹ | F ₹ | G ₹ | Total |
|---|---|---|---|---|---|---|
| Adjustment for G's deficiency | | | (4,580) | - | 4,580 | |
| | | | 2,700 | | | |
| Cash paid to E | | | 2,700 | | | |
| Balance due | | | 1,90,800 | 53,400 | 55,500 | (2,99,700) |
| March | | | | | | |
| Cash available ₹ 1,39,500 | | | | | | |
| Maximum possible loss ₹ 2,99,700 - ₹ 1,39,500 | | | | | | |
| = ₹ 1,60,200 in ratio of 3:2:1 | | | (80,100) | (53,400) | (26,700) | (1,60,200) |
| Cash paid | | | 1,10,700 | - | 28,800 | 1,39,500 |
| Balance | | | 80,100 | 53,400 | 26,700 | 1,60,200 |
| April | | | | | | |
| 18,000 +3,900 (saving in expenses) = 21,900 | | | | | | |
| Maximum possible loss in ratio of 3:2:1 | | | (69,150) | (46,100) | (23,050) | (1,38,300) |
| Cash paid | | | 10,950 | 7,300 | 3,650 | 21,900 |
| Balance | | | 69,150 | 46,100 | 23,050 | 1,38,300 |
| May | | | | | | |
| Investment taken by G Balance | | | | | 6300 | 6300 |
| | | | 69,150 | 46,100 | 16,750 | 1,32,000 |
| Maximum loss | | | (66,000) | (44,000) | (22,000) | (1,32,000) |
| (1,38,300 less 6,300) | | | | | | |
| Balance | | | 3,150 | 2,100 | 1,050 | 6,300 |
| Cash brought by G (6,300 less 1,050) | | | | | 5,250 | 5,250 |
| Cash paid to E and F | | | (3,150) | (2,100) | | (5,250) |
| Balance | | | 66,000 | 44,000 | 22,000 | 1,32,000 |
| June | | | | | | |
| Stock 96,000 | | | (18,000) | (12,000) | (6,000) | 36,000 |
| Maximum loss | | | 48,000 | 32,000 | 16,000 | 96,000 |
| (1,32,000-96,000) | | | (18,000) | (12,000) | (6,000) | 36,000 |
| Cash paid | | | | | | |
| Unpaid balance | | | | | | |

*Working Note:*

**Statement showing the cash available for distribution:**

Feb. ₹ 29,700 + 51,900 - 13,500 = ₹ 68,100
March ₹ 1,39,500
April ₹ 18,000 + 3,900 = 21,900
May *Nil*
June ₹ 96,000

# 16 CHAPTER — ACCOUNTING FROM INCOMPLETE RECORDS

## DIFFERENCES

### Q.1 Statement of Affairs & Balance Sheet.

**Ans. Difference between Statement of Affairs and Balance Sheet**

| Statement of affairs | Balance Sheet |
|---|---|
| It is prepared on the basis of transactions recorded partly under the double entry system of book - keeping and partly under the single-entry system. Most of the financial items are recorded based on the information gathered from memory rather than from records. | It is based on transactions recorded strictly on the double entry system of book keeping. Each & every financial item appearing in the balance sheet can be verified from the relevant records (subsidiary books & ledger) and other documentary evidences. |
| Capital is merely a balancing figure in the statement of affairs and is the excess of assets over liabilities. Hence assets need not be equal to liabilities. | Capital as appearing in the Balance Sheet, is derived from the balance of the capital account in the ledger and therefore the total of assets is always equal to the total of liabilities. |
| Statement of Affairs is prepared from incomplete records, and therefore it is very difficult, to identify and record those assets and liabilities, if omitted from the books of account. | Since all items are properly recorded, there is no possibility of omission of any item of asset and liability. Further, locating the missing items is easy since the balance sheet will not tally. |
| Statement of Affairs is prepared with the objective to identify the capital figure in the beginning and at the end of the accounting period respectively. | Balance Sheet is prepared with the objective of ascertaining the financial position of the entity on a particular date. |

**Q.2 Single Entry System & Double Entry System.**

**Ans. Difference between Single Entry System and Double Entry System**

| Single Entry System | Double Entry System |
|---|---|
| Under Single Entry System, both aspects of transaction are not recorded. For some transactions two aspects, whereas for some others one aspect or no aspect at all are recorded. | Both aspects of a transaction are recorded, in case of Double Entry System. |
| Under Single Entry System, usually cash, bank and personal accounts of debtors & creditors are maintained. | Under Double Entry System all types of accounts are maintained. |
| Trial Balance cannot be prepared under Single Entry System, due to incomplete accounting records. Therefore, arithmetical accuracy of the accounting cannot be verified. | Trial Balance is prepared under this system and therefore, the arithmetical accuracy of the books of account can be verified. |
| Statement of Profit or Loss is prepared to ascertain the net profit or loss under Single Entry System of accounting which is not appropriate. | Net profit or net loss can be ascertained by preparing Profit & Loss Account, under double entry system of accounting. |
| Only Statement of Affairs is prepared under the Single Entry System since the assets & liabilities appear at estimated figures. | The true financial position of the business entity can be ascertained by preparing Balance Sheet under the Double Entry System of Accounting. |
| Single Entry System of accounting is used by only small business entities. | Double Entry System of accounting is used by almost all the business entities. |

## TRUE OR FALSE

**Q.1 In net worth method profit or loss of the business is calculated by preparing trading and profit & loss account.**

**Ans. False:** In net worth method profit or loss of the business is calculated by preparing Statement of Profit or Loss.

**Q.2 As per Companies Act, 2013, a company may prepare its records under single entry system.**

**Ans. False:** As per Companies Act, 2013, a company can prepare its records under double entry system only.

**Q.3 Closing Capital means Opening Capital + Additional Capital + Drawings - Profit.**



**Ans. False:** Closing Capital means Opening Capital + Additional Capital - Drawings + Profit.

**Q.4 Total Debtors account is prepared in conversion method of Single Entry system.**

**Ans. True:** Total Debtors account is prepared in conversion method of Single Entry system.

**Q.5 A Trial balance can be prepared under conversion method of Single Entry system.**

**Ans. True:** A Trial balance can be prepared under conversion method of Single Entry system.

## PRACTICAL QUESTIONS

**Q.1 The details of Assets and Liabilities of Mr. 'A' as on 31-3-2012 and 31-3-2013 are as follows:**

| Particulars | 31-3-2012 | 31-3-2013 |
|---|---|---|
| | ₹ | ₹ |
| **Assets:** | | |
| Furniture | 50,000 | |
| Building | 1,00,000 | |
| Stock | 1,00,000 | 2,50,000 |
| Sundry Debtors | 60,000 | 1,10,000 |
| Cash in hand | 11,200 | 13,200 |
| Cash at Bank | 60,000 | 75,000 |
| **Liabilities:** | | |
| Loans | 90,000 | 70,000 |
| Sundry Creditors | 50,000 | 80,000 |

**Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for ₹ 24,000 for his daughter in December 2012. He sold his car on 30-3-2013 and the amount of ₹ 40,000 is retained in the business.**

**You are required to:**

**(i) Prepare statement of affairs as on 31-3-2012 and 31-3-2013.**

**(ii) Calculate the profit received by 'A' during the year ended 31-3-2013.**

**[CA Inter RTP]**

**Solution:**

(*i*)

**Statement of Affairs**

| Liabilities | 31-3-12 ₹ | 31-3-13 ₹ | Assets | 31-3-12 ₹ | 31-3-13 ₹ |
|---|---|---|---|---|---|
| Loans | 90,000 | 70,000 | Furniture | 50,000 | 45,000 (50,000 – 5,000) |
| Creditors | 50,000 | 80,000 | Building | 1,00,000 | 97,500 (10,00,000 – 2,500) |
| Capital A/c | 2,41,200 | 4,40,700 | Stock | 1,00,000 | 2,50,000 |
| | | | Debtors | 60,000 | 1,10,000 |
| | | | Cash in hand | 11,200 | 13,200 |
| | | | Cash at Bank | 60,000 | 75,000 |
| | 3,81,200 | 5,90,700 | | 3,81,200 | 5,90,700 |

(*ii*)

**Computation of Profit**

| Particulars | ₹ |
|---|---|
| Capital Balance as on 31-3-2013 | 4,40,700 |
| *Less*: Fresh capital introduced (car sale proceeds) | (40,000) |
| | 4,00,700 |
| *Add*: Drawings (purchase of jewellery for daughter) | 24,000 |
| Adjusted Closing Capital | 4,24,700 |
| *Less*: Capital Balance as on 31-12-2015 | (2,41,200) |
| Profit | 1,83,500 |

**Q.2 Mr. Aman is running a business of readymade garments. He does not maintain his books of account under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:**

| | |
|---|---|
| **On 31st March, 2016** | |
| **Sundry Assets** | **₹ 16,65,000** |
| **Liabilities** | **₹ 4,13,000** |
| **On 31st March, 2017** | |
| **Sundry Assets** | **₹ 28,40,000** |
| **Liabilities** | **₹ 5,80,000** |
| **Mr. Aman's drawings for the year 2016-17** | **₹ 32,000 per month** |
| **Income declared to the Income Tax Officer** | **₹ 9,12,000** |



**During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business. State whether the Income Tax Officer's contention is correct. Explain by giving your working. [CA Inter November 2017, 4 Marks]**

**Solution:**

**Statement of Affairs – To Calculate Capital Account:**

| Particulars | 31-3-2016 ₹ | 31-3-2017 ₹ |
|---|---|---|
| Assets | 16,65,000 | 28,40,000 |
| *Less*: Liabilities | (4,13,000) | (5,80,000) |
| Capital | 12,52,000 | 22,60,000 |

**Computation of Profit:**

| Particulars | ₹ |
|---|---|
| Capital Balance as on 31-3-2017 | 22,60,000 |
| *Less*: Fresh capital introduced (matured life insurance policy amount) | (50,000) |
| | 22,10,000 |
| *Add*: Drawings (₹ 32,000 × 12) | 3,84,000 |
| Adjusted Closing Capital | 25,94,000 |
| *Less*: Capital Balance as on 1-4-2016 | (12,52,000) |
| Profit | 13,42,000 |
| Income declared | 9,12,000 |
| Suppressed Income | 4,30,000 |

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct.

**Q. 3 Archana Enterprises maintain their books of account under single entry system. The Balance Sheet as on 31st March, 2018 was as follows:**

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

**The following was the summary of cash and bank book for the year ended 31st March, 2019:**

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| Cash in hand & at Bank on 1st April, 2013 | 1,20,000 | Payment to trade creditors | 1,24,33,000 |
| Cash sales | 1,10,70,000 | Sundry expenses paid | 9,31,050 |

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| Receipts from trade debtors | 27,75,000 | Drawings | 3,60,000 |
| | | Cash in hand & at Bank on 31st March, 2019 | 1,90,950 |
| | 1,39,65,000 | | 1,39,65,000 |

**Additional Information:**

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively, (for the year ended 31st March, 2019)

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

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

(iv) The following are the balances as on 31st March, 2019:

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

(v) 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, 2019, and Balance Sheet as on that date.*

**[CA Inter November 2019, 10 Marks]**

**Solution:**

**Trading and Profit and Loss Account for the year ended 31st March, 2019**

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



**Balance Sheet as at 31st March, 2019**

| 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 |
| | 3,15,000 | | Trade Debtors | | 3,43,000 |
| Add: Net profit for the years | 4,40,250 | 7,55,250 | Unexpired insurance | | 3,000 |
| Trade creditors (W.N. III) | | 8,29,000 | Cash in hand & at bank | | 1,90,950 |
| Outstanding expenses | | 55,200 | | | |
| | | 16,39,450 | | | 16,39,450 |

**Working Notes:**

**I: Trade Debtors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| 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 |

**II: Memorandum Trading A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening stock | 9,15,000 | By Sales | 139,30,000 |
| To Purchases (Balancing figure) | 125,97,000 | By Closing stock | 9,75,000 |
| To Gross Profit (10% on sales) | 13,93,000 | | |
| | 149,05,000 | | 149,05,000 |

**III: Trade Creditors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash/Bank | 124,83,000 | By Balance b/d | 7,57,500 |
| To Discount received | 42,500 | By Purchases (as calculated in W.N. 2) | 125,97,000 |
| To Balance c/d (balancing figure) | 8,29,000 | | |
| | 133,54,500 | | 133,54,500 |

### IV: Computation of sundry expenses to be charged to Profit & Loss A/c

| Particulars | ₹ |
|---|---|
| Sundry expenses paid (as per cash and Bank book) | 9,31,050 |
| *Add:* Prepaid expenses as on 31-3-2018 | 3,000 |
| | 9,34,050 |
| *Less:* Outstanding expenses as on 31-3-2018 | (67,500) |
| | 8,66,550 |
| *Add:* Outstanding expenses as on 31-3-2019 | 55,200 |
| | 9,21,750 |
| *Less:* Prepaid expenses as on 31-3-2019 (Insurance paid till July, 2019) (9,000 × 4/12) | (3,000) |
| | 9,18,750 |

**Q.4 Mr. A keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2016 is given below:**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Bank Balance as on 1st January, 2016 | 2,800 | Payments to Sundry creditors | 35,000 |
| | | Salaries | 6,500 |
| Received from Sundry Debtors | 48,000 | General expenses | 2,500 |
| Cash Sales | 11,000 | Rent and Taxes | 1,500 |
| Capital brought during the year | 6,000 | Drawings | 3,600 |
| Interest on Investments | 200 | Cash purchases | 12,000 |
| | | Balance at Bank on 31st Dec, 2016 | 6,400 |
| | | Cash in hand on 31st Dec, 2016 | 500 |
| | 68,000 | | 68,000 |

Particulars of other assets and liabilities are as follows:

| Particulars | 1st January, 2016 | 31st December, 2016 |
|---|---|---|
| Sundry debtors | 14,500 | 17,600 |
| Sundry creditors | 5,800 | 7,900 |
| Machinery | 7,500 | 7,500 |
| Furniture | 1,200 | 1,200 |
| Inventory | 3,900 | 5,700 |
| Investments | 5,000 | 5,000 |



**Prepare final accounts for the year ending 31st December, 2016 after providing depreciation at 10 per cent on machinery and furniture and ₹ 800 against doubtful debts.**

**Solution:**

### Trading and Profit & Loss A/c for the year ended 31-12-2016

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Opening Inventory | | 3,900 | By Sales (11,000 + 51,100) | 62,100 |
| To Purchases (12,000 + 37,100) | | 49,100 | By Closing Inventory | 5,700 |
| To Gross profit c/d (b.f.) | | 14,800 | | |
| | | 67,800 | | 67,800 |
| To Salaries | | 6,500 | By Gross Profit b/d | 14,800 |
| To Rent and Taxes | | 1,500 | By Interest on investment | 200 |
| To General expenses | | 2,500 | | |
| To Depreciation: | | | | |
| Machinery @ 10% | 750 | | | |
| Furniture @ 10% | 120 | 870 | | |
| To Provision for doubtful debts | | 800 | | |
| To Profit (Carried to Capital A/c) [b.f.] | | 2,830 | | |
| | | 15,000 | | 15,000 |

### Balance Sheet as on 31st December, 2016

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| A's Capital on 1st January, 2016 | 29,100 | | Machinery | 7,500 | |
| | | | *Less:* Depreciation | (750) | 6,750 |
| *Add:* Fresh Capital | 6,000 | | Furniture | 1,200 | |
| *Add:* Profit for the year | 2,830 | | *Less:* Depreciation | (120) | 1,080 |
| | 37,930 | | | | |
| *Less:* Drawings | (3,600) | 34,330 | Inventory-in-trade | | 5,700 |
| | | | Sundry debtors | 17,600 | |
| Sundry creditors | | 7,900 | *Less:* Provision for D/D | (800) | 16,800 |
| | | | Investment | | 5,000 |
| | | | Cash at bank | | 6,400 |
| | | | Cash in hand | | 500 |
| | | 42,230 | | | 42,230 |

**Working Notes:**

**I: Balance sheet of A as on 1-1-2016**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Sundry creditors | 5,800 | Machinery | 7,500 |
| A's capital | 29,100 | Furniture | 1,200 |
| (balancing figure) | | Inventory | 3,900 |
| | | Sundry debtors | 14,500 |
| | | Investments | 5,000 |
| | | Bank balance (See Cash A/c – Given in Qus.) | 2,800 |
| | 34,900 | | 34,900 |

**II: Total Debtors A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| Jan. 1 | To Balance b/d | 14,500 | Dec. 31 | By Cash | 48,000 |
| Dec. 31 | To Credit sales (Balancing figure) | 51,100 | Dec. 31 | By Balance c/d | 17,600 |
| | | 65,600 | | | 65,600 |
| Jan. 1 | To Balance b/d | 17,600 | | | |

**III: Total Creditors A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| Dec. 31 | To Cash | 35,000 | Jan. 1 | By Balance b/d | 5,800 |
| Dec. 31 | To Balance b/d | 7,900 | Dec. 31 | By Credit Purchases (Balancing figure) | 37,100 |
| | | 42,900 | | | 42,900 |

**Q.5 Mr. Prakash furnishes following information for his readymade garments business:**

**(i) Receipts and Payments during 2019-20:**

| Receipts | Amount ₹ | Payments | Amount ₹ |
|---|---|---|---|
| Bank Balance as on 1-4-2019 | 16,250 | Payment to Sundry Creditors | 3,43,000 |
| Received from Sundry Debtors | 4,81,000 | Salaries | 75,000 |
| Cash sales | 1,70,800 | General Expenses | 22,500 |
| Capital brought in the Business during the year | 50,000 | Rent and Taxes | 11,800 |
| | | Drawings | 96,000 |
| Interest on Investment Received | 9,750 | Cash Purchases | 1,22,750 |
| | | Balance at Bank on 31-03-2020 | 36,600 |
| | | Cash in hand on 31-03-2020 | 20,150 |
| | 7,27,800 | | 7,27,800 |



**(ii) Particulars of other Assets and Liabilities are as follows:**

| | 1st April, 2019 (₹) | 31st March, 2020 (₹) |
|---|---|---|
| Machinery | 85,000 | 85,000 |
| Furniture | 24,500 | 24,500 |
| Trade Debtors | 1,55,000 | ? |
| Trade Creditors | 60,200 | ? |
| Stock | 38,600 | 55,700 |
| 12% Investment | 85,000 | 85,000 |
| Outstanding Salaries | 12,000 | 14,000 |

**(iii) Additional information:**

(1) 20% of Total sales and 20% of total purchases are in cash.

(2) Of the Debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @ 2%.

(3) Provide depreciation @10% p.a. on Machinery and Furniture.

*You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2020, and Balance Sheet as on that date.*

**[CA Inter January 2021, 10 Marks]**

**Solution:**

**Trading and Profit & Loss Account**
**for the year ended 31-03-2020**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Inventory | 38,600 | By Sales | 8,54,000 |
| To Purchases | 6,13,750 | By Closing Inventory | 55,700 |

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Gross profit c/d (b.f.) | | 2,57,350 | | |
| | | 9,09,700 | | 9,09,700 |
| To Salaries (75,000+14,000-12,000) | | 77,000 | By Gross Profit b/d | 2,57,350 |
| To Rent | | 11,800 | By Interest on investment (9,750+450) | 10,200 |
| To General expenses | | 22,500 | | |
| To Depreciation: | | | | |
| Machinery @ 10% | 8,500 | | | |
| Furniture @ 10% | 2,450 | 10,950 | | |
| To Bad Debts | 7,200 | | | |
| To Provision for doubtful debts | 7,000 | 14,200 | | |
| To Balance being profit carried to Capital A/c (b.f.) | | 1,31,100 | | |
| | | 2,67,550 | | 2,67,550 |

**Balance Sheet**
**as on 31st March, 2020**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| A. Adamjee's Capital | | | Machinery | 85,000 | |
| on 1st April, 2019 | 3,32,150 | | *Less:* Depreciation | (8,500) | 76,500 |
| | | | Furniture | | |
| *Add:* Fresh Capital | 50,000 | | *Less:* Depreciation | 24,500 | |
| *Add:* Profit for the year | 1,31,100 | | | (2,450) | 22,050 |
| | 5,13,250 | | | | |
| *Less:* Drawings | (96,000) | 4,17,250 | Inventory-in-trade | | 55,700 |
| | | | Sundry debtors | 3,57,200 | |
| Sundry creditors | | 2,08,200 | *Less:* Provision for | | |
| Outstanding expenses | | 14,000 | Doubtful debts | (14,200) | 3,43,000 |
| | | | Investment (including accrued interest ₹ 450) | | 85,450 |
| | | | Cash at bank | | 36,600 |
| | | | Cash in hand | | 20,150 |
| | | 6,39,450 | | | 6,39,450 |



**Working Note – I:**

**Balance sheet as on 1-4-2019**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry creditors | 60,200 | Machinery | 85,000 |
| Capital (balancing figure) | 3,32,150 | Furniture | 24,500 |
| Outstanding salaries | 12,000 | Inventory | 38,600 |
| | | Sundry debtors | 1,55,000 |
| | | Investments | 85,000 |
| | | Bank balance (from Cash statement) | 16,250 |
| | 4,04,350 | | 4,04,350 |

**Working Note – II:**

**Total Debtors A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1-4-19 | To Balance b/d | 1,55,000 | 31-3-20 | By Cash | 4,81,000 |
| 31-3-20 | To Credit sales (1,70,800/20 × 80) | 6,83,200 | 31-3-20 | By Bad debts | 7,200 |
| | | | | By Balance c/d (Bal. Fig.) | 3,50,000 |
| | | 8,38,200 | | | 8,38,200 |

**Working Note – III:**

**Total Creditors A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31-3-20 | To Cash | 3,43,000 | 1-4-19 | By Balance b/d | 60,200 |
| 31-3-20 | To Balance c/d (Bal. Fig.) | 2,08,200 | 31-3-20 | By Credit Purchases (1,22,750/20 × 80) | 4,91,000 |
| | | 5,51,200 | | | 5,51,200 |

**Q.6 Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.**

**Following information is given to you:**

| Assets and Liabilities | As on 1-4-2016 | As on 31-3-2017 |
|---|---|---|
| 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 from Laxman ₹ 1,00,000 taken on 1-10-2016 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.**

**You are required to prepare:**

**(i) Trading and Profit and Loss Account for the year ended 31-3-2017.**
**(ii) Balance Sheet as at 31st March, 2017.**

**[CA Inter MTP]**

**Solution:**

**Trading and Profit and Loss A/c**
**for the year ended 31st March, 2017**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Opening stock | 2,80,000 | By Sales | | |
| To Purchases | 7,70,000 | Cash | 2,40,000 | |
| To Gross Profit @ 25% | 3,10,000 | Credit | 10,00,000 | 12,40,000 |
| | | By Closing Stock (bal. fig.) | | 1,20,000 |
| | 13,60,000 | | | 13,60,000 |
| To Salaries | 40,000 | By Gross Profit | | 3,10,000 |
| To Business expenses | 1,20,000 | | | |
| To Interest on loan | | | | |
| (10% of 1,00,000 × 6/12) | 5,000 | | | |
| To Net Profit | 1,45,000 | | | |
| | 3,10,000 | | | 3,10,000 |

**Balance Sheet**
**as at 31st March, 2017**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Ram's capital: | | | Cash in hand | 10,000 |
| Opening | 3,00,000 | | Cash at Bank | 80,000 |



| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| *Add*: Net Profit | 1,45,000 | | Debtors | 3,50,000 |
| | 4,45,000 | | Stock in trade | 1,20,000 |
| *Less*: Drawings | (80,000) | 3,65,000 | | |
| Loan from Laxman (including interest due) | | 1,05,000 | | |
| Creditors | | 90,000 | | |
| | | 5,60,000 | | 5,60,000 |

**Working Notes:**

**I: Computation of Credit Sales:**

**Debtors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 1,00,000 | By Bank A/c | 7,50,000 |
| To Credit sales (Bal. fig) | 10,00,000 | By Balance c/d | 3,50,000 |
| | 11,00,000 | | 11,00,000 |

**II: Computation of Credit Purchases:**

**Creditors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c | 7,00,000 | By Balance b/d | 40,000 |
| To Cash A/c | 20,000 | By Purchases (Bal. fig.) | 7,70,000 |
| To Balance c/d | 90,000 | | |
| | 8,10,000 | | 8,10,000 |

**III: Cash and Bank A/c**

| Particulars | Cash | Bank | Particulars | Cash | Bank |
|---|---|---|---|---|---|
| | ₹ | ₹ | | ₹ | ₹ |
| To Balance b/d | 10,000 | | By Balance b/d | | 50,000 |
| To Sales (bal. fig) | 2,40,000 | | By Bank A/c (Contra) | 1,00,000 | |
| To Cash (Contra) | | 1,00,000 | By Salaries | 40,000 | |
| To Debtors | | 7,50,000 | By Creditors | 20,000 | 7,00,000 |
| To Laxman's loan | | 1,00,000 | By Drawings | 80,000 | |

| Particulars | Cash ₹ | Bank ₹ | Particulars | Cash ₹ | Bank ₹ |
|---|---|---|---|---|---|
| | | | 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 |

**Q.7 The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 2015:**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sri Srinivas's capital | 1,00,000 | Furniture | 10,000 |
| Liabilities for goods | 20,500 | Stock | 70,000 |
| Rent | 1,000 | Debtors | 25,000 |
| | | Cash at bank | 14,500 |
| | | Cash in hand | 2,000 |
| | 1,21,500 | | 1,21,500 |

You are furnished with the following information:

(1) Sri Srinivas sells his goods at a profit of 20% on sales.

(2) Goods are sold for cash and credit. Credit customers pay by cheques only.

(3) Payments for purchases are always made by cheques.

(4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹100.

Analysis of the Bank Pass-Book for the 13 weeks period ending 31st March, 2016 disclosed the following:

| Particulars | ₹ |
|---|---|
| Payments to creditors | 75,000 |
| Payments of rent upto 31-3-2016 | 4,000 |
| Amounts deposited into the bank (include ₹ 30,000 received from debtors by cheques) | 1,25,000 |

| The following are the balances on 31st March, 2016: | ₹ |
|---|---|
| Stock | 40,000 |
| Debtors | 30,000 |
| Creditors for goods | 36,500 |

On the evening of 31st March, 2016 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date. You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31 st March, 2016 and a Balance Sheet as on that date.



**Solution:**

**Trading and Profit and Loss A/c**
**for 13 week-period ended 31st March, 2016**

| Particulars | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|
| To Opening stock | 70,000 | By Sales: | | |
| To Purchases (W. Note I) | 91,000 | Cash (W.N. II and W.N. IV) | 1,16,250 | |
| To Gross Profit c/d | 30,250 | Credit (W.N. III) | 35,000 | 1,51,250 |
| | | By Closing stock | | 40,000 |
| | 191,250 | | | 1,91,250 |
| To Salaries (300 × 13) | 3,900 | By Gross profit b/d | | 30,250 |
| To Rent (₹ 4,000 - ₹ 1,000) | 3,000 | | | |
| To Sundry Expenses (50 × 13) | 650 | | | |
| To Loss of cash by theft (See Working Note below) | 17,400 | | | |
| To Net Profit (B/Fig.) | 5,300 | | | |
| | 30,250 | | | 30,250 |

**Working Note:**

**Statement showing computation of cash defalcated by the Cashier:**

| Particulars | ₹ | ₹ |
|---|---|---|
| Cash balance as on 1-1-2016 | 2,000 | |
| *Add:* Cash sales (See Trading A/c) | 1,16,250 | 1,18,250 |
| *Less:* Salary to clerk (₹ 300 × 13) | 3,900 | |
| Sundry expenses (₹ 50 × 13) | 650 | |
| Drawings of Sri Srinivas (₹ 100 × 13) | 1,300 | |
| Deposit into bank (₹ 1,25,000 – 30,000) | 95,000 | (1,00,850) |
| Cash balance as on 31-3-2016 (defalcated by cashier) | | 17,400 |

*Note:* Alternatively, the amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13-week period ending 31st March, 2016 would amount ₹ 22,700.

**Balance Sheet**
**as on 31st March, 2016**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital as on 1-1-2016 | 1,00,000 | | Furniture | 10,000 |
| *Add:* Profit | 5,300 | | Stock | 40,000 |
| | 1,05,300 | | Debtors | 30,000 |

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| *Less:* Drawings | (1,300) | 1,04,000 | Cash at bank | 60,500 |
| Liabilities for goods | | 36,500 | | |
| | | 1,40,500 | | 1,40,500 |

**Working Notes:**

**I: Computation of Credit Purchases:**

**Creditors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c | 75,000 | By Balance b/d | 20,500 |
| To Balance c/d | 36,500 | By Purchases A/c (Bal. fig.) | 91,000 |
| | 1,11,500 | | 1,11,500 |

**II: Computation of Total sales:**

| Particulars | ₹ |
|---|---|
| Opening Stock | 70,000 |
| *Add:* Purchases | 91,000 |
| | 1,61,000 |
| *Less:* Closing stock | (40,000) |
| Cost of Goods Sold | 1,21,000 |
| *Add:* Gross profit @ 25% on cost | 30,250 |
| Total Sales | 1,51,250 |

**III: Computation of Credit Sales:**

**Debtors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 25,000 | By Bank A/c | 30,000 |
| To Sales A/c (Bal. fig.) | 35,000 | By Balance c/d | 30,000 |
| | 60,000 | | 60,000 |

**IV: Computation of Cash Sales:**

| Particulars | ₹ |
|---|---|
| Total sales | 1,51,250 |
| *Less:* Credit Sales | (35,000) |
| Cash sales | 1,16,250 |



**V: Computation of Closing Bank balance:**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 14,500 | By Creditors A/c | 75,000 |
| To Debtors A/c | 30,000 | By Rent A/c | 4,000 |
| To Cash A/c (1,25,000 - 30,000) | 95,000 | By Balance c/d (B/Fig.) | 60,500 |
| | 1,39,500 | | 1,39,500 |

17
CHAPTER

# NOT FOR PROFIT ORGANIZATION

## SHORT NOTES

### Q.1 Income and Expenditure A/c

**Ans. Income and Expenditure A/c:**

- Income & Expenditure Account - is just like a profit & Loss account.
- All the expenses for that year *i.e.*, related to that year, will be debited to it.
- All the incomes related to that year will be credited to it.
- If the credit side is more, the balance is known as "Surplus" (Profit).
- If the debit side is more the balance is known as "Deficit" (Loss) which is then
- Transferred (Surplus is credited/Loss is debited) to the capital account of the Association/Trust which is known by different names such as Trust Fund/General Fund/Capital Fund etc.

### Q.2 Receipt and Payment A/c

**Ans. Receipt and Payment A/c:**

- Receipt & Payment Account - is a summarized cash book.
- All receipts in that year may be loan, a capital receipt or an income will be debited to Receipt & Payment A/c.
- Income received in this year may be related to this year or previous year or next year.
- Similarly all payments made in this year may be for capital expenditure, repayment of loan, revenue expenditure etc. should be credited to Receipt & Payment A/c.
- The revenue expenditure paid in this year, may relate to this year or previous year or next year.
- Balance of this A/c is the closing cash and bank balance and will appear in the balance sheet.

### Q.3 Entrance Fees

**Ans. Entrance Fees:**

- The Associations collect entrance fees/admission fees from the new members at the time of their admission.
- It is different from the membership fees/subscriptions, which are received every year and hence treated as revenue income and transferred to Income & Expenditure account.
- But the entrance fees is received only once from a member, hence it can be treated as follows:
  - (a) If the amount is just sufficient to recover the expenditure incurred while admitting any member then it will be treated as revenue income and transferred to Income & Expenditure account.
  - (b) Otherwise the entrance fees can be capitalized & transferred to the Trust Fund Account. OR;
  - (c) Entrance fees may be treated as deferred Income and shown in the Balance Sheet under the head "Entrance Fees Account" & Part-amount can be written off every year by transferring to Income & Expenditure A/c in proportion to the benefit extended to the members, estimated on some suitable basis.

### Q.4 Membership fees

**Ans. Membership fees:**

- These are usually charged yearly from the members hence are treated as revenue income and credited to I&E A/c.
- The amount received should be duly adjusted for outstanding and advances, so as to get the figure of income for the year.
- When number of members and the rate of membership fees/subscription is given then income = number of member x rate per member.
- Outstanding subscription *i.e.* subscription receivable will be shown on the asset side of balance sheet.
- Advance subscription *i.e.* unearned subscription will be shown on the liability side of balance sheet.

### Q.5 Donation

**Ans. Donation :**

- Donations are the voluntary contribution provided by the well wishers for general or specific purpose.
- If donations are received for a particular purpose then it will be credited to that particular fund a/c say donation received for construction of building credited to Building fund A/c.
- Otherwise general donations will be credited to Income & Expenditure A/c.



- If question requires capitalisation, but does not specify the fund to which it should be credited, then credit such donation to trust fund a/c.
- Donation may be in kind then stock or fixed asset whatever is received will be debited and the credit will be as explained in above points.

## TRUE OR FALSE

**Q.1 Scholarship granted to students out of funds provided by Government will be debited to Income & Expenditure Account.**

**Ans. False:** The Scholarship granted to students should be deducted from the funds provided by the Government for the same purpose in the Balance Sheet.

**Q.2 Receipts and Payments Account is a summary of all capital receipts and payments.**

**Ans. False:** Receipts and Payments Account is a summary of all cash or bank receipts and payments whether they are of capital or revenue in nature.

**Q.3 If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.**

**Ans. False:** Expenses incurred on sports activities will be deducted from sports fund only.

**Q.4 Receipts and Payments Account highlights total income and expenditure.**

**Ans. False:** Receipts and Payments Account is a summary of all cash or bank receipts and payments whether they are of capital or revenue in nature.

**Q.5 Only revenue items are disclosed in Income and Expenditure account.**

**Ans. True:** Income and Expenditure Account is prepared to find out surplus/deficit. Hence, only revenue items are shown in the Income and Expenditure Account. Thus, capital expenditures are not shown in Income & Expenditure Account.

**Q.6 Fees received for Life Membership is a revenue receipt as it is of recurring nature.** **[Nov. 2018, 2 Marks]**

**Ans. False:** Life membership fee received for the life membership is a capital receipt because it is of non-recurring nature.

**Q.7 Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.** **[Dec. 2022, 2 Marks]**

**Ans. True:** All the receipts & payments whether of revenue or capital nature are included in this account.

## PRACTICAL QUESTIONS

**Q.1 From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2011 of the Mayura Hospitals.**

**Receipt and Payments Account (For the year ended 31st Dec. 2011)**

| Particulars (Receipts) | | ₹ | Particulars (Payment) | ₹ |
|---|---|---|---|---|
| To Balance: | | | By Salaries (₹ 3600 for 2010) | 15,000 |
| Cash | 400 | | By Hospital Equipment | 8,500 |

| Particulars (Receipts) | ₹ | Particulars (Payment) | ₹ |
|---|---|---|---|
| Bank 2,600 | 3,000 | By Furniture purchased | 3,000 |
| | | By Additions to Building | 25,000 |
| | | By Printing & Stationery | 1,800 |
| To Subscriptions: | | By Diet Expenses | 7,800 |
| For 2010 2,550 | | By Rent & Rates (₹ 150 for 2012) | 1,000 |
| For 2011 12,250 | | By Electricity & Water Charges | 1,200 |
| For 2012 1,200 | 16,000 | By Office Expenses | 1,000 |
| | | By Investment | 10,000 |
| To Govt. Grant: | | By Balances: | |
| For Building 40,000 | | Cash 700 | |
| For Maintenance 10,000 | 50,000 | Bank 3,400 | 4,100 |
| To Fees from Sundry patients | 2,400 | | |
| To Donations (not to be capitalized) | 4,000 | | |
| To Net Collection from benefit show | 3,000 | | |
| | 78,400 | | 78,400 |

**Additional Information:**

(*i*) Subscription in arrears as on 31-12-2010 ₹ 3,200

(*ii*) Investments in 8% Govt. Securities were made on 1st July, 2011

**Solution :**

**Income and Expenditure Account for the Year Ended 31.12.2011**

| Particulars (Expenditure) | ₹ | Particulars (Income) | ₹ |
|---|---|---|---|
| To Salary | 11,400 | By Interest on Govt. Securities | |
| To Printing & stationery | 1,800 | (10,000 × 8% × 6/12 ) | 400 |
| To Diet expenses | 7,800 | By Donations | 4,000 |
| To Rent & rates | 850 | By Fees from patient | 2,400 |
| To Electricity & Water | 1,200 | By Govt. grant for Maintenance | 10,000 |
| To Office expenses | 1,000 | By Net collection from benefit show | 3,000 |
| To Surplus transferred to capital fund | 8,000 | By Subscription | 12,250 |
| | 32,050 | | 32,050 |

**WORKING NOTES:**

**Subscription Account**

| | | | |
|---|---|---|---|
| To Opening Outstanding | 3,200 | By Cash A/c (Collected) | 16,000 |
| To Income & Expenditure A/c (Income) (Balancing figure) | 12,250 | By Closing Outstanding (3200-2550) | 650 |
| To Closing Balance (Advance) | 1,200 | | |
| | 16,650 | | 16,650 |



**Salary Account**

| | | | |
|---|---|---|---|
| To Cash/Bank A/c (Paid) | 15,000 | By Balance outstanding b/d | 3,600 |
| | | By Income & Expenditure A/c (Expense) | 11,400 |
| | 15,000 | | 15,000 |

**Rent Account**

| | | | |
|---|---|---|---|
| To Cash A/c (Paid) | 1,000 | By Income & Expenditure (Balance figure) | 850 |
| | | By Closing Prepaid c/f | 150 |
| | 1,000 | | 1,000 |

**Important Points:**

1. Govt. grant for Building will be credited to building fund a/c and will appear in Balance sheet.

2. Addition to Purchase of Furniture, Equipment, Building and Investment will be debited to respective asset a/c and will appear in Balance sheet.

**Q.2 The following informations were obtained from the books of Delhi Club as on 31.3.2011 at the end of the first year of the Club. You are required to prepare Receipts and Payments Account for the year ended 31.3.2011:**

**(*i*) Donations received for Building and Library Room ₹ 2,00,000.**

**(*ii*) Other revenue receipts:**

| | Actual Receipts ₹ |
|---|---|
| Entrance Fees | 17,000 |
| Subscription | 19,000 |
| Locker Rents | 600 |
| Sundry Income | 1,060 |
| Refreshment Account | 16,000 |

**(*iii*) Other actual payments:**

| | Actual Payments ₹ |
|---|---|
| Land (cost ₹ 10,000) | 10,000 |
| Furniture (cost ₹ 1,46,000) | 1,30,000 |
| Salaries | 4,800 |
| Maintenance of Playgrounds | 1,000 |
| Rent | 8,000 |
| Refreshment Account | 8,000 |

**Donations to the extent of ₹ 25,000 were utilized for the purchase of Library Books, balance was still unutilized. In order to keep it safe, 9% Govt. Bonds of ₹ 1,60,000 were purchased on 31.3.2011. Remaining amount was put in the Bank on 31.3.2011 under the term deposit.**

**Solution :**

**Delhi Club**

**Receipt and Payments A/c for the year ended 31st March 2011**

| Receipts | ₹ | Payments | | ₹ |
|---|---|---|---|---|
| To Building and library fund A/c | 2,00,000 | By Library book A/c | 25,000 | |
| To Entrance fees A/c | 17,000 | By Bond 9% govt. A/c | 1,60,000 | |
| To Subscription A/c | 19,000 | By Fixed deposit A/c (Bal. fig) | 15,000 | 2,00,000 |
| To Locker rent A/c | 600 | By Land A/c | | 10,000 |
| To Sundry income A/c | 1,060 | By Furniture A/c | | 1,30,000 |
| To Refreshment A/c | 16,000 | By Salaries A/c | | 4,800 |
| To Closing balance (Overdraft balance) (balancing figure) | 1,08,140 | By Maintenance of playgrounds A/c | | 1,000 |
| | | By Rent A/c | | 8,000 |
| | | By Refreshment A/c | | 8,000 |
| | 3,61,800 | | | 3,61,800 |

**Q.3 Members of a club, are paying an annual subscription of ₹ 500. On 31st March, 2010, subscriptions in arrears from 10 members and received in advance from 5 members. Subscriptions received during the year ended 31st March, 2011 from 446 members, including from 21 members for the year 2011-2012. Subscriptions in arrears as on 31st March, 2011 from 30 members. Calculate the amount of subscriptions income for the year ended on 31st March, 2011 by preparing subscriptions A/c.**

**Solution :**

**Dr.** **Subscription A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding b/f (10 × 500) | 5,000 | By Opening advance b/f (5 × 500) | 2,500 |
| To I&E A/c (balancing figure) (Income for the year) | 2,25,000 | By Cash/Bank A/c (446 × 500) (Received during the year) | 2,23,000 |
| To Closing advance c/f (21 × 500) | 10,500 | By Closing outstanding c/f (30 × 500) | 15,000 |
| | 2,40,500 | | 2,40,500 |

**Alternatively above figure can be ascertained by preparing a statement.**

| | | ₹ |
|---|---|---|
| Subscription received during the year | | 2,23,000 |
| Add: Opening advance | 2,500 | |
| Closing outstanding | 15,000 | 17,500 |
| | | 2,40,500 |
| Less: Closing advance | 10,500 | |
| Opening outstanding | 5,000 | 15,500 |
| Subscription income for the year | | 2,25,000 |



**Q.4 On the basis of the following information related to its many rented premises, calculate the amount that will appear against the item 'Rent' in the income and expenditure account for the year ended 31st March, 2011:**

| | ₹ |
|---|---|
| Rent prepaid as on 1st April, 2010 | 12,000 |
| Rent payable as on 1st April, 2010 | 25,600 |
| Amount paid for rent during the year ended 31st March, 2011 | 1,40,000 |
| Rent prepaid as on 31st March, 2011 | 23,200 |
| Rent payable as on 31st March, 2011 | 24,000 |

**Solution :**

**Dr.** **Rent A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening prepaid b/f | 12,000 | By Opening payable b/f | 25,600 |
| To Cash/Bank A/c (Paid) | 1,40,000 | By I&E A/c (balancing figure) (rent expense) | 1,27,200 |
| To Closing payable c/f | 24,000 | By Closing prepaid c/f | 23,200 |
| | 1,76,000 | | 1,76,000 |

**Q.5 On the basis of the following information, calculate the amount that will appear against the item 'stationery consumed' in the income and expenditure account for the year ended 31st March, 2011:**

| | ₹ |
|---|---|
| Stock of stationery as on 1st April, 2010 | 12,000 |
| Creditors for stationery on 1st April, 2010 | 25,600 |
| Amount paid for stationery during the year ended 31st March, 2011 | 1,40,000 |
| Stock of stationery as on 31st March, 2011 | 23,200 |
| Creditors for stationery as on 31st March, 2011 | 24,000 |

**Solution :**

**Dr.** **Stationery A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening stock b/f | 12,000 | By Opening Creditors b/f | 25,600 |
| To Cash/Bank A/c | 1,40,000 | By I&E A/c (balancing figure) (Stationery consumed) | 1,27,200 |
| To Closing creditors c/f | 24,000 | By Closing stock c/f | 23,200 |
| | 1,76,000 | | 1,76,000 |

**Note:** Alternatively you can prepare two accounts as explained below that will also show you amount of stationery purchased.

### Creditors for Stationery A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash Bank A/c (Payment) | 1,40,000 | By Opening balance b/f | 25,600 |
| To Closing balance c/f | 24,000 | By Stationery stock A/c (balancing figure) (Stationery purchased) | 1,38,400 |
| | 1,64,000 | | 1,64,000 |

### Stationery Stock A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening balance b/f | 12,000 | By I&E A/c (balancing figure) (stationery used/consumed) | 1,27,200 |
| To Creditors A/c (purchases) | 1,38,400 | By Closing balance c/f | 23,200 |
| | 1,50,400 | | 1,50,400 |

**When Opening balance sheet, Receipt & Payment A/c and some information is given.**

**Q.6 Smith Library Society showed the following position on 31st March 2010:**

**Balance sheet as on 31st March, 2010**

| 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 Receipt and Payment Account for the year ended on 31st March, 2011 is given below**

| Particulars (Receipt) | | ₹ | Particulars (Payment) | ₹ |
|---|---|---|---|---|
| To Balance b/f | | | By Electric charges | 7,200 |
| Cash at bank | 25,000 | | By Postage and stationery | 5,000 |
| Cash in hand | 25,000 | 50,000 | By Telephone charges | 5,000 |
| To Entrance Fees | | 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 Bal. c/f. Cash at bank | 20,000 |
| | | | Cash in hand | 11,300 |
| | | 3,09,500 | | 3,09,500 |

**You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2011 and a Balance Sheet as at 31st March, 2011 after making the following adjustments:**



**(a) Membership Subscription included ₹ 10,000 received in advance.**

**(b) Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.**

**(c) Books to be depreciated @10% including additions. Electrical Fittings and Furniture's are also to be depreciated at the same rate.**

**(d) 75% of Entrance Fees is to be capitalised.**

**(e) Interest on Securities is to be calculated @ 5% p.a. including purchases made on 1.10.2010 for ₹ 40,000.**

**Solution:**

### Income and Expenditure Account

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Electric charges A/c | 7,200 | By Subscription A/c | 1,90,000 |
| To Postage and stamp A/c | 5,000 | By Hire of lecture hall A/c | 20,000 |
| To Telephone Charges A/c | 5,000 | By Sale of old news A/c | 1,500 |
| To Rent A/c | 92,000 | By Entrance fees A/c | 7,500 |
| To Salary A/c | 69,000 | By Interest A/c | 8,500 |
| To Depreciation A/c | 66,000 | By Deficit A/c | 16,700 |
| | 2,44,200 | | 2,44,200 |

### Balance sheet on date 31.3.2011

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital fund | | | Electric fitting | 1,50,000 | |
| Balance | 7,93,000 | | (-) Depreciation | 15,000 | 1,35,000 |
| (+) Entrance fees | 22,500 | | Furniture | 50,000 | |
| (-) Deficit | 16,700 | 7,98,800 | (-) Depreciation | 5,000 | 45,000 |
| Advance Subscription | | 10,000 | Books | 4,00,000 | |
| Expense outstanding | | 7,000 | (+) Addition | 60,000 | |
| | | | (-) Depreciation | 46,000 | 4,14,000 |
| | | | Investment | 1,50,000 | |
| | | | (+) Addition | 40,000 | 1,90,000 |
| | | | Interest outstanding | | 500 |
| | | | Bank | | 20,000 |
| | | | Cash | | 11,300 |
| | | 8,15,800 | | | 8,15,800 |

**Working notes:**

### Expenses out standing Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash A/c | 7,000 | By Opening balance b/f | 7,000 |
| To Balance c/f | 7,000 | By Rent A/c | 4,000 |
| | | By Salary A/c | 3,000 |
| | 14,000 | | 14,000 |

### Subscription Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To I&E A/c (Income) | 1,90,000 | By Cash A/c (Received) | 2,00,000 |
| To Closing advance subscription A/c | 10,000 | | |
| | 2,00,000 | | 2,00,000 |

### Rent Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash A/c (paid) | 88,000 | By I&E A/c (Expense) | 92,000 |
| To Closing outstanding rent A/c | 4,000 | | |
| | 92,000 | | 92,000 |

### Salary Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash A/c (paid) | 66,000 | By I&E A/c (Expense) | 69,000 |
| To Closing outstanding salary A/c | 3,000 | | |
| | 69,000 | | 69,000 |

### Entrance fees Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Capital fund A/c (capitalized) | 22,500 | By Cash A/c | 30,000 |
| To I&E A/c (income) | 7,500 | | |
| | 30,000 | | 30,000 |

### Interest Account

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To I&E A/c (Income) | 8,500 | By Cash A/c (received) | 8,000 |
| | | By Interest outstanding A/c | 500 |
| | 8,500 | | 8,500 |

**Calculation of interest on investment:**

| | | |
|---|---|---|
| Interest for full year on opening balance | $1,50,000 \times 5\%$ | = 7,500 |
| Interest for half year on addition | $40,000 \times 5\% \times 6/12$ | = 1,000 |
| Total Interest for the year | | 8,500 |
| Received during the year | | 8,000 |
| Interest outstanding at the end of the year | | 500 |

**When income & Expenditure A/c and Opening & Closing Balance sheet is given.**

**Q.7 Chail Cricket Club gives you the following information:**

**Income & Expenditure Account for the year ended 31st Dec., 2011**

| Expenditure | ₹ | Income | | ₹ |
|---|---|---|---|---|
| To Remuneration to Coach A/c | 18,000 | By Donation & Subscription A/c | | 1,02,000 |
| To Salaries & Wages A/c | 24,000 | By Bar Room: | | |
| To Rent A/c | 12,000 | Receipts | 24,000 | |
| To Repairs A/c | 11,000 | Less: Expenses | 20,000 | 4,000 |
| To Miscellaneous Expenses A/c | 7,000 | By Bank Interest A/c | | 2,000 |
| To Honorarium to Secretary A/c | 18,000 | By Hire Club Hall A/c | | 12,000 |
| To Depreciation on Equipment A/c | 5,000 | | | |
| To Surplus A/c | 25,000 | | | |
| | 1,20,000 | | | 1,20,000 |



### Balance Sheet

| 2010 ₹ | Liabilities | 2011 ₹ | 2010 ₹ | Assets | 2011 ₹ |
|---|---|---|---|---|---|
| | Capital Fund as on 31-12-10 | 48,000 | 25,000 | Equipment | 20,000 |
| 48,000 | Entrance Fees | 10,000 | | | |
| | Surplus | 25,000 | 6,000 | Subscription Outstanding | 8,000 |
| | | 83,000 | 5,000 | Cash-in-hand | 4,000 |
| 4,000 | Subscription in advance | 3,000 | | | |
| | Outstanding Liabilities: | | | | |
| 1,500 | Miscellaneous Exp. | 1,000 | 2,500 | Cash at Bank | 10,000 |
| 2,000 | Salary & Wages | 3,000 | | | |
| 3,000 | Honorarium to Secretary | 2,000 | 20,000 | Fixed Deposits | 50,000 |
| 58,500 | | 92,000 | 58,500 | | 92,000 |

**Prepare the Receipt and Payment Account of the Club for the year ended 31st Dec. 2011.**

**Solution :**

**Important Points:**

Expenses in which there is no opening or closing adjustment will be equal to payment and will appear as it is in Receipt & Payment A/c.

Similarly Income in which there is no opening or closing adjustment will be equal to receipt and will appear as it is in Receipt & Payment A/c.

For others figure of receipt or payment will be ascertained by preparing concerned account.

### Receipt and Payment Account

| Particulars (Receipt) | | Amount | Particulars (Payment) | | Amount |
|---|---|---|---|---|---|
| To Opening Balance | | | By Remuneration to Coach A/c | | 18,000 |
| Cash A/c | 5,000 | | By Rent A/c | | 12,000 |
| Bank A/c | 2,500 | 7,500 | By Repairs A/c | | 11,000 |
| To Bar Receipt A/c | | 24,000 | By Bar Expense A/c | | 20,000 |
| To Bank Interest A/c | | 2,000 | By Fixed Deposit A/c | | 30,000 |
| To Hire Club Hall A/c | | 12,000 | By Salary & Wages A/c | | 23,000 |
| To Entrance Fees A/c | | 10,000 | By Misc. Expense A/c | | 7,500 |
| To Donation & Subscription A/c | | 99,000 | By Honorarium to Secretary A/c | | 19,000 |
| | | | By Closing Bal. Cash A/c | 4,000 | |
| | | | Bank A/c | 10,000 | 14,000 |
| | | 1,54,500 | | | 1,54,500 |

**Working notes**

**Salary and Wages Account**

| | | | |
|---|---|---|---|
| To Cash A/c (Bal. figure) | 23,000 | By Opening Outstanding b/d | 2,000 |
| To Closing Outstanding c/d | 3,000 | By Income & Expenditure A/c | 24,000 |
| | 26,000 | | 26,000 |

**Miscellaneous Expense Account**

| | | | |
|---|---|---|---|
| To Cash A/c (Bal. figure) | 7,500 | By Opening Outstanding b/d | 1,500 |
| To Closing Outstanding c/d | 1,000 | By Income & Expenditure A/c | 7,000 |
| | 8,500 | | 8,500 |

**Honorarium To Secretary Account**

| | | | |
|---|---|---|---|
| To Cash A/c (Bal. figure) | 19,000 | By Opening Outstanding b/d | 3,000 |
| To Closing Outstanding c/d | 2,000 | By Income & Expenditure A/c | 18,000 |
| | 21,000 | | 21,000 |

**Equipment Account**

| | | | |
|---|---|---|---|
| To Opening Balance | 25,000 | By Depreciation A/c | 5,000 |
| | | By Balance c/d | 20,000 |
| | 25,000 | | 25,000 |

**Fixed Deposit Account**

| | | | |
|---|---|---|---|
| To Opening Balance | 20,000 | By Balance c/d | 50,000 |
| To Cash (Bal. figure) Deposit made | 30,000 | | |
| | 50,000 | | 50,000 |

**Subscription Account**

| | | | |
|---|---|---|---|
| To Opening Outstanding | 6,000 | By Opening Advance | 4,000 |
| To Income & Expenditure A/c | 1,02,000 | By Cash (Bal. Figure) | 99,000 |
| To Closing Advance c/d | 3,000 | By Closing Outstanding c/d | 8,000 |
| | 1,11,000 | | 1,11,000 |

**Q.8 From the following, find out the amount of subscriptions to be included in the income and expenditure account for the year ended 31st March, 2019. Subscriptions were received during the year 2018-19 as follows:**

| | ₹ |
|---|---|
| **For the year 2017-18** | **2,000** |
| **For the year 2018-19** | **30,000** |
| **For the year 2019-20** | **3,000** |

**Subscriptions outstanding as on 31st March, 2018 were ₹ 3,500 out of which ₹ 500 were considered to be irrecoverable. On the same date, subscription received in advance for 2018-19 were ₹ 2,000. Subscriptions still outstanding as on 31st March, 2019 amounted to ₹ 6,000.**



**Solution :**

**Subscription A/c**

Dr. Cr.

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Op. outstanding subscription A/c | 3,500 | By Op. advance subscription A/c | | 2,000 |
| To I&E A/c (income bal. figure) | 37,000 | By I&E (irrecoverable amount) | | 500 |
| To Closing advance subscription A/c | 3,000 | By Cash/Bank A/c for | | |
| | | 1997-98 | 2,000 | |
| | | 1998-99 | 30,000 | |
| | | 1999-2000 | 3,000 | 35,000 |
| | | By Closing o/s subscription A/c | | 6,000 |
| | 43,500 | | | 43,500 |

**Q.9 During the year ended 31st March, 2012, Sachin Cricket Club received subscriptions as follows :**

| | ₹ |
|---|---|
| ***For year ending 31st March, 2011*** | ***12,000*** |
| ***For year ending 31st March, 2012*** | ***6,15,000*** |
| ***For year ending 31st March, 2013*** | ***18,000*** |
| ***Total*** | ***6,45,000*** |

**There are 500 members and annual subscription is ₹ 1,500 per member. On 31st March, 2012, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2011.**

**Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2012. Also show how the items would appear in the Balance Sheet as on 31st March, 2011 and the Balance Sheet as on 31st March, 2012.**

**Solution :**

**Subscription A/c year ended 31.03.2012**

Dr. Cr.

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Opening outstanding (12000+15000) | 27,000 | By Opening advance subscription b/f | | Nil |
| To I&E A/c (500 × 1,500) (Income) | 7,50,000 | By Cash/Bank A/c (Received) | | |
| For the year ended 31.03.2012 | | For year ended 31.3.11 | 12,000 | |
| To Closing advance subscription c/f | 18,000 | For year ended 31.3.12 | 6,15,000 | |
| | | For year ended 31.3.13 | 18,000 | 6,45,000 |
| | | By Closing outstanding (bal. fig.) | | |
| | | For year ended 31.3.11 | 15,000 | |
| | | For year ended 31.3.12 | 1,35,000 | 1,50,000 |
| | 7,95,000 | | | 7,95,000 |

**Income & Expenditure Account (An extract) of Sachin Cricket Club For the year ended 31st March, 2012**

| | ₹ | | ₹ |
|---|---|---|---|
| | | By Subscription (500 members × ₹ 1,500 per member) | 7,50,000 |

**Balance Sheet of Sachin Cricket Club as on 31st March 2011 (An extract)**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| | | Subscription Receivable (15,000 + 12,000) | 27,000 |

**Balance Sheet of Sachin Cricket Club as on 31st March 2012 (An extract)**

| Liabilities | ₹ | Assets | | ₹ |
|---|---|---|---|---|
| Advance Subscription | 18,000 | Outstanding Subscription | | |
| | | of 2010-11 | 15,000 | |
| | | of 2011-12 (7,50,000 – 6,15,000) | 1,35,000 | 1,50,000 |

**Q.10 On 31st March, 2019 Writers Club a cultural association had the following assets and liabilities:**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Trust fund | 5,00,000 | Cash | 3,000 |
| | | Canara Bank: | |
| Accumulated surplus in income & expenditure A/c | 1,05,000 | Savings A/c | 7,000 |
| | | Fixed deposits | 2,00,000 |
| Membership fee received in advance for 2019-2020 | 10,000 | Investments in: | |
| Outstanding expenses | 10,000 | Government securities | 3,00,000 |
| | | Fixed assets | 95,000 |
| | | Membership fee receivable | 15,000 |
| | | Prepaid expenses | 5,000 |
| | 6,25,000 | | 6,25,000 |

**The following is the receipt and payment account for the year ended 31st March, 2020:**

| Receipts | | ₹ | Payment | | ₹ |
|---|---|---|---|---|---|
| Opening balance: | | | Administrative expenses | | 1,25,000 |
| Cash | 3,000 | | Programme expenses including cost of printing souvenir | | 2,75,000 |
| Savings with Canara Bank | 7,000 | 10,000 | | | |
| Membership fee received | | | Fixed deposits with Canara Bank | | 1,25,000 |
| Up to 31/3/2019 | 14,000 | | | | |
| For 2019-2020 | 1,50,000 | | Fixed assets purchased | | 80,000 |
| For 2020-2021 | 16,000 | 1,80,000 | Investments in ICICI Bond | | 3,00,000 |
| Sale of tickets - Programme | | 25,000 | | | |
| Advertisements in programme souvenir | | 5,00,000 | Closing balance: | | |
| Fixed deposits with Canara Bank | | 75,000 | Cash | 2,700 | |
| Interest on bank A/c: | | | Savings with Canara Bank | 5,000 | 7,700 |
| Savings | 700 | | | | |
| Fixed deposit | 22,000 | 22,700 | | | |
| Amount received on maturity of government security inclusive of interest ₹ 8,000 (cost ₹ 80,000) | | 1,00,000 | | | |
| | | 9,12,700 | | | 9,12,700 |



**The club informs you that:**

Membership fee for 2019-2020 due is ₹ 25,000; it includes ₹ 1,000 due from the member who has not yet paid also for 2018-19; provision for irrecoverable membership is to be made in respect of this member.

Income receivable on 31-3-2020 on ICICI bond is ₹ 30,000 and on government securities is ₹ 24,000.

Prepaid expenses on 31-3-2020 amount to ₹ 7,000.

Outstanding expenses on 31-3-2020 amount to ₹ 8,000.

Depreciation provision is to be ₹ 12,500.

Programme is an annual feature.

**The club asks you to prepare:** (a) Income and expenditure account for the year ended 31st March, 2020.

(b) Balance sheet as at 31st March, 2020.

Solution :

Income & Expenditure A/c

| Expenditure | ₹ | Income | | ₹ |
|---|---|---|---|---|
| To Bad Debts A/c | 2000 | By Membership Fees A/c | | 1,85,000 |
| To Depreciation A/c | 12500 | By Bank Interest A/c | | 22,700 |
| To Expenses A/c | 1,21,000 | By Programme | | |
| To Surplus c/f | 3,96,200 | Income | 5,25,000 | |
| | | (–) Expenses | 2,75,000 | 2,50,000 |
| | | By Profit on sale of Govt. security A/c | | 12,000 |
| | | By Interest on Investment A/c | | 62,000 |
| | 5,31,700 | | | 5,31,700 |

**Balance Sheet As On 31.03.2020**

| Liabilities | | ₹ | Asset | | ₹ |
|---|---|---|---|---|---|
| Trust Fund | | 5,00,000 | Fixed Asset | | 1,62,500 |
| Income & Expenditure | 1,05,000 | | Fixed Deposits | | 2,50,000 |
| (+) Surplus | 3,96,200 | 5,01,200 | Interest Outstanding | | 54,000 |
| Advance Membership Fees | | 16,000 | Investments – | | |
| Expense Outstanding | | 8,000 | ICICI Bond | 3,00,000 | |
| | | | Govt. Securities | 2,20,000 | 5,20,000 |
| | | | Prepaid Expenses | | 7,000 |
| | | | Cash | 2,700 | |
| | | | Bank | 5,000 | 7,700 |
| | | | Outstanding Membership Fees | 26,000 | |
| | | | (–) Provision | 2,000 | 24,000 |
| | | 10,25,200 | | | 10,25,200 |

**Working Notes :-**

**By preparing these accounts we get missing information which may be a transaction (complete the double entry of same) or a balance of that account. Complete accounting for whatever information is available in the question. Then by balancing the account you will get missing information as a balancing information.**

**Membership Fees A/c [subscription]**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Outstanding | 15,000 | By Opening Advance Balance | 10,000 |
| To Income & Expenditure A/c | 1,85,000 | By Cash/Bank A/c | 1,80,000 |
| To Closing Advance Balance | 16,000 | By Closing Outstanding Balance | 26,000 |
| | 2,16,000 | | 2,16,000 |

**Expenses A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Prepaid Balance | 5,000 | By Opening Outstanding | 10,000 |
| To Cash A/c | 1,25,000 | By Income & Expenditure A/c | 1,21,000 |
| To Closing Outstanding | 8,000 | By Closing Prepaid Balance | 7,000 |
| | 1,38,000 | | 1,38,000 |

**Fixed Deposits A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 2,00,000 | By Cash A/c | 75,000 |
| To Cash A/c | 1,25,000 | By Balance (c/f) | 2,50,000 |
| | 3,25,000 | | 3,25,000 |



**Government Securities A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 3,00,000 | By Cash A/c (maturity proceed) | 1,00,000 |
| To Interest on Investment A/c | 8,000 | By Balance c/f | 2,20,000 |
| To Profit on Govt. security | 12,000 | | |
| | 3,20,000 | | 3,20,000 |

**Fixed Asset A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 95,000 | By Depreciation A/c | 12,500 |
| To Cash A/c | 80,000 | By Closing Balance | 1,62,500 |
| | 1,75,000 | | 1,75,000 |

**Interest on Investment A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Income & Expenditure A/c | 62,000 | By Govt. Security A/c | 8,000 |
| | | By Closing Outstanding | 54,000 |
| | 62,000 | | 62,000 |

**Q.11 The following is the receipts and payments account of Jyoti Charitable Hospital for the year ended 31st March, 2013:**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 1,40,000 | By Payment for medicines | 6,00,000 |
| To Subscriptions | 10,00,000 | By Honorarium to doctor | 2,00,000 |
| To Donations | 2,90,000 | By Salaries | 5,50,000 |
| To Interest on investments @ 7% per annum for the year | 1,40,000 | By Sundry expenses | 10,000 |
| To Charity show collections | 2,00,000 | By Equipment's purchased | 3,00,000 |
| | | By Charity show expenses | 20,000 |
| | | By Balance c/d | 90,000 |
| | 17,70,000 | | 17,70,000 |

**Additional information:**

| | On 1.4.2012 (₹) | On 31.3.2013 (₹) |
|---|---|---|
| Subscriptions due | 10,000 | 20,000 |
| Subscriptions received in advance | 20,000 | 10,000 |
| Stock of medicines | 2,00,000 | 3,00,000 |
| Creditors for medicines | 1,60,000 | 2,40,000 |
| Equipment's | 4,20,000 | 6,00,000 |
| Buildings | 8,00,000 | 7,60,000 |

**You are required to prepare income and expenditure account for the year ended 31st March, 2013 and balance sheet as at that date.**

**Solution :**

### Income & Expenditure A/c [P&L A/c]

| Expenditure | ₹ | Income | | ₹ |
|---|---|---|---|---|
| To Honorarium to Doctors A/c | 2,00,000 | By Donation A/c | | 2,90,000 |
| To Salary A/c | 5,50,000 | By Interest A/c | | 1,40,000 |
| To Sundry Expenses A/c | 10,000 | By Charity Show | | |
| To Medicine A/c | 5,80,000 | Income | 2,00,000 | |
| To Depreciation on Equipment A/c | 1,20,000 | (-)Expenses | 20,000 | 1,80,000 |
| To Depreciation on Building A/c | 40,000 | By Subscription A/c | | 10,20,000 |
| To Surplus A/c | 1,30,000 | | | |
| | 16,30,000 | | | 16,30,000 |

### Balance Sheet As On 31.03.2013

| Liability | | ₹ | Asset | ₹ |
|---|---|---|---|---|
| Trust Fund | 33,90,000 | | Investment | 20,00,000 |
| (+) Surplus | 1,30,000 | 35,20,000 | Subscription Outstanding | 20,000 |
| Advance Subscription | | 10,000 | Medicine Stock | 3,00,000 |
| Creditors for medicine | | 2,40,000 | Building | 7,60,000 |
| | | | Equipment | 6,00,000 |
| | | | Cash/Bank | 90,000 |
| | | 37,70,000 | | 37,70,000 |

**Working Notes:-**

**Important Points:**

**By preparing these accounts we get missing information which may be a transaction (complete the double entry of same) or a balance of that account. Complete accounting for whatever information is available in the question. Then by balancing the account you will get missing information as a balancing information.**

### Subscription A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Outstanding | 10,000 | By Opening Advance | 20,000 |
| To Income & Expenditure A/c | 10,20,000 | By Cash/Bank A/c (Received) | 10,00,000 |
| To Closing Balance (advance) | 10,000 | By Closing outstanding balance | 20,000 |
| | 10,40,000 | | 10,40,000 |

### Medicine A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance (Op. Stock) | 2,00,000 | By Income & Expenditure A/c (consumed) | 5,80,000 |
| To Creditors A/c (Purchase) | 6,80,000 | By Closing Stock A/c | 3,00,000 |
| | 8,80,000 | | 8,80,000 |



### Creditors For Medicine A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash/Bank A/c (Payment) | 6,00,000 | By Opening Balance | 1,60,000 |
| To Closing balance c/f | 2,40,000 | By Purchase A/c (balancing figure) | 6,80,000 |
| | 8,40,000 | | 8,40,000 |

### Equipment A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 4,20,000 | By Depreciation A/c (balancing fig.) | 1,20,000 |
| To Cash/Bank A/c (Purchase) | 3,00,000 | By Closing Balance | 6,00,000 |
| | 7,20,000 | | 7,20,000 |

### Building A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 8,00,000 | By Depreciation A/c (balancing fig.) | 40,000 |
| | | By Closing Balance | 7,60,000 |
| | 8,00,000 | | 8,00,000 |

### Balance Sheet As On 31.03.2012

| Liability | ₹ | Asset | ₹ |
|---|---|---|---|
| Advance Subscription | 20,000 | Cash/Bank | 1,40,000 |
| Creditors For Medicine | 1,60,000 | Investment*** | 20,00,000 |
| Trust Fund (Balancing figure) | 33,90,000 | Subscription Outstanding | 10,000 |
| | | Stock of Medicine | 2,00,000 |
| | | Equipment | 4,20,000 |
| | | Building | 8,00,000 |
| | 35,70,000 | | 35,70,000 |

***** Investment is calculated from interest Investment = 1,40,000/7×100 = 20,00,000**

**Q.12 Following is the Receipts and Payments Account of Mayur Club for the year ended 31st March, 2018:**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Opening balance (1.4.2017) | | By Sports materials | 3,04,500 |
| Cash on hand | 39,100 | By Salaries | 3,15,000 |
| Cash at bank | 50,000 | By Equipment purchased on 1.10.2017 | 60,000 |
| To Subscriptions | | By Bank fixed deposit on 31.3.2018 | 1,50,000 |
| For the year 2016-17 | 18,000 | By Rent | 1,48,500 |
| For the year 2017-18 | 9,63,000 | By Ground maintenance | 22,120 |
| For the year 2018-19 | 4,500 | By Insurance | 38,400 |

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Interest on bank Fixed deposits @ 10% | 45,000 | By Stationery | 3,450 |
| | | By Sundry expenses | 5,880 |
| | | By Closing balance as on 31.3.2018 | |
| | | Cash on hand | 31,750 |
| | | Cash at bank | 40,000 |
| | 15,75,000 | | 15,75,000 |

**Following additional information is provided to you:**

**(*i*) The Club has 220 members. The annual subscription is ₹ 4,500 per member.**

**(*ii*) Depreciation to be provided on Furniture at 10% p.a. and on Sports equipment at 15% p.a.**

**(*iii*) On 31st March, 2018, stock of sports material in hand (after members use during the year) is valued at ₹ 78,000 and stock of stationery at ₹ 3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to ₹ 9,600.**

**(*iv*) On 31st March, 2017 the Club had the following Assets:**

| | |
|---|---|
| **Furniture** | **₹ 2,70,000** |
| **Sports equipment** | **₹1,80,000** |
| **Bank fixed deposit** | **₹ 4,50,000** |
| **Stock of stationery** | **₹ 1,500** |
| **Stock of sports material** | **₹ 73,500** |
| **Unexpired insurance** | **₹ 8,400** |
| **Subscription in arrear** | **₹ 22,500** |

***Note :* There was no liability on 31.3.2017**

**You are required to prepare:**

**(*i*) Income and Expenditure Account; and**

**(*ii*) Balance Sheet as at 31st March, 2018.**

**Solution :**

**Income & Expenditure A/c**

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Salary A/c | 3,15,000 | By Interest A/c | 45,000 |
| To Ground Maintenances A/c | 22,120 | By Subscription A/c | 9,90,000 |
| To Sundry Expenses A/c | 5,880 | | |
| To Rent A/c | 1,62,000 | | |
| To Stationery A/c | 1,800 | | |
| To Sports Materials A/c | 3,00,000 | | |
| To Insurance A/c | 37,200 | | |
| To Depreciation A/c | 58,500 | | |
| To Surplus | 1,32,500 | | |
| | 10,35,000 | | 10,35,000 |



**Balance Sheet as on 31.03.2018**

| Liability | | ₹ | Asset | | ₹ |
|---|---|---|---|---|---|
| Trust Fund | 10,95,000 | | Cash | | 31,750 |
| (+)Surplus | 1,32,500 | 12,27,500 | Bank | | 40,000 |
| Advance Subscription | | 4,500 | Sports Material Stock | | 78,000 |
| Rent Outstanding | | 13,500 | Stationery Stock | | 3,150 |
| | | | Prepaid Insurance | | 9,600 |
| | | | Furniture | 2,70,000 | |
| | | | (-)Depreciation | 27,000 | 2,43,000 |
| | | | Equipment | 2,40,000 | |
| | | | (-)Depreciation | 31,500 | 2,08,500 |
| | | | Fixed Deposits | | 6,00,000 |
| | | | Subscription Outstanding | | 31,500 |
| | | 12,45,500 | | | 12,45,500 |

**Working Notes:-**

**Balance Sheet as on 31.03.2017**

| Liability | ₹ | Asset | ₹ |
|---|---|---|---|
| Trust Fund (Balancing figure) | 10,95,000 | Subscription Outstanding | 22,500 |
| | | Cash | 39,100 |
| | | Bank | 50,000 |
| | | Furniture | 2,70,000 |
| | | Equipment | 1,80,000 |
| | | Fixed Deposits | 4,50,000 |
| | | Stock (1,500+73,500) | 75,000 |
| | | Prepaid Insurance | 8,400 |
| | 10,95,000 | | 10,95,000 |

**Subscription A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Outstanding | 22,500 | By Cash/Bank A/c | 9,85,500 |
| To Income & Expenditure A/c | 9,90,000 | By Closing Outstanding | 31,500 |
| To Closing Advance c/f | 4,500 | | |
| | 10,17,000 | | 10,17,000 |

**Equipment A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 1,80,000 | By Closing Balance | 2,40,000 |
| To Cash/Bank A/c (purchase) | 60,000 | | |
| | 2,40,000 | | 2,40,000 |

**Fixed Deposits A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 4,50,000 | By Closing Balance | 6,00,000 |
| To Cash A/c | 1,50,000 | | |
| | 6,00,000 | | 6,00,000 |

### Rent A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash A/c | 1,48,500 | By Income & Expenditure A/c | 1,62,000 |
| To Closing Outstanding Bal. | 13,500 | | |
| | 1,62,000 | | 1,62,000 |

### Insurance A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Advance Balance | 8,400 | By Income & Expenditure | 37,200 |
| To Cash A/c | 38,400 | By Closing Prepaid Balance | 9,600 |
| | 46,800 | | 46,800 |

### Sports Materials A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 73,500 | By Income & Expenditure | 3,00,000 |
| To Cash A/c (purchase) | 3,04,500 | By Closing Stock A/c | 78,000 |
| | 3,78,000 | | 3,78,000 |

### Stationery A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Balance | 1,500 | By Income & Expenditure A/c | 1,800 |
| To Cash A/c (purchase) | 3,450 | By Closing Balance | 3,150 |
| | 4,950 | | 4,950 |

**Workings:-** Calculation of rent outstanding :

Rent for 1 month is outstanding, which implies that the rent paid is for 11 months.

$$\text{Rent outstanding} = \frac{1,48,500}{11} = 13,500$$

**Q.13 The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March, 2011:**

| Receipts | | ₹ | Payments | ₹ |
|---|---|---|---|---|
| To Balance b/d | | 1,02,500 | By Salaries | 2,08,000 |
| To subscriptions: | | | By Stationery | 40,000 |
| 2009-10 | 4,500 | | By Rent | 60,000 |
| 2010-11 | 2,11,000 | | By Telephone Exp. | 10,000 |
| 2011-12 | 7,500 | 2,23,000 | By Investment | 1,25,000 |
| To Profit on sports meet | | 1,55,000 | By Sundry Expenses | 92,500 |
| To Income from investments | | 1,00,000 | By Balance c/d | 45,000 |
| | | 5,80,500 | | 5,80,500 |



**Additional Information:**

(*i*) **There are 450 members each paying an annual subscription of ₹ 500. On 1st April, 2010, outstanding subscription was ₹ 5,000.**

(*ii*) **There was an outstanding telephone bill for ₹ 3,500 on 31st March, 2011.**

(*iii*) **Outstanding sundry expenses as on 31st March, 2010 totalled ₹ 7,000.**

(*iv*) **Stock of stationery:**

**On 31st March, 2010 ₹ 5,000**

**On 31st March, 2011 ₹ 9,000**

(*v*) **On 31st March, 2010 building stood in the books at ₹ 10,00,000 and it was subject to depreciation @5% per annum.**

(*vi*) **Investment on 31st March, 2010 stood at ₹ 20,00,000.**

(*vii*) **On 31st March, 2011, income accrued on the investments purchased during the year amounted to ₹ 3,750.**

**Prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as at that date.**

**Solution :**

**Park View Club**
**Income and Expenditure Account**
**for the year ended on 31st March 2011**

| Expenditure | | Amount (₹) | Income | | Amount (₹) |
|---|---|---|---|---|---|
| To Salaries | | 2,08,000 | By Subscriptions (W.N.2) | | 2,25,000 |
| To Stationery consumed (W.N.3) | | 36,000 | By Profit on sports meet | | 1,55,000 |
| To Rent | | 60,000 | By Income on investment | 1,00,000 | |
| To Telephone expenses | 10,000 | | *Add:* Income accrued | 3,750 | 1,03,750 |
| *Add:* Closing Outstanding | 3,500 | 13,500 | | | |
| To Sundry expenses | 92,500 | | | | |
| *Less:* Opening Outstanding | (7,000) | 85,500 | | | |
| To Depreciation of building | | 50,000 | | | |
| To Surplus (Carried to Capital fund) | | 30,750 | | | |
| | | 4,83,750 | | | 4,83,750 |

**Balance Sheet as at 31st March 2011**

| Liability | | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|---|
| Capital fund (W.N.1) | 31,05,500 | | Outstanding subscriptions | 14,500 |
| *Add:* Surplus | 30,750 | 31,36,250 | | |

| Liability | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|
| Subscriptions received in advance | 7,500 | Investment | | |
| Outstanding telephone bills | 3,500 | (20,00,000+1,25,000) | 21,25,000 | |
| | | *Add:* Interest accrued | 3,750 | 21,28,750 |
| | | Building | 10,00,000 | |
| | | *Less:* Depreciation | (50,000) | 9,50,000 |
| | | Stock of stationery | | 9,000 |
| | | Cash balance | | 45,000 |
| | 31,47,250 | | | 31,47,250 |

**Working Notes:**

**(1) Calculation of Opening Capital Fund**

**Balance Sheet as at 31st March 2010**

| Liability | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Outstanding sundry expenses | 7,000 | Building | 10,00,000 |
| Capital fund (Balancing figure) | 31,05,500 | Investments | 20,00,000 |
| | | Stock of stationery | 5,000 |
| | | Cash balance | 1,02,500 |
| | | Outstanding subscriptions | 5,000 |
| | 31,12,500 | | 31,12,500 |

**(2) Calculation of subscriptions accrued during the year**

**Subscription A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Opening Outstanding Subscriptions | 5,000 | By Cash A/c (4,500 + 2,11,000 + 7,500) | 2,23,000 |
| To Income & Expenditure A/c (450 @ 500) | 2,25,000 | By Closing Outstanding subscriptions (Balancing figure) | 14,500 |
| To Subscriptions received in advance c/f | 7,500 | | |
| | 2,37,500 | | 2,37,500 |

**(3) Calculation of stationery consumed during the year**

| | ₹ |
|---|---|
| Opening Stock of stationery | 5,000 |
| *Add:* Purchased | 40,000 |
| **Total** | 45,000 |
| *Less:* Closing Stock of stationery | (9,000) |
| Stationery consumed | 36,000 |



**Q.14 The Accountant of Diana Club furnishes you the following Receipts and Payments account for the year ending 30th September, 2013:**

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| **Opening Balance:** | | **Honorarium to Secretary** | 9,600 |
| **Cash at Bank** | 16,760 | **Misc. expenses** | 3,060 |
| **Subscriptions** | 21,420 | **Rates and taxes** | 2,520 |
| **Sale of old newspaper** | 4,800 | **Groundman's wages** | 1,680 |
| **Entertainment fees** | 8,540 | **Printing and Stationery** | 940 |
| **Bank Interest** | 460 | **Telephone expenses** | 4,780 |
| **Bar Receipts** | 14,900 | **Payment for Bar purchases** | 11,540 |
| | | **Repairs** | 640 |
| | | **New Car (Less sale proceeds of Old Car ₹ 6,000)** | 25,200 |
| | | **Closing Balance:** | |
| | | **Cash at Bank** | 6,920 |
| | 66,880 | | 66,880 |

**Additional Information:**

| | 01.10.2012 ₹ | 30.09.2013 ₹ |
|---|---|---|
| (i) Subscription due (not received) | 2,400 | 1,960 |
| (ii) Cheques issued, but not presented for payment of printing | 180 | 60 |
| (iii) Club premises at cost | 58,000 | - |
| (iv) Depreciation on club premises provided so far | 37,600 | - |
| (v) Car at cost | 24,380 | - |
| (vi) Depreciation on car | 20,580 | - |
| (vii) Value of Bar stock | 1,420 | 1,740 |
| (viii) Amount unpaid for bar purchases | 1,180 | 860 |

**(ix) Depreciation is to be provided @5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.**

**You are required to prepare an Income and Expenditure account of Diana Club for the year ending 30th September, 2013 and Balance Sheet as on that date.**

**Solution :**

**Income and Expenditure Account of Diana Club**
**for the year ended 30th September, 2013**

| Expenditure | Amount (₹) | Income | Amount (₹) |
|---|---|---|---|
| To Honorarium to secretary | 9,600 | By Subscriptions (W.N.3) | 20,980 |
| To Misc. expenses | 3,060 | By Sale of old newspapers | 4,800 |
| To Rates and taxes | 2,520 | By Entertainment fees | 8,540 |

| Expenditure | | Amount (₹) | Income | Amount (₹) |
|---|---|---|---|---|
| To Groundman's wages | | 1,680 | By Bank interest | 460 |
| To Printing and stationery | | 940 | By Bar receipts | 14,900 |
| To Telephone expenses | | 4,780 | By Profit on sale of car (W.N.5) | 2,200 |
| To Bar Consumption | | | | |
| Opening bar stock | 1,420 | | | |
| *Add.* Purchases (W.N.2) | 11,220 | | | |
| | 12,640 | | | |
| *Less:* Closing bar stock | 1,740 | 10,900 | | |
| To Repairs | | 640 | | |
| To Depreciation | | | | |
| Club premises (W.N.4) | 1,020 | | | |
| Car (W.N.6) | 4,680 | 5,700 | | |
| To Surplus (transferred to Capital fund) | | 12,060 | | |
| | | 51,880 | | 51,880 |

**Balance Sheet of Diana Club as on 30th September, 2013**

| Liabilities | | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|---|
| Capital fund (W.N.1) | 43,600 | | Club Premises | 19,380 |
| *Add:* Surplus | 12,060 | 55,660 | Car | 26,520 |
| | | | Bar stock | 1,740 |
| Bar Creditor | | 860 | Outstanding subscription | 1,960 |
| | | | Cash at bank | 6,920 |
| | | 56,520 | | 56,520 |

**Working Notes:**

**1. Balance Sheet of Diana Club as on 1st October, 2012**

| Liabilities | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|
| Bar Creditor | 1,180 | Club premises | 58,000 | |
| Capital fund on 1.10.2012 (balancing figure) | 43,600 | Less: Depreciation | 37,600 | 20,400 |
| | | Car | 24,380 | |
| | | *Less:* Depreciation | 20,580 | 3,800 |
| | | Bar stock | | 1,420 |
| | | Outstanding subscription | | 2,400 |
| | | Cash at bank | | 16,760 |
| | 44,780 | | | 44,780 |



**2. Calculation of bar purchases for the year:**

**Bar Creditor A/c**

| | | | |
|---|---|---|---|
| To Cash/Bank A/c (Paid during the year) | 11,540 | By Opening Outstanding b/f (Payable) | 1,180 |
| To Closing outstanding c/f (payable) | 860 | By Income & Exp. A/c (Purchase: Bal. fig.) | 11,220 |
| | 12,400 | | 12,400 |

**3. Calculation of subscriptions accrued during the year:**

**Subscription A/c**

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding subscription | 2,400 | By Cash/Bank A/c (received) | 21,420 |
| To I&E A/c (Income) **(bal. fig.)** | 20,980 | By Closing outstanding subscription | 1,960 |
| | 23,380 | | 23,380 |

**4. Depreciation on club premises and written down value on 30th September, 2013:**

| | ₹ |
|---|---|
| Written down value on 1.10.2012 (58,000-37,600) | 20,400 |
| *Less:* Depreciation for the year 2012-2013 @ 5% p.a. | 1,020 |
| | 19,380 |

**5. Calculation of profit on sale of car:**

| | | ₹ |
|---|---|---|
| Sale proceeds of old car | | 6,000 |
| *Less:* Written down value of old car: | | |
| Cost of car on 1.10.2012 | 24,380 | |
| *Less:* Depreciation upto 1.10.2012 | 20,580 | 3,800 |
| | | 2,200 |

**6. Depreciation on car and written down values on 30th September, 2013:**

| | ₹ |
|---|---|
| Cost of new car purchased (25,200+6,000) | 31,200 |
| *Less:* Depreciation for the year @ 15% p.a. | 4,680 |
| Written down value on 30.9.2013 | 26,520 |

**Note:** The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing. This is a reconciliation item pending to be recorded by bank.

**Q.15 Summary of Receipts and payments of Bombay Medical Aid Society for the year ended 31.12.2020 are as follows:**

**Opening Cash balance in hand ₹ 8,000, Subscription ₹ 50,000, Donation ₹ 15,000, Interest on Investments @ 9% p.a. ₹ 9,000, Payments for medicine supply ₹ 30,000, Honorarium to Doctors ₹ 10,000, Salaries ₹ 28,000, Sundry Expenses ₹ 1,000, Equipment purchase ₹ 15,000, Charity show expenses ₹ 1,500, Charity show collections ₹ 12,500.**

**Additional Information:**

| | 1.1.2020 | 31.12.2020 |
|---|---|---|
| Subscription due | 1,500 | 2,200 |
| Subscription received in advance | 1,200 | 700 |
| Stock of medicine | 10,000 | 15,000 |
| Amount due for medicine supply | 9,000 | 13,000 |
| Value of equipment | 21,000 | 30,000 |
| Value of building | 50,000 | 48,000 |

**You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31.12.2020 and Balance Sheet as on 31.12.2020.**

**Solution :**

### Income and Expenditure Account

| Particular (Expenditure) | ₹ | Particular (Income) | | ₹ |
|---|---|---|---|---|
| To Hon. to Doctors | 10,000 | By Donation | | 15,000 |
| To Salaries | 28,000 | By Interest on investment | | 9,000 |
| To Expenses | 1,000 | By Charity show Income | 12,500 | |
| To Medicine consumed | 29,000 | (-) Expenses | 1,500 | 11,000 |
| To Depreciation (6000 + 2000) | 8,000 | By Subscription | | 51,200 |
| To Surplus | 10,200 | | | |
| | 86,200 | | | 86,200 |

### Balance sheet on date 31.12.2020

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| General fund | 1,80,300 | | Equipment | 30,000 |
| (+) Surplus | 10,200 | 1,90,500 | Building | 48,000 |
| Advance subscription | | 700 | Investment | 1,00,000 |
| Creditors for machines | | 13,000 | Stock | 15,000 |
| | | | Subscription Outstanding | 2,200 |
| | | | Cash | 9,000 |
| | | 2,04,200 | | 2,04,200 |



### Receipt and Payment Account

| Receipt | ₹ | Payment | ₹ |
|---|---|---|---|
| To Opening balance | 8,000 | By Creditors | 30,000 |
| To Subscription | 50,000 | By Honorarium to Doctors | 10,000 |
| To Donation | 15,000 | By Salaries | 28,000 |
| To Interest on investment | 9,000 | By Sundry expense | 1,000 |
| To Charity show collection | 12,500 | By Equipment | 15,000 |
| | | By Charity show expenses | 1,500 |
| | | By Closing Balance | 9,000 |
| | 94,500 | | 94,500 |

**Working note:**

### Balance sheet on date 1.1.2020

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| General fund (Bal. Fig.) | 1,80,300 | Cash | 8,000 |
| Advance subscription | 1,200 | Investments | 1,00,000 |
| Creditors for medicines | 9,000 | Subs. Outstanding | 1,500 |
| | | Stock | 10,000 |
| | | Equipment | 21,000 |
| | | Building | 50,000 |
| | 1,90,500 | | 1,90,500 |

### Subscription A/c

| Particular | ₹ | Particular | ₹ |
|---|---|---|---|
| To Opening outstanding A/c | 1,500 | By Opening advance subscription A/c | 1,200 |
| To I&E A/c | 51,200 | By Cash A/c | 50,000 |
| To Closing advance subscription A/c | 700 | By Closing outstanding subscription A/c | 2,200 |
| | 53,400 | | 53,400 |

### Medicine Expenditure A/c

| Particular | ₹ | Particular | ₹ |
|---|---|---|---|
| To Opening Stock A/c | 10,000 | By I&E A/c | 29,000 |
| To Purchases A/c | 34,000 | By Closing stock A/c | 15,000 |
| | 44,000 | | 44,000 |

### Creditors for Medicine Supply A/c

| Particular | ₹ | Particular | ₹ |
|---|---|---|---|
| To Cash A/c | 30,000 | By Opening Outstanding | 9,000 |
| To Closing outstanding A/c | 13,000 | By Purchase (bal. fig.) A/c | 34,000 |
| | 43,000 | | 43,000 |

**Equipment A/c**

| | | | |
|---|---|---|---|
| To Opening balance | 21,000 | By Depreciation (bal. fig) A/c | 6,000 |
| To Cash A/c | 15,000 | By Closing balance | 30,000 |
| | 36,000 | | 36,000 |

**Building A/c**

| | | | |
|---|---|---|---|
| To Opening balance | 50,000 | By Closing balance | 48,000 |
| | | By Depreciation (bal. fig) A/c | 2,000 |
| | 50,000 | | 50,000 |

Amount of Investment = Interest ÷ Rate = 9,000 ÷ 9/100 = 1,00,000

**Q.16 The following information's were obtained from the books of Delhi Club as on 31.3.2018 at the end of the first year of the Club. You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.2018 and a Balance Sheet as at 31.3.2018 on mercantile basis:**

**(i) Donations received for Building and Library Room ₹ 2,00,000.**

**(ii) Other revenue income and actual receipts:**

| | Revenue Income ₹ | Actual Receipts ₹ |
|---|---|---|
| Entrance Fees | 17,000 | 17,000 |
| Subscription | 20,000 | 19,000 |
| Locker Rents | 600 | 600 |
| Sundry Income | 1,600 | 1,060 |
| Refreshment Account | - | 16,000 |

**(iii) Other revenue expenditure and actual payments:**

| | Revenue Expenditure ₹ | Actual Payments ₹ |
|---|---|---|
| Land (cost ₹ 10,000) | - | 10,000 |
| Furniture (cost ₹ 1,46,000) | - | 1,30,000 |
| Salaries | 5,000 | 4,800 |
| Maintenance of Playgrounds | 2,000 | 1,000 |
| Rent | 8,000 | 8,000 |
| Refreshment Account | - | 8,000 |

**Donations to the extent of ₹ 25,000 were utilized for the purchase of Library Books, balance was still unutilized. In order to keep it safe, 9% Govt. Bonds of ₹ 1,60,000 were purchased on 31.3.2018. Remaining amount was put in the Bank on 31.3.2018 under the term deposit. Depreciation at 10% p.a. was to be provided for the year on Furniture and Library Books.**



**Solution :**

**Delhi Club**

**Income and Expenditure Account for the year ended 31st March 2018**

| Expenditure | ₹ | Income | | ₹ |
|---|---|---|---|---|
| To Salary A/c (4,800+200) | 5,000 | By Entrance fees A/c | | 17,000 |
| To Maintenance A/c (1,000+1,000) | 2,000 | By Subscription A/c (19,000 + 1,000) | | 20,000 |
| To Rent A/c | 8,000 | By Lockers rents A/c | | 600 |
| To Depreciation A/c (14,600+2,500) | 17,100 | By Sundry income A/c (1,060 + 540) | | 1,600 |
| To Surplus | 15,100 | By Refreshment A/c | 16,000 | |
| | | (-) Expenses | 8,000 | 8,000 |
| | 47,200 | | | 47,200 |

**Balance sheet on date 31.3.2018**

| Liabilities | ₹ | Assets | | ₹ |
|---|---|---|---|---|
| Capital fund: | | Land | | 10,000 |
| Surplus | 15,100 | Furniture | 1,46,000 | |
| Building and liability fund | 2,00,000 | (-) Depreciation | 14,600 | 1,31,400 |
| Creditors for furniture | 16,000 | Library books | 25,000 | |
| Salary outstanding | 200 | (-) Depreciation | 2,500 | 22,500 |
| Maintenance outstanding | 1,000 | Subs. Outstanding | | 1,000 |
| Bank overdraft | 1,08,140 | Sundry Income outstanding | | 540 |
| | | Investment of building fund | | |
| | | Govt. bond | 1,60,000 | |
| | | F.D. | 15,000 | 1,75,000 |
| | 3,40,440 | | | 3,40,440 |

**Receipts and Payments A/c for the year 31st March 2018**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Building and liability fund A/c | 2,00,000 | By Library book A/c | 25,000 |
| To Entrance fees A/c | 17,000 | By Bond 9% Govt. A/c | 1,60,000 |
| To Subscription A/c | 19,000 | By Fixed deposit A/c | 15,000 |
| To Locker rent A/c | 600 | By Land A/c | 10,000 |
| To Sundry income A/c | 1,060 | By Furniture A/c | 1,30,000 |
| To Refreshment A/c | 16,000 | By Salaries A/c | 4,800 |
| To Bank outstanding A/c | 1,08,140 | By Maintenance of playgrounds A/c | 1,000 |
| | | By Rent A/c | 8,000 |
| | | By Refreshment A/c | 8,000 |
| | 3,61,800 | | 3,61,800 |

**Q.17 The Receipts and Payments Account of Trustwell Club prepared on 31st March, 2018 is as follows:**

**Receipts and Payments Account**

Dr. Cr.

| Receipts | | ₹ | Payments | ₹ |
|---|---|---|---|---|
| To Balance b/d | | 450 | By Expenses (Including payment for Sports Material ₹ 2,700) | 6,300 |
| To Annual Income from Subscription | 4,590 | | | |
| Add: Outstanding of last year received this year | 180 | | By Loss on Sale of Furniture (Cost price ₹ 450) | 180 |
| | 4,770 | | | |
| Less: Prepaid of last Year | 90 | 4,680 | By Balance c/d | 90,450 |
| To Other fees | | 1,800 | | |
| To Donation for Building | | 90,000 | | |
| | | 96,930 | | 96,930 |

**Additional Information:**

**Trustwell Club had balances as on 1.4.2017:-**

**Furniture ₹ 1,800; Investment at 5% ₹ 27,000; Sports Materials ₹ 6,660;**

**Balance as on 31.3.2018: 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 Receipt and Payments Account and Income and Expenditure Account for the year ended 31st March, 2018 and Balance Sheet as on that date.**

**Solution :**

In the books of Trustwell Club
Corrected Receipts & Payments Account
for the year ended 31st March, 2018

Dr. Cr.

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 450 | By Expenses (₹ 6,300 - ₹ 2,700) | 3,600 |
| To Subscription (note 2) | 4,500 | By Sports Material | 2,700 |
| To Other Fees | 1,800 | By Balance c/d **(balancing figure)** | 90,720 |
| To Donation for Building | 90,000 | | |
| To Sale of Furniture (450 - 180) | 270 | | |
| | 97,020 | | 97,020 |



**Income & Expenditure Account**
**for the year ended 31st March, 2018**

Dr. Cr.

| Expenditures | ₹ | Incomes | ₹ |
|---|---|---|---|
| To Sundry Expenses | 3,600 | By Subscription | 4,590 |
| To Sports Material used (note 3) | 7,560 | By Other Fees | 1,800 |
| To Loss on Sale of Furniture | 180 | By Interest on Investment (5% on ₹ 27,000) | 1,350 |
| | | By Excess of Expenditure over income | 3,600 |
| | 11,340 | | 11,340 |

**Balance sheet of Trustwell Club as on 31st March, 2018**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund: | | | Furniture | 1,800 | |
| Opening Balance (note 1) | 6,000 | | Less: Sold | 450 | 1,350 |
| Less: Excess of Expenditure Over Income | 3,600 | 32,400 | 5% Investment | | 27,000 |
| Building Fund | | 90,000 | Interest Accrued on Investments | | 1,350 |
| Subscription Received in Advance | | 90 | Sports Material | | 1,800 |
| | | | Subscription Receivable | | 270 |
| | | | Cash in Hand & Bank | | 90,720 |
| | | 1,22,490 | | | 1,22,490 |

**Working Notes:**

1.

**Balance Sheet of Trustwell Club as on 1st April, 2017**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Subscription (received in advance) | 90 | Furniture | 1,800 |
| Capital Fund (Balancing figure) | 36,000 | Investment | 27,000 |
| | | Sports Material | 6,660 |
| | | Subscription Receivable | 180 |
| | | Cash in Hand & Bank | 450 |
| | 36,090 | | 36,090 |

**2. Dr.** **Subscription Account** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding subscription | 180 | By Opening advance subscription | 90 |
| To I&E A/c (Income) | 4,590 | By Cash/Bank A/c (received) (bal. fig.) | 4,500 |
| To Closing advance subscription | 90 | By Closing outstanding subscription | 270 |
| | 4,860 | | 4,860 |

3.

**Sports Material Stock Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 6,660 | By Materials used (Balancing figure) | 7,560 |
| To Purchases A/c | 2,700 | By Balance c/d | 1,800 |
| | 9,360 | | 9,360 |

**Q.18 From the following particulars relating to Deena Nath Charitable Hospital, prepare (i) Receipts and Payments Account for the year ended on 31st March, 2016; and (ii) Balance Sheet as on 31st March, 2016:**

**Income and Expenditure Account**
**For the year ended 31st March, 2016**

| Expenditure | ₹ | Income | | ₹ |
|---|---|---|---|---|
| To Medicines used | 29,980 | By Subscriptions | | 56,000 |
| To Honorarium to doctors | 12,000 | By Donations | | 9,500 |
| To Salaries | 27,500 | By Interest on investment @ 11% | | 11,000 |
| To Printing and stationery | 1,100 | By Income from film show: | | |
| To Electricity | 475 | Proceeds | 11,450 | |
| To Rent | 6,000 | Less: Expenses | 780 | 10,670 |
| To Depreciation on Furniture | 2,100 | | | |
| To Depreciation on equipment | 3,250 | | | |
| To Surplus *i.e.* excess of income over expenditure | 4,765 | | | |
| | 87,170 | | | 87,170 |

**Additional Information:**

| | | On 1.4.2015 | On 31.3.2016 |
|---|---|---|---|
| (i) | Subscription due | 120 | 160 |
| (ii) | Subscriptions received in advance | 64 | 100 |
| (iii) | Electricity bills unpaid | 92 | 115 |
| (iv) | Stock of medicines | 7,820 | 9,750 |
| (v) | Estimated value of equipment | 11,600 | 13,900 |
| (vi) | Furniture and fixtures | 21,000 | 18,900 |
| (vii) | Land | - | 10,000 |
| (viii) | Interest accrued on investments in 11% debentures costing ₹ 1,02,500 (face value: ₹ 1,00,000) | 3,750 | 3,750 |
| (ix) | Cash in hand | 340 | 160 |
| (x) | Cash at bank | 9,000 | ? |



**Solution :**

**Receipt & Payment A/c**

| Receipt | | ₹ | Payment | | ₹ |
|---|---|---|---|---|---|
| To Opening balance | | | By Honorarium to doctors A/c | | 12,000 |
| Cash | 340 | | By Salary A/c | | 27,500 |
| Bank | 9,000 | 9,340 | By Printing & Stationery A/c | | 1,100 |
| To Donation A/c | | 9,500 | By Rent A/c | | 6,000 |
| To Charity show A/c | | 11,450 | By Charity show A/c | | 780 |
| To Interest A/c | | 11,000 | By Land A/c | | 10,000 |
| To Subscription A/c | | 55,996 | By Equipment A/c | | 5,550 |
| | | | By Electricity A/c | | 452 |
| | | | By Medicine A/c | | 31,910 |
| | | | By Closing balance | | |
| | | | Cash | 160 | |
| | | | Bank (balancing figure) | 1,834 | 1,994 |
| | | 97,286 | | | 97,286 |

**Balance Sheet as on 31.3.16**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Trust Fund | 1,55,974 | | Subscription outstanding | 160 |
| Surplus | 4,765 | 1,60,739 | Stock of Medicine | 9,750 |
| Advance subscription | | 100 | Equipment | 13,900 |
| Electricity outstanding | | 115 | Furniture | 18,900 |
| | | | Land | 10,000 |
| | | | Interest (receivable) | 3,750 |
| | | | Investment | 1,02,500 |
| | | | Cash | 160 |
| | | | Bank | 1,834 |
| | | 1,60,954 | | 1,60,954 |

**Working Notes:**

**Balance Sheet as on 31.3.15**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Advance subscription | 64 | Subscription outstanding | 120 |
| Electricity outstanding | 92 | Stock of Medicine | 7,820 |
| Trust Fund (Balancing figure) | 1,55,974 | Equipment | 11,600 |
| | | Furniture | 21,000 |
| | | Interest (receivable) | 3,750 |
| | | Investment | 1,02,500 |
| | | Cash | 340 |
| | | Bank | 9,000 |
| | 1,56,130 | | 1,56,130 |

### Medicine A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening stock A/c | 7,820 | By Income & Expenditure A/c | 29,980 |
| To Cash/Bank A/c | 31,910 | By Closing stock A/c | 9,750 |
| | 39,730 | | 39,730 |

### Electricity A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash/Bank A/c | 452 | By Opening outstanding | 92 |
| To Closing outstanding A/c | 115 | By Income & Expenditure A/c | 475 |
| | 567 | | 567 |

### Furniture A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening balance | 21,000 | By Depreciation A/c | 2,100 |
| | | By Closing balance | 18,900 |
| | 21,000 | | 21,000 |

### Equipment A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening balance | 11,600 | By Depreciation A/c | 3,250 |
| To Cash/Bank A/c | 5,550 | By Closing balance | 13,900 |
| | 17,150 | | 17,150 |

### Interest A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding | 3,750 | By Cash/Bank A/c | 11,000 |
| To Income & Expenditure A/c | 11,000 | By Closing outstanding | 3,750 |
| | 14,750 | | 14,750 |

### Subscription A/c

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding | 120 | By Opening advance | 64 |
| To Income & Expenditure A/c | 56,000 | By Cash/Bank A/c | 55,996 |
| To Closing advance | 100 | By Closing outstanding | 160 |
| | 56,220 | | 56,220 |



**Q.19 Following is the Income and Expenditure Account of Victoria Club for the year ending 31st March, 2018**

| Expenditures | | ₹ | Incomes | | ₹ |
|---|---|---|---|---|---|
| To Salaries & Wages | | 19,000 | By Subscription | | 30,000 |
| To Misc. Expenses (including Insurance) | | 2,000 | By Entrance Fee Received | | 1,000 |
| To Audit Fees | | 1,000 | By Annual Sports Income | | |
| To Chief Executives Honorarium | | 4,000 | receipts | 6,000 | |
| To Printing & Stationery | | 1,800 | Less: Expenses | 3,000 | 3,000 |
| To Annual Day Celebration Exp. | 6,000 | | | | |
| *Less:* Donation | 4,000 | 2,000 | | | |
| To Interest on Bank Loan | | 600 | | | |
| To Depreciation on Sports Equipment | | 1,200 | | | |
| To Excess of Income over Expenditure | | 2,400 | | | |
| | | 34,000 | | | 34,000 |

**Additional Information:**

| | 31.3.17 (₹) | 31.3.18 (₹) |
|---|---|---|
| (1) Subscription Outstanding | 2,400 | 3,000 |
| (2) Subscription received in advance | 1,800 | 1,080 |
| (3) Salaries Outstanding | 1,600 | 1,800 |
| (4) Sports equipment (after deducting depreciation) | 10,400 | 10,800 |
| (5) Prepaid Insurance | -- | 240 |
| (6) Cash in hand | ? | 6,400 |

(7) The Club owned a sports ground of ₹ 40,000

(8) The Club took a loan of ₹ 8,000 from a bank during the year 2016-17, which was not paid in 2017-18.

(9) Audit fee of 2017-18 was outstanding, but Audit fees of ₹ 800 for 2016-17 was paid in 2017-18

**Prepare Receipts and Payments Account for the year ending 31st March, 2018 and a Balance Sheet as on that date.**

**Solution :**

### In the books of Victoria Club

**Dr. Receipts and Payments Account for the year ended on 31st March, 2018 Cr.**

| Receipts | ₹ | Payments | | ₹ |
|---|---|---|---|---|
| To Balance b/d (Balancing figure) | 5,560 | By Salaries and Wages (note 4) | | 18,800 |
| To Subscription (note 3) | 28,680 | By Audit Fee | | 800 |
| To Donation | 4,000 | By Sports Equipments (note 2) | | 1,600 |
| To Entrance fee | 1,000 | By Misc. Expenses | 2,000 | |
| To Receipt for Annual Sport | 6,000 | Add: Prepaid Insurance | 240 | 2,240 |
| | | By Chief Executive's Honorarium | | 4,000 |
| | | By Printing & Stationery | | 1,800 |
| | | By Expenses on Annual Sports | | 3,000 |
| | | By Annual Day Celebration Expenses | | 6,000 |
| | | By Interest on Bank Loan | | 600 |
| | | By Balance c/d | | 6,400 |
| | 45,240 | | | 45,240 |

### Balance Sheet of Victoria Club
### As on 31st March, 2018

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund: | | | Cash | | 6,400 |
| Opening Balance (note 1) | 46,160 | | Subscription Outstanding | | 3,000 |
| *Add:* Excess of Income | | | Sports Equipment | 10,400 | |
| Over Expenditure | 2,400 | 48,560 | Add: Additions | 1,600 | |
| Salaries Outstanding | | 1,800 | | 12,000 | |
| Audit Fee Outstanding | | 1,000 | *Less:* Depreciation | 1,200 | 10,800 |
| Bank Loan | | 8,000 | Sports Ground | | 40,000 |
| Subscription received in advance | | 1,080 | Prepaid Insurance | | 240 |
| | | 60,440 | | | 60,440 |

**Working Notes:**

1.

### Balance Sheet of Victoria Club
### as on 31st March, 2017

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund (Balancing figure) | 46,160 | Cash | 5,560 |
| Bank Loan | 8,000 | Sports Ground | 40,000 |
| Subscription received in advance | 1,800 | Sport Equipment after Depreciation | 10,400 |
| Salaries Outstanding | 1,600 | Subscription Outstanding | 2,400 |
| Audit fee Outstanding | 800 | | |
| | 58,360 | | 58,360 |



2.

### Sports Equipment Account

**Dr. Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 10,400 | By Depreciation a/c | 1,200 |
| To Bank a/c (Balancing Figure) | 1,600 | By Balance c/d | 10,800 |
| | 12,000 | | 12,000 |

3. **Dr.**

### Subscription Account

**Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening outstanding subscription | 2,400 | By Opening advance subscription | 1,800 |
| To I&E A/c (Income) | 30,000 | By Cash/Bank A/c (received: **bal. fig.)** | 28,680 |
| To Closing advance subscription | 1,080 | By Closing outstanding subscription | 3,000 |
| | 33,480 | | 33,480 |

4.

### Salary & Wages Account

| | | | |
|---|---|---|---|
| To Cash/Bank A/c (Paid : Bal. fig.) | 18,800 | By Opening Outstanding b/f (Payable) | 1,600 |
| To Closing outstanding c/f (Payable) | 1,800 | By Income & Exp. A/c (Expense) | 19,000 |
| | 20,600 | | 20,600 |

**Q.20 The Income and Expenditure Account of City Sports Club for the year ended 31st March, 2019 was as follows:**

| Expenditures | ₹ | Incomes | ₹ |
|---|---|---|---|
| To Salaries | 1,20,000 | By Subscription | 1,60,000 |
| To Printing and Stationery | 6,000 | By Entrance Fees | 10,000 |
| To Rent | 12,000 | By Contribution for Annual Dinner | 20,000 |
| To Repairs | 10,000 | By Profit on Annual Sports meet | 20,000 |
| To Sundry Expenses | 8,000 | | |
| To Annual Dinner Expenses | 30,000 | | |
| To Interest to Bank | 6,000 | | |
| To Depreciation on Sports Equipment | 6,000 | | |
| To Excess of Income over Expenditure | 12,000 | | |
| | 2,10,000 | | 2,10,000 |

**The above account had been prepared after the following adjustments:**

| | ₹ |
|---|---|
| Subscription outstanding on 31.03.2018 | 12,000 |
| Subscription received in advance on 31.03.2018 | 9,000 |
| Subscription received in advance on 31.03.2019 | 5,400 |
| Subscription outstanding on 31.03.2019 | 15,000 |

**Salaries outstanding at the beginning and at the end of the financial year were ₹ 8,000 and ₹ 10,000 respectively. Sundry expenses included prepaid insurance expenses of ₹ 1,200.**

**The club owned a freehold ground valued ₹ 2,00,000. The club has sports equipment on 01.04.2018 valued at ₹ 52,000. At the end of the year after depreciation the sports equipment amounted to ₹ 54,000. The club raised a loan of ₹ 40,000 from a bank on 01.01.2018 which was unpaid till 31.03.2019. On 31.03.2019 Cash in hand was ₹ 32,000.**

**Prepare Receipts and Payments account of the club for the year ended 31st March, 2019 and Balance Sheet as on that date.**

**Solution :**

**Receipts and Payments Account for the year ended 31.03.2019**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To balance b/d (balancing figure) | 27,800 | By Salaries (WN 2) | 1,18,000 |
| To Subscriptions (WN 1) | 1,53,400 | By Printing and Stationery | 6,000 |
| To Entrance Fees | 10,000 | By Rent | 12,000 |
| To Annual Dinner Receipts | 20,000 | By Repairs | 10,000 |
| To Profit on Annual Sports Meet | 20,000 | By Sundry Expenses (8000+ Prepaid 1200) | 9,200 |
| | | By Annual Dinner Expenses | 30,000 |
| | | By Interest to Bank | 6,000 |
| | | By Sports Equipment (WN 3) | 8,000 |
| | | By balance c/d (given) | 32,000 |
| | 2,31,200 | | 2,31,200 |

**Balance Sheet as on 31.03.2019**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Fund: | | | | |
| Opening Balance (WN 4) | 2,34,800 | | Freehold Ground | 2,00,000 |
| Add: Surplus | 12,000 | 2,46,800 | Sports Equipment | 54,000 |
| | | | Subscription Receivable | 15,000 |
| Bank Loan | | 40,000 | Prepaid Insurance | 1,200 |
| Subs. Received in Advance | | 5,400 | Cash in Hand | 32,000 |
| Salary Outstanding | | 10,000 | | |
| | | 3,02,200 | | 3,02,200 |



**Working Notes:**

**1. Subscription Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To balance b/d (Receivable) | 12,000 | By balance b/d (Received in Advance) | 9,000 |
| To Income and Expenditure A/c (Subscription Income for the year) | 1,60,000 | By Cash/Bank A/c (Received-balancing figure) | 1,53,400 |
| To Balance c/d (Advance) | 5,400 | By balance c/d (Receivable) | 15,000 |
| | 1,77,400 | | 1,77,400 |

**2. Salary Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank-Paid (balancing figure) | 1,18,000 | By Outstanding balance b/f | 8,000 |
| To Outstanding balance c/f | 10,000 | By Income and Expenditure A/c (Salaries for the year) | 1,20,000 |
| | 1,28,000 | | 1,28,000 |

**3. Sports Equipment Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 52,000 | By Depreciation | 6,000 |
| To Bank-Purchase (balancing figure) | 8,000 | By balance c/d | 54,000 |
| | 60,000 | | 60,000 |

**4. Balance Sheet as at 01.04.2019**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund (balancing figure) | 2,34,800 | Freehold Ground | 2,00,000 |
| Bank Loan | 40,000 | Sports Equipments | 52,000 |
| Subscriptions Received in Advance | 9,000 | Subscription Receivable | 12,000 |
| Salaries Outstanding | 8,000 | Cash in Hand | 27,800 |
| | 2,91,800 | | 2,91,800 |

**Q.21 The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows:**

**Receipts & Payments Account**
**For the year ending on 31st March, 2013**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 42,000 | By Secretary Salary | 10,000 |
| To Entrance Fees 2011-12 | 10,000 | By Printing & Stationery | 26,000 |
| To Entrance Fees 2012-13 | 1,00,000 | By Advertising | 16,000 |
| To Subscription 2011-12 | 6,000 | By Fire Insurance | 12,000 |
| To Subscription 2012-13 | 1,50,000 | By 12% Investments | |
| To Subscription 2013-14 | 4,000 | (Purchased on 01-10-2012) | 2,00,000 |
| To Rent Received | 24,000 | By Furniture | 20,000 |
| To Interest Received | 6,000 | By Balance c/d | 58,000 |
| | 3,42,000 | | 3,42,000 |

**Income & Expenditure Account**
**For the year ending on 31st March, 2013**

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Secretary Salary | 15,000 | By Entrance Fees | 1,05,000 |
| To Printing & Stationery | 22,000 | By Subscription | 1,56,000 |
| To Advertising | 16,000 | By Rent | 28,000 |
| To Audit Fees | 5,000 | By Interest on Investments | 12,000 |
| To Fire Insurance | 10,000 | | |
| To Depreciation: | | | |
| Sports Equipments | 90,000 | | |
| Furniture | 5,000 | | |
| To Surplus | 1,38,000 | | |
| | 3,01,000 | | 3,01,000 |

**Additional Information:**

**The assets and liabilities as on 31st March, 2012 include club Grounds & Pavilion ₹ 4,40,000, Sports Equipments ₹ 2,50,000, Furniture & Fixtures ₹ 40,000, Subscription in Arrear ₹ 8,000, Subscription received in advance ₹ 2,000 and Creditors for Printing & Stationery ₹ 5,000.**

**You are required to prepare the Balance Sheet of the Club as on 31st March, 2013.**



**Solution :**

**Balance Sheet of Sports Club**
**As at 31st March 2013**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund: | | | Fixed Assets: | | |
| Opening Balance (W.N.) | 7,83,000 | | Club, Grounds & Pavilion | | 4,40,000 |
| *Add:* Surplus | 1,38,000 | 9,21,000 | Furniture & Fixtures | 40,000 | |
| Current Liabilities: | | | Add: Additions | 20,000 | |
| Outstanding Salary (15,000-10,000) | | 5,000 | | 60,000 | |
| Outstanding Audit Fees | | 5,000 | Less : Depreciation | (5,000) | 55,000 |
| Creditors for Printing & Stationery {22,000-(26,000– 5,000)} | | 1,000 | Sports Equipments | 2,50,000 | |
| Subscription received in advance | | 4,000 | Less: Depreciation | (90,000) | 1,60,000 |
| | | | Investments: | | |
| | | | Investment (at cost) | | 2,00,000 |
| | | | Current Assets: | | |
| | | | Accrued Interest (12,000 - 6,000) | | 6,000 |
| | | | Accrued rent (28,000 - 24,000) | | 4,000 |
| | | | Subscription receivable | | |
| | | | For 2011-12 (8,000-6,000) | 2,000 | |
| | | | For 2012-13 {1,56,000-(1,50,000 + 2,000)} | 4,000 | 6,000 |
| | | | Entrance Fees receivables (1,05,000- 1,00,000) | | 5,000 |
| | | | Prepaid Insurance (12,000-10,000) | | 2,000 |
| | | | Cash at bank | | 58,000 |
| | | 9,36,000 | | | 9,36,000 |

Alternatively accounts can be prepared to ascertain the missing figures.

**Working Note:**

**Calculation of Capital Fund as on 1st April, 2012**

**Balance Sheet of Sports Club**
**As at 31st March 2012**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund (balancing figure) | 7,83,000 | Fixed Assets : | |
| Current Liabilities: | | Club, Grounds & Pavilion | 4,40,000 |
| Subscription received in advance | 2,000 | Furniture & Fixtures | 40,000 |
| Creditors for Printing and Stationery | 5,000 | Sports Equipments | 2,50,000 |
| | | Current Assets: | |
| | | Entrance Fees receivables | 10,000 |
| | | Subscription receivables | 8,000 |
| | | Cash at Bank | 42,000 |
| | 7,90,000 | | 7,90,000 |

**Q.22 You are provided with the followings:**

**Balance Sheet as on 31st March, 2017**

| Liabilities | (₹) | Assets | (₹) |
|---|---|---|---|
| Capital Fund | 1,06,200 | Building | 1,50,000 |
| Subscription received in Advance | 6,000 | Outstanding Subscription | 3,800 |
| Outstanding Expenses | 14,000 | Outstanding Locker Rent | 2,400 |
| Loan | 40,000 | Cash in Hand | 20,000 |
| Sundry Creditors | 10,000 | | |
| Total | 1,76,200 | Total | 1,76,200 |

**The Receipts and Payments account for the year ended on 31st March, 2018**

| Receipts | | (₹) | Payments | | (₹) |
|---|---|---|---|---|---|
| To Balance b/d | | | By Expenses: | | |
| Cash in Hand | | 20,000 | For 2017 | 12,000 | |
| To Subscriptions: | | | For 2018 | 20,000 | 32,000 |
| For 2017 | 2,000 | | By Land | | 40,000 |
| For 2018 | 21,000 | | By Interest | | 4,000 |
| For 2019 | 1,000 | 24,000 | By Miscellaneous Expenses | | 4,700 |
| To Entrance Fees | | 38,000 | By Balance c/d | | |
| To Locker Rent | | 7,000 | Cash in Hand | | 18,300 |
| To Sale proceeds of old newspapers | | 1,000 | | | |
| To Miscellaneous Income | | 9,000 | | | |
| | | 99,000 | | | 99,000 |

**You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer). [Nov. 2018, 10 Marks]**

**Solution:**

**Income & Expenditure A/c**

**(for the year ending 31st March, 2018)**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Expenses (for 2018) | 20,000 | By Subscription | | 27,000 |
| To Interest | 4,000 | By Locker rent | 7,000 | |
| To Misc. Expenses | 4,700 | Less: Outstanding for 2016-17 | 2,400 | 4,600 |
| To Excess of income over expenditure | 12,900 | By Sale proceeds of old Newspaper | | 1,000 |
| | | By Misc. Income | | 9,000 |
| | 41,600 | | | 41,600 |



***Working Note:-***

**Subscription A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Subscription outstanding (2016-17) | 3,800 | By Subscription in Advance (2016-17) | 6,000 |
| To Income & Expenditure (transfer) | 27,000 | By Cash/Bank A/c | 24,000 |
| To Subscription in Advance | 1,000 | By Subscription outstanding (2017-18) | 1,800 |
| | 31,800 | | 31,800 |

**Balance Sheet as on 31st March, 2018**

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Outstanding Expenses (2016-17) | | 2,000 | Cash | 18,300 |
| Advance Subscription | | 1,000 | Outstanding Subscription (2016-17) | 1,800 |
| Creditors | | 10,000 | Building | 1,50,000 |
| Loan | | 40,000 | Land | 40,000 |
| Capital fund | 1,06,200 | | | |
| **Add:** Entrance Fees | 38,000 | | | |
| **Add:** Surplus | 12,900 | 1,57,100 | | |
| | | 2,10,100 | | 2,10,100 |

**Q.23 From the following information supplied by M.B.S. Club prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2019.**

| | 01.04.2018 ₹ | 31.03.2019 ₹ |
|---|---|---|
| Outstanding subscription | 1,40,000 | 2,00,000 |
| Advance Subscription | 25,000 | 30,000 |
| Outstanding Salaries | 15,000 | 18,000 |
| Cash in Hand and at Bank | 1,10,000 | ?? |
| 10% Investment | 1,40,000 | 70,000 |
| Furniture | 28,000 | 14,000 |
| Machinery | 10,000 | 20,000 |
| Sports Goods | 15,000 | 25,000 |

**Subscription for the year amount to ₹ 3,00,000. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on Investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports Goods and @10% p.a. on Furniture.**

**Following Expenses were made during the year :**
**Sports Expenses: ₹ 50,000**
**Rent : ₹ 24,000 out of which ₹ 2,000 outstanding**
**Misc. Expenses : ₹ 5,000**
**[May 2019, 10 Marks]**

**Solution :**

**Receipts & Payments A/c for the year ended 31st March, 2019**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 1,10,000 | By Sports Expenses A/c | 50,000 |
| To Subscription A/c *(i)* | 2,45,000 | By Rent A/c | 22,000 |
| To Furniture A/c | 8,000 | By Miscellaneous Expenses A/c | 5,000 |
| To Sale of Investments A/c *(iii)* | 70,000 | By Salaries A/c | 60,000 |
| To Interest on Investments A/c | 14,000 | By Machinery A/c (Purchased) | 10,000 |
| | | By Sports Goods A/c (Purchased) | 10,000 |
| | | By Balance c/d | 2,90,000 |
| | 4,47,000 | | 4,47,000 |

**Income & Expenditure A/c for the year ended 31st March, 2019**

| Income | | ₹ | Expenditure | ₹ |
|---|---|---|---|---|
| To Salaries A/c | 60,000 | | By Subscription A/c | 3,00,000 |
| Add: o/s at the end | 18,000 | | By Interest on Investment A/c *(iv)* | 14,000 |
| Less: o/s in the beg. | 15,000 | 63,000 | | |
| To Sports Expenses A/c | | 50,000 | | |
| To Rent A/c | 22,000 | | | |
| Add: o/s at the end | 2,000 | 24,000 | | |
| To Miscellaneous Expenses A/c | | 5,000 | | |
| To Depreciation A/c: | | | | |
| Furniture | 1400 | | | |
| Machinery | 1500 | | | |
| Sports Goods | 2250 | 5,150 | | |
| To Loss on Sale of Furniture A/c *(ii)* | | 6,000 | | |
| To Surplus (Transferred to Capital Fund) | | 1,60,850 | | |
| | | 3,14,000 | | 3,14,000 |

**Working Notes:**

*(i)* **Subscription Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Outstanding Subscription A/c (at the beg.) | 1,40,000 | By Advance Subscription A/c (at the beg.) | 25,000 |
| To Income and Expenditure A/c | 3,00,000 | By Cash/Bank A/c (Bal. figure) | 2,45,000 |
| To Advance Subscription A/c (at the end) | 30,000 | By Outstanding Subscription A/c (at the end) | 2,00,000 |
| | 4,70,000 | | 4,70,000 |



*(ii)* **Loss on Sale of Furniture**
Cost of Furniture sold = ₹ 28,000 - ₹ 14,000 = ₹ 14,000
Sale value of furniture = ₹ 8,000
Loss on sale of furniture = ₹ 14,000 - ₹ 8,000 = ₹ **6,000**

*(iii)* **Sale Value of Investment**
$= 1,75,000 \times 50\% = 87,500$ (Face value)
$= 87,500 \times 80\% =$ **70,000**

**Therefore, No Profit or Loss on Sale of Investment**

*(iv)* Since date of sale of Investment is not given, it has been assumed that the interest received on investments of ₹ 14,000 is the interest of the year.

**Q.24 From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:**

**Income & Expenditure Account for the year 2018-19**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Upkeep of ground . | 11,000 | By Subscriptions | 19,052 |
| To Printing | 1,100 | By Sale of Newspapers (Old) | 286 |
| To Salaries | 11,100 | By Lectures (Fee) | 1,650 |
| To Depreciation on furniture | 1,100 | By Entrance Fee | 2,145 |
| To Rent | 1,660 | By Misc. Income | 440 |
| | | By Deficit | 2,387 |
| | 25,960 | | 25,960 |

**Balance sheet as at 31st March, 2019**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Subscription in advance (2019-20) | | 110 | Furniture | 9,900 |
| Prize fund: | | | | |
| Opening balance | 27,500 | | | |
| *Add:* Interest | 1,100 | | | |
| | 28,600 | | Ground and Building | 51,700 |
| *Less:* Prizes given | 2,200 | 26,400 | | |
| | | | Prize Fund Investment | 22,000 |
| General Fund: | | | Cash in Hand | 2,530 |
| Opening balance | 62,062 | | | |
| *Less:* Deficit | 2,387 | | | |
| | 59,675 | | Subscription (outstanding) (2018-2019) | 770 |
| *Add:* Entrance Fee | 715 | 60,390 | | |
| | | 86,900 | | 86,900 |

**The following adjustments have been made in the above accounts:**

**(i) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19**

**(ii) One fourth of entrance fee has been capitalized by transfer to General Fund**

**(iii) Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770**

**(iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for ₹ 2019-20 was ₹ 110**

**(v) Furniture was purchased during the year** **[Nov. 2019, 10 Marks]**

**Solution :**

**Receipts and Payments A/c for the year ended 31st March, 2019**

| Receipts | | Amount | Payments | | Amount |
|---|---|---|---|---|---|
| To bal. b/d (bal. Fig.) | | 16126 | By Upkeep of ground | 11000 | |
| To Subscription | 19052 | | (+) Outstanding at beginning | 660 | 11660 |
| (-) Outstanding at the end | 770 | | By Printing (1100+264) | | 1364 |
| (+) Prepaid at the end | 110 | | By Salaries | | 11100 |
| (+) Outstanding at beginning | 880 | | By Rent | | 1660 |
| (-) Prepaid at beginning | 220 | 19052 | By Prizes | | 2200 |
| To Sale of Newspapers (Old) | | 286 | By Furniture (9900+1100) | | 11000 |
| To Lectures (Fee) | | 1650 | By bal. c/d | | 2530 |
| To Entrance Fee (2145+715) | | 2860 | | | |
| To Misc. Income | | 440 | | | |
| To Interest on Prize Fund | | 1100 | | | |
| **Total** | | **41514** | **Total** | | **41514** |

**Subscription A/c**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 2018 April 1 | To Subscription outstanding (2017-18) | 880 | 2018 April 1 | By Subscription in advance (2017-18) | 220 |
| | To Income & Expenditure A/c | 19052 | | By Cash/Bank A/c | 19052 |
| 2019 Mar 31 | To Subscription In advance (2018-19) | 110 | 2019 Mar 31 | By Subscription outstanding (2018-19) | 770 |
| | **Total** | **20042** | | **Total** | **20042** |

**Q.25 From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :**



| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Security Deposit - Students | — | 1,55,000 |
| Capital Fund | — | 13,08,000 |
| Building Fund | — | 19,10,000 |
| Tuition Fee Received | — | 8,10,000 |
| Government Grants | — | 5,01,000 |
| Interest & Dividends on Investments | — | 1,75,000 |
| Hostel Room Rent | — | 1,65,000 |
| Mess Receipts (Net) | — | 2,05,000 |
| College Stores - Sales | — | 7,60,000 |
| Outstanding expenses | — | 2,35,000 |
| Stock of Stores and Supplies (opening) | 3,10,000 | — |
| Purchases - Stores & Supplies | 8,20,000 | — |
| Salaries - Teaching | 8,75,000 | — |
| Salaries - Research | 1,25,000 | — |
| Scholarships | 85,000 | — |
| Students Welfare expenses | 37,000 | — |
| Games & Sports expenses | 52,000 | — |
| Other investments | 12,75,000 | — |
| Land | 1,50,000 | — |
| Building | 15,50,000 | — |
| Plant and Machinery | 8,50,000 | — |
| Furniture and Fittings | 5,40,000 | — |
| Motor Vehicle | 2,40,000 | — |
| Provision for Depreciation: | | — |
| Building | — | 4,90,000 |
| Plant & Equipment | — | 5,05,000 |
| Furniture & Fittings | — | 3,26,000 |
| Cash at Bank | 3,16,000 | |
| Library | 3,20,000 | |
| | 75,45,000 | 75,45,000 |

**Adjustments:**

**(a) Materials & Supplies consumed : (From college stores)**

| | |
|---|---|
| Teaching | ₹ 52,000 |
| Research | ₹ 1,45,000 |
| Students Welfare | ₹ 78,000 |
| Games or Sports | ₹ 24,000 |

(b) **Tuition fee receivable from Government for backward class Scholars ₹ 82,000.**

(c) **Stores selling prices are fixed to give a net profit of 15% on selling price.**

(d) **Depreciation is provided on straight line basis at the following rates :**

| | |
|---|---|
| **Building** | **5%** |
| **Plant & Equipment** | **10%** |
| **Furniture & Fixtures** | **10%** |
| **Motor Vehicle** | **20%** |

**[Nov. 2020, 10 Marks]**

**Solution:**

**Income & Expenditure account of AS College for the year ended on 31st March, 2020**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Material & Supplies consumed: | | | By Tuition Fees | | |
| Teaching | 52,000 | | Received | 8,10,000 | |
| Research | 1,45,000 | 1,97,000 | +Receivable | 82,000 | 8,92,000 |
| To Salaries : | | | By Government Grant | | 5,01,000 |
| Teaching | 8,75,000 | | By Interest & Div. on Investments | | 1,75,000 |
| Research | 1,25,000 | 10,00,000 | By Hostel Room rent | | 1,65,000 |
| To Games & Sports: | | | By Mess Receipts (Net) | | 2,05,000 |
| Cash | 52,000 | | By Profit from Sale of Stores (7,60,000 × 15%) | | 1,14,000 |
| Material | 24,000 | 76,000 | | | |
| To Students Welfare: | | | | | |
| Cash | 37,000 | | | | |
| Material | 78,000 | 1,15,000 | | | |
| To Scholarships | | 85,000 | | | |
| To Depreciation: | | | | | |
| Building | 77,500 | | | | |
| Plant & Equipment | 85,000 | | | | |
| Furniture & Fittings | 54,000 | | | | |
| Motor vehicles | 48,000 | 2,64,500 | | | |
| To Surplus i.e. (Excess of Income over Expenditure) | | 3,14,500 | | | |
| **Total** | | **20,52,000** | **Total** | | **20,52,000** |



**Balance Sheet of AS College as at 31st March, 2020**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Capital Fund: | | | Land | | 1,50,000 |
| Opening | 13,08,000 | | Building | 15,50,000 | |
| Add: Surplus | 3,14,500 | 16,22,500 | **Less:** Provision for Dep. (4,90,000 + 77,500) | (5,67,500) | 9,82,500 |
| Security Deposit (Students) | | 1,55,000 | | | |
| Building Fund | | 19,10,000 | Plant & Equipment | 8,50,000 | |
| Outstanding Expenses | | 2,35,000 | **Less:** Provision for Dep. (5,05,000 + 85,000) | (5,90,000) | 2,60,000 |
| | | | Furniture | 5,40,000 | |
| | | | **Less:** Provision for Dep. (3,26,000 + 54,000) | (3,80,000) | 1,60,000 |
| | | | Motor Vehicles | 2,40,000 | |
| | | | **Less:** Provision for Dep. | (48,000) | 1,92,000 |
| | | | Library | | 3,20,000 |
| | | | Other Investments | | 12,75,000 |
| | | | Tuition fees receivables | | 82,000 |
| | | | Closing Stock of Stores & Supplies(1) | | 1,85,000 |
| | | | Cash at bank | | 3,16,000 |
| **Total** | | **39,22,500** | **Total** | | **39,22,500** |

**Working Note:**

**1. Calculation of Closing Stock of Stores & Supplies :**

| | | Amount (₹) |
|---|---|---|
| Opening Stock | | 3,10,000 |
| **Add:** Purchases | | 8,20,000 |
| | | **11,30,000** |
| **Less: Material and Supplies Consumed** | | |
| Teaching | 52,000 | |
| Research | 1,45,000 | |
| Students Welfare | 78,000 | |
| Games & Sports | 24,000 | (2,99,000) |
| **Less:** Cost of Sales at College Stores [7,60,000 - 15% of 7,60,000] | | (6,46,000) |
| **Closing Stock** | | **1,85,000** |

**Q.26 Dr. Deku started private practice on 1st April, 2019 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12% p.a. on the security**

**of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Own Capital | 2,00,000 | Medicines Purchased | 2,45,000 |
| Loan | 3,00,000 | Surgical Equipment | 2,50,000 |
| Prescription Fees | 6,60,000 | Motor Car | 3,20,000 |
| Visiting Fees | 2,50,000 | Motor Car Expenses | 1,20,000 |
| Lecture Fees | 24,000 | Wages and Salaries | 1,05,000 |
| Pension Received | 3,00,000 | Rent of Clinic | 60,000 |
| | | General Charges | 49,000 |
| | | Household Expenses | 1,80,000 |
| | | Household Furniture | 25,000 |
| | | Expenses on Daughter's Marriage | 2,15,000 |
| | | Interest on Loan | 36,000 |
| | | Balance at Bank | 1,10,000 |
| | | Cash in Hand | 19,000 |
| | 17,34,000 | | 17,34,000 |

**1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2020 was valued at ₹ 95,000. You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets. [Jan. 2021, 10 Marks]**

**Solution :**

**Income and Expenditure A/c for the year ended 31st March, 2020**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Medicines consumed | | By Prescription fees | 6,60,000 |
| Purchases 2,45,000 | | By Visiting fees | 2,50,000 |
| Less: Stock on 31.3.2020 (95,000) | 1,50,000 | By Fees from lectures | 24,000 |
| To Motor car expenses (1,20,000 × 2/3) | 80,000 | | |
| To Wages and salaries (1,05,000-30,000) | 75,000 | | |
| To Rent of clinic | 60,000 | | |
| To General charges | 49,000 | | |
| To Interest on loan | 36,000 | | |
| To Net Income from practice | 4,84,000 | | |
| Total | 9,34,000 | Total | 9,34,000 |



**Dr. Deku's Capital A/c for the year ended 31st March, 2020**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Drawings: | | By Cash/bank | 2,00,000 |
| Motor Car expenses (1,20,000 × 1/3) | 40,000 | By Cash/bank (pension) | 3,00,000 |
| Household expenses | 1,80,000 | By Net Income from practice | 4,84,000 |
| Household furniture | 25,000 | | |
| Daughter's marriage expenses | 2,15,000 | | |
| Wages of domestic servants | 30,000 | | |
| To Balance c/d | 4,94,000 | | |
| Total | 9,84,000 | Total | 9,84,000 |

**Q.27 From the following Income and Expenditure Account and additional information of ATK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.**

**ATK Club**

**Income and Expenditure Account for the year ending 31st March, 2020**

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Salaries | 4,80,000 | By Subscription | 6,80,000 |
| To Printing and Stationery | 24,000 | By Entrance Fees | 16,000 |
| To Postage | 2,000 | By Misc. Income | 1,44,000 |
| To Telephone | 6,000 | | |
| To Office expenses | 48,000 | | |
| To Bank Interest | 22,000 | | |
| To Audit Fees | 10,000 | | |
| To Annual General Meeting Exp. | 1,00,000 | | |
| To Depreciation (Sports Equipment) | 28,000 | | |
| To Surplus | 1,20,000 | | |
| | 8,40,000 | | 8,40,000 |

**Additional Information :**

| Particulars | As on 31st March, 2019 | As on 31st March, 2020 |
|---|---|---|
| Subscription Outstanding | 64,000 | 72,000 |
| Subscription Received in advance | 52,000 | 33,600 |
| Salaries Outstanding | 24,000 | 32,000 |
| Audit Fees Payable | 8,000 | 10,000 |

| Particulars | As on 31st March, 2019 | As on 31st March, 2020 |
|---|---|---|
| Bank Loan | 1,20,000 | 1,20,000 |
| Value of Sports Equipment | 2,08,000 | 2,52,000 |
| Value of Club Premises | 7,60,000 | 7,60,000 |
| Cash in Hand | ? | 1,14,000 |

[Jan. 2021, 10 Marks]

**Solution :**

**Receipts and Payments A/c of ATK Club for the year ended 31st March, 2020**

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| To Balance b/d (bal. fig.) | 54,400 | By Salaries (4,80,000 + 24,000 - 32,000) | 4,72,000 |
| To Subscription (WN-2) | 6,53,600 | By Printing and Stationary | 24,000 |
| To Entrance Fees | 16,000 | By Postage | 2,000 |
| To Misc. Income | 1,44,000 | By Telephone | 6,000 |
| | | By Office Expenses | 48,000 |
| | | By Bank Interest | 22,000 |
| | | By Audit Fees (10,000 + 8,000 - 10,000) | 8,000 |
| | | By Annual General Meeting Exp. | 1,00,000 |
| | | By Purchase of Sports Equip. (2,52,000 + 28,000 - 2,08,000) | 72,000 |
| | | By Balance c/d | 1,14,000 |
| **Total** | **8,68,000** | **Total** | **8,68,000** |

**Balance Sheet of ATK Club as at 31st March, 2020**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Capital | 8,82,400 | | Club Premises | | 7,60,000 |
| **Add**: Surplus | 1,20,000 | 10,02,400 | Sports Equipment | 2,08,000 | |
| Bank Loan | | 1,20,000 | **Add:** Addition | 72,000 | |
| Subscription received in advance | | 33,600 | | 2,80,000 | |
| Outstanding salaries | | 32,000 | **Less:** Depreciation | (28,000) | 2,52,000 |
| Audit fee payable | | 10,000 | Cash in Hand | | 1,14,000 |
| | | | Subscription outstanding | | 72,000 |
| **Total** | | **11,98,000** | **Total** | | **11,98,000** |



**Working Note :-**

(1) **Balance Sheet of ATK Club as at 31st March, 2019**

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Capital Fund (bal. fig.) | 8,82,400 | Club Premises | 7,60,000 |
| Bank Loan | 1,20,000 | Sports Equipment | 2,08,000 |
| Subscription received in advance | 52,000 | Cash in Hand | 54,400 |
| Outstanding Salaries | 24,000 | Subscription outstanding | 64,000 |
| Audit fee payable | 8,000 | | |
| **Total** | **10,86,400** | **Total** | **10,86,400** |

(2) **Subscription A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Outstanding subscription at beg. | 64,000 | By Subscription in advance at beg. | 52,000 |
| To Income & Expenditure A/c | 6,80,000 | By Cash/Bank (bal. fig.) | 6,53,600 |
| To Subscription in advance at end | 33,600 | By Outstanding subscription at end | 72,000 |
| **Total** | **7,77,600** | **Total** | **7,77,600** |

**Q.28 Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:**

| Receipts | Amount | Payments | Amount |
|---|---|---|---|
| Subscription Received | 5,00,000 | Payment for Medicine Supply | 3,00,000 |
| Donation Raised for meeting revenue expenditure | 1,50,000 | Honorarium to Doctors | 1,00,000 |
| Interest on Investments @ 9% p.a. | 90,000 | Salaries | 2,80,000 |
| Charity Show | | Sundry Expenses | 10,000 |
| Collection | 1,25,000 | | |
| | | Equipment Purchase | 1,50,000 |
| | | Charity Show Expenses | 15,000 |

**Additional Information:**

| Particulars | 01.04.2020 | 31.03.2021 |
|---|---|---|
| Subscription due | 15,000 | 22,000 |
| Subscription received in advance | 12,000 | 7,000 |
| Stock of medicine | 1,00,000 | 1,50,000 |

| Particulars | 01.04.2020 | 31.03.2021 |
|---|---|---|
| Amount due for medicine supply | 90,000 | 1,30,000 |
| Value of equipment | 2,10,000 | 3,00,000 |
| Value of building | 5,00,000 | 4,80,000 |
| Cash Balance | 80,000 | 90,000 |
| Opening Balance of Capital Fund | 18,03,000 | |

**You are required to prepare :**

**(i) Income and Expenditure Account for the year ended 31st March, 2021.**

**(ii) Balance Sheet as on 31st March, 2021** **[July 2021, 10 Marks]**

**Solution :**

**In the Books of AMA Society**
**Income & Expenditure A/c**
**for the year ending 31st March, 2021**

| Expenditure | | Amount ₹ | Income | | Amount ₹ |
|---|---|---|---|---|---|
| To Medicine consumed | | | By Subscription | 5,00,000 | |
| Op. Stock | 1,00,000 | | *Less:* Op. outstanding | (15,000) | |
| *Add:* Purchases (1) | 3,40,000 | | *Add:* Cl. outstanding | 22,000 | |
| *Less:* Cl. Stock | (1,50,000) | 2,90,000 | *Add:* Op. advance | 12,000 | |
| To Honorarium | | 1,00,000 | *Less:* Cl. advance | (7,000) | 5,12,000 |
| To Salaries | | 2,80,000 | | | |
| To Sundry Expenses | | 10,000 | By Donation | | 1,50,000 |
| To Depreciation: | | | By Interest on Investments | | 90,000 |
| Equipment (2) | 60000 | | By Charity Show Collection | 125000 | |
| Building | 20000 | 80,000 | *Less:* Charity Show exp. | (15000) | 1,10,000 |
| To Surplus | | 1,02,000 | | | |
| **Total** | | **8,62,000** | **Total** | | **8,62,000** |

**Balance Sheet as on 31st March, 2021**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund | 18,03,000 | | Equipment | 2,10,000 | |
| *Add:* Surplus | 1,02,000 | 19,05,000 | *Add:* Purchases | 1,50,000 | |
| Advance Subscription | | 7,000 | | 3,60,000 | |
| Due for medicine supply | | 1,30,000 | *Less:* Dep. | (60,000) | 3,00,000 |
| | | | Investment (3) | | 10,00,000 |
| | | | Outstanding Subscription | | 22,000 |
| | | | Stock of Medicine | | 1,50,000 |



| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| | | | Building | 5,00,000 | |
| | | | *Less:* Dep. | (20,000) | 4,80,000 |
| | | | Cash | | 90,000 |
| **Total** | | **20,42,000** | **Total** | | **20,42,000** |

**Working Note:-**

**1. Creditors for Medicine Supply A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c | 3,00,000 | By Balance b/d | 90,000 |
| To Balance c/d | 1,30,000 | By Purchase of Medicine (Bal. fig.) | 3,40,000 |
| **Total** | **4,30,000** | **Total** | **4,30,000** |

**2. Depreciation on Equipment:-**

| | ₹ |
|---|---|
| Value at beginning | 2,10,000 |
| *Add:* Purchase during the year | 1,50,000 |
| | 3,60,000 |
| *Less:* Value at end | (3,00,000) |
| Depreciation | 60,000 |

**3. Value of Investment:-** $90{,}000 \times \frac{100}{9} = ₹10{,}00{,}000$

**Q.29 The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows:**

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Salaries | 47,500 | By Subscription | 75,000 |
| To General Expenses | 5,000 | By Entrance Fees | 2,500 |
| To Audit Fee | 2,500 | By Contribution for Annual Dinner | 10,000 |
| To Secretary's Honorarium | 10,000 | | |
| To Stationery and Printing | 4,500 | By Annual Sports Meet Receipts | 7,500 |
| To Annual Dinner Expenses | 15,000 | | |
| To Interest and Bank charges | 1,500 | | |
| To Depreciation | 3,000 | | |
| To Surplus | 6,000 | | |
| | 95,000 | | 95,000 |

**This account had been prepared after the following adjustments:**

| | ₹ |
|---|---|
| Subscription outstanding at the end of 2020 | 6,000 |
| Subscription received in advance on 31st December, 2020 | 4,500 |
| Subscription received in advance on 31st December, 2021 | 2,700 |
| Subscription outstanding on 31st December, 2021 | 7,500 |

**Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000.**

**The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹ 27,000. In the year 2020, the Club had raised a bank loan of ₹ 20,000. This was outstanding throughout the year 2021. On 31st December, 2021 cash in hand was ₹ 16,000.**

**You are required to:**

**Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date. [Dec. 2021, 10 Marks]**

**Solution :**

**In the Books of Woman Club**
**Receipts & Payment A/c**
**for the year ending 31st Dec., 2021**

| Receipts | | ₹ | Payments | | ₹ |
|---|---|---|---|---|---|
| To Balance b/d (Bal. fig) | | 13,900 | By Salaries | 47,500 | |
| To Subscription | 75,000 | | *Add :* Opening outstanding | 4,000 | |
| *Add :* Opening outstanding | 6,000 | | *Less :* Closing outstanding | (4,500) | 47,000 |
| *Less :* Opening Advance | (4,500) | | By General Exp. | 5,000 | |
| *Add :* Closing Advance | 2,700 | | *Add :* Closing Advance | 600 | 5,600 |
| *Less :* Closing outstanding | (7,500) | 71,700 | By Audit Fees (Year 2020) | | 2,000 |
| To Entrance Fees | | 2,500 | By Honorarium | | 10,000 |
| To Contribution for Annual dinner | | 10,000 | By Stationery & Printing | | 4,500 |
| To Annual Sports Meet Receipts | | 7,500 | By Annual dinner Expenses | | 15,000 |
| | | | By Interest & Bank Charges | | 1,500 |
| | | | By Purchase of Sport Equipment | | 4,000 |
| | | | By Balance c/d | | 16,000 |
| **TOTAL** | | **1,05,600** | **TOTAL** | | **1,05,600** |



**Balance Sheet as at 31 Dec., 2021**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund | 1,15,400 | | Sport Equipment | 26,000 | |
| *Add :* Surplus | 6,000 | 1,21,400 | *Add :* Purchases | 4,000 | |
| Advance Subscription | | 2,700 | *Less :* Depreciation | (3,000) | 27,000 |
| Outstanding Salary | | 4,500 | Freehold Ground | | 1,00,000 |
| Outstanding Audit Fees | | 2,500 | Prepaid Insurance | | 600 |
| Bank Loan | | 20,000 | Outstanding Subscription | | 7,500 |
| | | | Cash | | 16,000 |
| **TOTAL** | | **1,51,100** | **TOTAL** | | **1,51,100** |

**Balance Sheet as at 1 Jan., 2021**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Advance Subscription | 4,500 | Outstanding Subscription | 6,000 |
| Outstanding Salary | 4,000 | Freehold Ground | 1,00,000 |
| Unpaid Audit Fees | 2,000 | Sport Equipment | 26,000 |
| Bank Loan | 20,000 | Cash | 13,900 |
| Capital Fund (Balancing Figure) | 1,15,400 | | |
| **TOTAL** | **1,45,900** | **TOTAL** | **1,45,900** |

**Q.30 The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:**

**Receipt and Payment Account of Mumbai Club**

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| Cash in hand | 20,000 | Ground man's Fee | 75,000 |
| Balance at Bank as per Pass Book: | | Purchase of Equipments | 1,55,000 |
| | | Rent of Ground | 25,000 |
| Saving Account | 1,93,000 | Club night expenses | 38,000 |
| Current Account | 60,000 | Printing and Office Expenses | 30,000 |
| Bank Interest | 5,000 | Repairs to Equipment | 50,000 |
| Donations and Subscriptions | 2,50,000 | Honorarium to Secretary (2019-20) | 40,000 |
| Entrance fees | 18,000 | Balance at Bank as per Pass Book: | |
| Contribution to Club night | 10,000 | Saving Account | 2,04,000 |
| Sale of Equipment | 8,000 | Current Account | 20,000 |

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|---|---|---|
| Bar Room receipts | 20,000 | Cash in hand | 25,000 |
| Proceeds from club night | 78,000 | | |
| | 6,62,000 | | 6,62,000 |

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

| | 01.04.20 | 31.03.21 |
|---|---|---|
| Subscription due | 15,000 | 10,000 |
| Amount due for printing etc. | 10,000 | 8,000 |
| Cheques unpresented being payment for repairs | 30,000 | 25,000 |
| Interest not yet entered in the Pass book | - | 2,000 |
| Estimated value of machinery and equipment | 80,000 | 1,75,000 |

**For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2021 and the Balance Sheet as at that date. [June 2022, 10 Marks]**

**Solution :**

**In the books of Mumbai Club**
**Income & Expenditure A/c**
**for the year ended 31st March, 2021**

| Expenditure | | ₹ | Income | | ₹ |
|---|---|---|---|---|---|
| To Ground man's Fees | 75000 | | By Bank Interest | 5000 | |
| +outstanding bonus | 20000 | 95,000 | + outstanding | 2000 | 7,000 |
| To Rent of Ground | | 25,000 | By Donation & Subscriptions | 250000 | |
| To Club night expenses | | 38,000 | + outstanding at the end | 10000 | |
| To Printing & Office exp. | 30000 | | - outstanding at the beg. | (15000) | 2,45,000 |
| + outstanding at the end | 8000 | | By Entrance Fees | | 18,000 |
| - outstanding at the beg. | (10000) | 28,000 | By Contribution to club night | | 10,000 |
| To Repairs | 50000 | | By Bar Room Receipts | | 20,000 |
| + outstanding at the end | 25000 | | By Proceeds from Club night | | 78,000 |
| - outstanding at the beg. | (30000) | 45,000 | | | |
| To Depreciation on equipment W.N.1 | | 52,000 | | | |
| To Honorarium (2020-21) (40000+20000) | | 60,000 | | | |
| To Surplus | | 35,000 | | | |
| **Total** | | **3,78,000** | **Total** | | **3,78,000** |



**Balance Sheet as at 31, March, 2021**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Fund | 288000 | | Machinery & Equipment W.N.1 | 1,75,000 |
| + Surplus | 35000 | 3,23,000 | Outstanding Interest | 2,000 |
| Outstanding Printing & Office Exp. | | 8,000 | Outstanding Subscription | 10,000 |
| Bank overdraft W.N. 2 | | 5,000 | Cash | 25,000 |
| Outstanding Honorarium | | 60,000 | Saving A/c | 2,04,000 |
| Outstanding Bonus | | 20,000 | | |
| **Total** | | **4,16,000** | **Total** | **4,16,000** |

**Balance Sheet as at 1st April, 2020**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Honorarium outstanding | 40,000 | Cash in Hand | 20,000 |
| Outstanding Printing | 10,000 | Saving A/c | 1,93,000 |
| Capital Fund (bal.fig.) | 2,88,000 | Current Account W.N. 3 | 30,000 |
| | | Outstanding Subscription | 15,000 |
| | | Machinery & Equipment | 80,000 |
| **Total** | **3,38,000** | **Total** | **3,38,000** |

**Working Note:-**

**1. Calculation of Depreciation on Machinery & Equipment**

| | ₹ |
|---|---|
| Opening Value | 80,000 |
| + Purchase during the year | 1,55,000 |
| - Sold | (8,000) |
| | 2,27,000 |
| - Closing Value | 1,75,000 |
| | 52,000 |

**2. Calculation of Current Account Balance as on 31st March**

| | |
|---|---|
| Current A/c | 20,000 |
| (-) Unpresented cheques for repairs | (25,000) |
| Bank Overdraft | (5,000) |

**3. Calculation of Current Account Balance as on 1st April**

| | |
|---|---|
| Current A/c | 60,000 |
| Less : Unpresented cheques for repairs | (30,000) |
| | **30,000** |

**Q.31 The Income and Expenditure Account of the Young Boys Club for the year 2022 is as follows :**

| Expenditure | Amount (₹) | Income | Amount (₹) |
|---|---|---|---|
| To Salaries | 3,750 | By Subscription | 8,500 |
| To General Expenses | 1,500 | By Entrance Fees | 250 |
| To Audit Fees | 250 | By Contribution for Annual Dinner | 1,000 |
| To Secretary's Honorarium | 1,000 | By Annual Sports meet receipts | 750 |
| To Stationery and Printing | 450 | | |
| To Annual Dinner Expenses | 1,500 | | |
| To Interest and Bank Charges | 150 | | |
| To Depreciation | 400 | | |
| To Surplus | 1,500 | | |
| | 10,500 | | 10,500 |

**This Account has been prepared after the following adjustments :**

| | Amount (₹) |
|---|---|
| Subscription outstanding on 31st December, 2021 | 700 |
| Subscription received in advance on 31st December, 2021 | 550 |
| Subscription received in advance on 31st December, 2022 | 370 |
| Subscription outstanding on 31st December, 2022 | 750 |

**Salaries outstanding at the beginning and at the end of 2022 were respectively ₹ 600 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.**

**The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2,600. At the end of the year, after depreciation, the balance of equipment amounted to ₹ 3,600. In 2021, the club raised a bank loan of ₹ 5,000. This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1,600.**

**You are required to prepare :**

**(i) Receipts and Payments Account for 2022**

**(ii) Balance Sheet as on 31st December, 2022**

**(iii) Balance Sheet as on 31st December, 2021.**

**[Dec. 2022, 10 Marks]**



**Solution :**

**(i) Receipts & Payment A/c for the year ending 31 Dec, 2022**

| Receipts | | ₹ | Payments | | ₹ |
|---|---|---|---|---|---|
| To Balance b/d (Bal. fig.) | | 1,580 | By Salaries | 3,750 | |
| To Subscription | 8,500 | | Add: opening out | 600 | |
| Add: opening outstanding | 700 | | Less: closing out | (450) | 3,900 |
| Less: opening advance | (550) | | By General Expenses | 1,500 | |
| Add: closing advance | 370 | | Add: Prepaid Insurance | 150 | 1,650 |
| Less: closing outstanding | (750) | 8,270 | By Audit Fees (2021) | | 200 |
| To Entrance Fees | | 250 | By Secretary Honorarium | | 1,000 |
| To Contribution for Annual dinner | | 1000 | By Stationery & Printing | | 450 |
| To Annual sports meet receipts | | 750 | By Annual dinner expenses | | 1,500 |
| | | | By Interest & Bank charges | | 150 |
| | | | By Purchase of Sports equipment | | 1,400 |
| | | | By Balance c/d | | 1,600 |
| Total | | 11,850 | Total | | 11,850 |

**(ii) Balance Sheet as on 31 Dec, 2022**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital Fund | 18,530 | | Sports equipment | 2,600 | |
| Add: Surplus | 1,500 | 20,030 | Less: Depreciation | (400) | |
| Subscription in advance | | 370 | Add: Addition during the year | 1,400 | 3,600 |
| Salary outstanding | | 450 | Ground | | 20,000 |
| Audit Fee outstanding | | 250 | Subscription Outstanding | | 750 |
| Bank Loan | | 5,000 | Prepaid Insurance | | 150 |
| | | | Cash in hand | | 1,600 |
| Total | | 26,100 | Total | | 26,100 |

**(iii) Balance Sheet as on 31 Dec, 2021**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Subscription in advance | 550 | Subscription outstanding | 700 |
| Salary outstanding | 600 | Ground | 20,000 |
| Audit Fees outstanding | 200 | Sports Equipment's | 2,600 |
| Bank Loan | 5,000 | Cash in hand | 1,580 |
| Capital Fund(Bal. fig.) | 18,530 | | |
| Total | 24,880 | Total | 24,880 |

**Q. 32 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 |
| | | By Purchase of Medical equipment | 25,000 |
| To Charity show collection | 16,500 | 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.** **[June 2023, 15 Marks]**



**Solution :**

**In the Book of Pune Medical Aid Society**

**Income & Expenditure A/c for the year ended 31 Dec., 2022**

| Expenditure | Amount (₹) | Income | | Amount (₹) |
|---|---|---|---|---|
| To Medicine supply consumed[1] | 34,750 | By Subscription | 65000 | |
| | | + Cl. o/s | 3100 | |
| To Honorarium to Doctors | 15,000 | - Op. o/s | (2500) | |
| To Salaries | 36,000 | + Op. adv. | 1800 | |
| To Sundry Expenses | 950 | - Cl. adv. | (1400) | 66,000 |
| To Depreciation:— | | | | |
| on Equipment | 9,300 | By Donations | | 25,000 |
| on Building | 3,250 | By Interest on Investment @ 10% | | 10,000 |
| To Surplus | 15,500 | By Charity show collection | 16500 | |
| | | - Show expenses | (2750) | 13,750 |
| Total | 1,14,750 | Total | | 1,14,750 |

**Note:-**

**1. Calculation of Medicine Consumed:**

| | ₹ |
|---|---|
| Opening Stock | 12,500 |
| Add: Purchases* | 39,500 |
| Less: Closing Stock | (17,250) |
| Medicine Consumed | **34,750** |

**Creditors for medicine A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Bank | 35,000 | By Balance b/d | 12,000 |
| To Balance c/d | 16,500 | By Purchase of medicine (bal. fig)* | 39,500 |
| Total | 51,500 | Total | 51,500 |

**Balance Sheet as on 31 Dec., 2022**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Capital Fund | 1,99,700 | | Medical Equipment | 21,500 | |
| Add: Surplus | 15,500 | 2,15,200 | Add: Purchase | 25,000 | |
| Subscription in advance | | 1,400 | | 46,500 | |
| Amount due for medicine supply | | 16,500 | Less: Depreciation | (9300) | 37,200 |
| | | | Building | 65,000 | |
| | | | Less: Depreciation | (3,250) | 61,750 |
| | | | Investment @10% | | 1,00,000 |
| | | | Stock of Medicine | | 17,250 |
| | | | Outstanding Subscription | | 3,100 |
| | | | Cash | | 13,800 |
| Total | | 2,33,100 | Total | | 2,33,100 |

**Working Note:-**

**Balance Sheet as on 1 Jan., 2022**

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Subscription in advance | 1,800 | Cash | 12,000 |
| Amount due for medicine supply | 12,000 | Investment | 1,00,000 |
| Capital Fund (Bal.fig.) | 1,99,700 | Outstanding Subscription | 2,500 |
| | | Stock of medicine | 12,500 |
| | | Equipment | 21,500 |
| | | Building | 65,000 |
| Total | 2,13,500 | Total | 2,13,500 |

# CHAPTER 18 SHARES

## DESCRIPTIVE QUESTIONS

**Q.1 How may a Company utilise its Securities Premium Reserve as per Companies Act, 2013?**

**Ans. Issue of shares (at premium) [Section 52]:**

A company may utilise its Securities Premium for the following purposes only :

(1) for issuing fully paid bonus shares.
(2) for writing off of the preliminary expenses of the Company.
(3) for writing off of the discount on issue of shares, if any.
(4) for writing off of expenses, brokerage, commission etc. on issue of shares/ debentures.
(5) for providing premium on redemption of preference shares.
(6) for buyback of own shares of Company.

## SHORT NOTES

**Q.1 Nominal and Registered Capital**

**Ans. Nominal or authorised or registered capital:**

- It is the sum stated in the memorandum as the capital of the company with which it is to be registered.
- It is the maximum amount, which a company authorised to raise by issuing shares.
- It can be increased as and when decided by the company by following necessary formalities.

**Q.2 Reserve Capital**

**Ans. Reserve capital :**

- It is that part of the uncalled capital of the company which can be called up only in the event of winding up.

- The company can determine this by passing special resolution (Section 65 of Companies Act, 2013).
- The company cannot demand the payment of money on the shares to that extent during its lifetime.
- When once the reserve capital has been so created, it cannot be charged or mortgaged as security for any loan raised by the company and it cannot be called up.
- Creating such reserved capital will not require any accounting entry and the capital will continue to be shown as partly paid up in the balance sheet.
- Fact of such reservation should be disclosed in the balance sheet.
- The Reserve capital is different from Capital reserve, which is created out of profits.

## Q.3 Cumulative preference shares

**Ans. Cumulative preference shares:**

- They carry the right to cumulative dividends if the company fails to pay the dividend in a particular year.
- That is if for want of profit dividend is not paid the same gets accumulated and paid as and when company earns.
- All preference shares are always presumed to be cumulative unless the contrary is stated in the terms of issue.

## Q.4 Minimum subscription

**Ans. Minimum Subscription:**

Minimum Subscription means the minimum amount of subscription which a company must receive before it can allot securities to the subscribers.

According to Section 39(1) of the Companies Act, 2013, no allotment of securities shall be made:

(i) unless the amount stated in the prospectus as the minimum amount has been subscribed;

(ii) the sum payable on application for such amount has been paid to and received by the company.



# DIFFERENCES

## Q.1 Reserve Capital and Capital Reserve

**Ans. Reserve capital and Capital reserve:**

| Basis | Reserve Capital | Capital Reserve |
|---|---|---|
| 1. Creation | It is created out of uncalled capital. | It is created out of capital profits. |
| 2. Disclosure in Balance Sheet | It is not disclosed in the company's Balance Sheet | It is disclosed as the first item under the head Reserves and Surplus on the equity and liabilities part of the Balance Sheet. |
| 3. Time when it can be used | It can be used only at the time of winding up | It can be used during the life of the company. |

## Q.2 Authorised Capital and Issued Capital

**Ans. Authorised Capital and Issued Capital:**

| Basis of Difference | Authorised Capital | Issued Capital |
|---|---|---|
| 1. Disclosure in Memorandum of Association | It is the amount stated in the company's Memorandum of Association. It is the maximum amount that a company can issue under each class of capital. | It is not stated in the Memorandum of Association of the company. |
| 2. Limits | It is higher than or equal to the issued and subscribed capital. | It cannot exceed authorised capital. |

# TRUE OR FALSE

**Q.1 Reserve Capital and Capital Reserve carry the same meaning.**

**Ans. False:** Reserve Capital refers to that portion of uncalled up share capital which shall not be capable of being called up except in the event of winding up. Capital Reserve is a reserve which is created out of capital profits.

**Q.2 As per Table F, the Minimum rate of interest that can be charged on calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.m. and 12% p.m. respectively.**

**Ans. False:** As per Table F, the maximum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% p.a. and 12% p.a. respectively.

**Q.3 Re-issue of forfeited shares is allotment of shares but not a sale.**

**[May 2018, 2 Marks]**

**Ans. False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

**Q.4 Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. [Nov. 2019, 2 Marks]**

**Ans. True:** A company has a separate legal entity *i.e.* its existence is independent of its members. The company is consequently able to enjoy perpetual succession and continues in existence irrespective of death/insolvency/change of members, until it is wound up by law.

**Q.5 In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing. The accountant can use the balance in securities premium account to write off preliminary expenses. [Nov. 2020, 2 Marks]**

**Ans. True:** Section 52 of the Companies Act, 2013 allows that preliminary expenses may be written off through Securities Premium Account.

**Q.6 Re-issue of forfeited shares is allotment of shares but not a sale. [Jan. 2021, 2 Marks]**

**Ans. False:** Reissue of forfeited shares is treated as sale of shares not as allotment of shares.

**Q.7 A Company is not allowed to issue shares at a discount to the public in general. [July 2021, 2 Marks]**

**Ans. True:** According to Section 53 of the Companies Act, 2013, a company cannot issue shares at a discount to general public.

**Q.8 A person holding preference shares of a company cannot hold equity shares of the same company. [July 2021, 2 Marks]**

**Ans. False:** A person can hold both equity and preference shares of the same company as per Companies Act, 2013.

**Q.9 Non-participating preference shareholders enjoy voting rights. [Dec. 2021, 2 Marks]**

**Ans. False:** No voting rights are conferred on Preference Shares irrespective of whether participating or non-participating.

## PRACTICAL QUESTIONS

**Q.1 A company issued 10,000 shares of ₹ 10 each in the following manner :—**

| | |
|---|---|
| **On application** | **₹ 4** |
| **On allotment** | **₹ 3** |
| **On first call** | **₹ 2** |
| **On second & final call** | **₹ 1** |

**Mr. R, R holder of 400 shares failed to pay allotment & first call. Company forfeited his shares & then the 2nd call was made. Mr. S holder of 500 shares failed to pay 2nd & final call. Company forfeited his shares further the company reissued 700 shares (including all shares of Ms. R) @ ₹ 8 per share. Give necessary journal entries in the books of the company.**



**Solution :**

**Journal Entries**
**(In the books of the Company)**

| S. No. | Particulars | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|
| 1. | Bank A/c (10,000 × 4) Dr.<br>To Equity share application A/c<br>(Being equity share application money received @ ₹ 4 per share on 10,000 shares) | | 40,000 | 40,000 |
| 2. | Equity share application A/c (10,000 × 4) Dr.<br>To Equity share capital A/c<br>(Being equity application money transferred to share capital A/c) | | 40,000 | 40,000 |
| 3. | Equity share allotment A/c (10,000 × 3) Dr.<br>To Equity share capital A/c<br>(Being allotment amount due on 10,000 shares @ ₹ 3 per share) | | 30,000 | 30,000 |
| 4. | Bank A/c (9600 × 3) Dr.<br>To Equity share allotment A/c<br>(Being allotment money received on 9600 shares @ ₹ 3 per share) | | 28,800 | 28,800 |
| 5. | Equity share first call A/c (10,000 × 2) Dr.<br>To Equity share capital A/c<br>(Being first call amount due on 10,000 equity share @ ₹ 2 each) | | 20,000 | 20,000 |
| 6. | Bank A/c (9,600 × 2) Dr.<br>To Equity share first call A/c<br>(Being first call money received on 9600 shares @ ₹ 2 each) | | 19,200 | 19,200 |
| 7. | Equity share capital A/c (400 × 9) Dr.<br>To Equity share forfeiture A/c (400 × 4)<br>To Equity share allotment A/c (400 × 3)<br>To Equity share 1st call A/c (400 × 2)<br>(Being 400 shares of Ms. R forfeited on non-payment of allotment & first call money) | | 3,600 | <br>1,600<br>1,200<br>800 |
| 8. | Equity share second and final call A/c (9,600 × 1) Dr.<br>To Equity share capital A/c<br>(Being amount due on second & final call on 9,600 shares @ ₹ 1 each) | | 9,600 | 9,600 |
| 9. | Bank A/c (9,100 × 1) Dr.<br>To Equity share 2nd & final call A/c<br>(Being amount received on 9100 shares of second & final call @ ₹ 1 per share) | | 9,100 | 9,100 |
| 10. | Equity share capital A/c (500 × 10) Dr.<br>To Equity share forfeiture A/c (500 × 9)<br>To Equity share 2nd & final call A/c (500 × 1)<br>(Being 500 shares of Mr. S forfeited on non-payment of second call money) | | 5,000 | <br>4,500<br>500 |

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 11. | Bank A/c (700 × 8)<br>Equity share forfeiture A/c (700 × 2)<br>To Equity share capital A/c (700 × 10)<br>(Being 700 shares reissued @ ₹ 8 per share) | Dr.<br>Dr. | | 5,600<br>1,400 | <br><br>7,000 |
| 12. | Equity share forfeiture A/c (1)<br>To Capital Reserve A/c<br>(Being balance in share forfeiture account transferred to Capital Reserve) | Dr. | | 2,900 | <br>2,900 |

**Suppose Company reissued 700 shares @ ₹ 9 per share including all shares of Mr. S. What will be the amount of Capital Reserve?**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (700 × 9)<br>Equity share forfeiture A/c (700 × 1)<br>To Equity share capital A/c (700 × 10)<br>(Being 700 shares issued @ ₹ 9 per share) | Dr.<br>Dr. | | 6,300<br>700 | <br><br>7,000 |
| 2. | Equity share forfeiture A/c (2)<br>To Capital reserve A/c<br>(Being Balance in share forfeiture A/c transferred to capital reserve) | Dr. | | 4,600 | <br>4,600 |

**Suppose Company reissued 700 shares @ ₹ 9 per share including 350 shares of R. What will be the amount of Capital Reserve?**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (700 × 9)<br>Equity share forfeiture A/c (700 × 1)<br>To Equity share capital A/c (700 × 10)<br>(Being 700 shares issued @ ₹ 9 per share) | Dr.<br>Dr. | | 6,300<br>700 | <br><br>7,000 |
| 2. | Equity share forfeiture A/c (3)<br>To Capital Reserve A/c<br>(Being balance in share forfeiture A/c transferred to Capital Reserve) | Dr. | | 3,850 | <br>3,850 |

**Working Notes :**

Calculation of Capital Reserve

| | | No. of Shares | | Forfeited Amount |
|---|---|---|---|---|
| (1) | R | 400 × 4 | = | 1,600 |
| | S | 300 × 9 | = | 2700 |
| | | 700 shares | | 4,300 |
| | Less : Loss on reissue (700 × 2) | | | (1,400) |
| | Transferred to Capital Reserve | | | 2,900 |
| (2) | R | 200 × 4 | = | 800 |
| | S | 500 × 9 | = | 4500 |
| | | 700 shares | | 5,300 |
| | Less : Loss on reissue (700 × 1) | | | (700) |
| | Transferred to Capital Reserve | | | 4,600 |
| (3) | R | 350 × 4 | = | 1400 |
| | S | 350 × 9 | = | 3150 |
| | | 700 shares | | 4,550 |
| | Less : Loss on reissue (700 × 1) | | | (700) |
| | Transferred to Capital Reserve | | | 3,850 |



**Q.2 XYZ Co. issued 10,000 of ₹ 10/- each in the following manner:**

**₹ 4 Application**

**₹ 3 Allotment**

**₹ 2 1st call**

**₹ 1 2nd call**

**Mr. R holder of 400 shares failed to pay 1st & 2nd call money Mr. S holder of 200 shares failed to pay 2nd call money Company forfeited shares of Mr. R. and subsequently reissued 300 shares out of these @ ₹ 7 per share. Give Balance sheet of the company along with journal entries.**

**Solution :**

**Journal Entries**
**In the books of XYZ Co.**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (10,000 × 4)<br>To Equity share application A/c<br>(Being application amount received) | Dr. | | 40,000 | <br>40,000 |
| 2. | Equity share application A/c<br>To Equity share capital A/c<br>(Being application amount transferred to share capital A/c) | Dr. | | 40,000 | <br>40,000 |
| 3. | Equity share allotment A/c (10,000 × 3)<br>To Equity share capital A/c<br>(Being allotment money due on 10,000 shares) | Dr. | | 30,000 | <br>30,000 |
| 4. | Bank A/c (10,000 × 3)<br>To Equity share allotment A/c<br>(Being allotment money received) | Dr. | | 30,000 | <br>30,000 |
| 5. | Equity share first call A/c (10,000 × 2)<br>To Equity share capital A/c<br>(Being 1st call money due) | Dr. | | 20,000 | <br>20,000 |
| 6. | Bank A/c (9,600 × 2)<br>To Equity share 1st call A/c<br>(Being 1st call money received) | Dr. | | 19,200 | <br>19,200 |
| 7. | Equity share second and final call A/c (10,000 × 1)<br>To Equity share capital A/c<br>(Being 2nd & final call amount due) | Dr. | | 10,000 | <br>10,000 |
| 8. | Bank A/c (9,400 × 1)<br>To Equity share & second call A/c<br>(Being 2nd final call amount received) | Dr. | | 9,400 | <br>9,400 |

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 9. | Equity share capital A/c (400 shares × ₹ 10) | Dr. | | 4,000 | |
| | To Equity share forfeiture A/c (400 × 7) | | | | 2,800 |
| | To Equity share first call A/c (400 × 2) | | | | 800 |
| | To Equity share second & final call A/c (400 × 1) | | | | 400 |
| | (Being 400 shares forfeited on non-payment of first and second & final call A/c) | | | | |
| 10. | Bank A/c (300 × 7) | Dr. | | 2,100 | |
| | Equity share forfeiture A/c (300 × 3) | Dr. | | 900 | |
| | To Equity share capital A/c (300 × 10) | | | | 3,000 |
| | (Being 300 shares reissued @ ₹ 7 per share) | | | | |
| 11. | Equity share forfeiture A/c (300 × 4) | Dr. | | 1,200 | |
| | To Capital Reserve A/c (2100 - 900) | | | | 1,200 |
| | (Being balance in forfeiture A/c transferred to Capital Reserve A/c) | | | | |

**Bank A/c**

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---|---|---|---|---|---|---|---|
| | To Equity share application A/c | | 40,000 | | By Balance c/d | | 1,00,700 |
| | To Equity share allotment A/c | | 30,000 | | | | |
| | To Equity share 1st call A/c | | 19,200 | | | | |
| | To Equity share 2nd call A/c | | 9,400 | | | | |
| | To Equity share capital A/c | | 2,100 | | | | |
| | | | 1,00,700 | | | | 1,00,700 |

**Balance sheet of XYZ Co. as at ...........**

| | Particulars | Note No. | ₹ | ₹ |
|---|---|---|---|---|
| I | **Equity and Liabilities:-** | | | |
| | Shareholders fund | | | |
| | (*a*) Share capital | 1 | 99,500 | |
| | (*b*) Reserve & surplus | 2 | 1,200 | |
| | **Total** | | **1,00,700** | |
| II | **Assets:-** | | | |
| | Current Assets | | | |
| | (*a*) Cash & Cash equivalents | | 1,00,700 | |
| | **Total** | | **1,00,700** | |

**Working Notes:-**

| | ₹ |
|---|---|
| **Note 1. (Share Capital)** | |
| Authorised capital | - |
| (_____ shares of ₹ 10 each) | 1,00,000 |
| Issued capital | |
| (10,000 of ₹ 10 each) | |
| Subscribed capital | 99,000 |
| *(9,900 shares of ₹ 10 each) | |



| | ₹ |
|---|---|
| *Less* : calls in arrears | (200) |
| *Add* : share forfeiture A/c (100 shares × 7) | 700 |
| | **99,500** |
| **Note 2. (Reserve & surplus)** | |
| Capital Reserve | **1,200** |
| *No of shares issued | 10,000 |
| *Less* : shares forfeited | 400 |
| | 9,600 |
| Add: shares reissued | 300 |
| | 9,900 |

**Q.3 A company issued 5,000 shares of ₹ 10 each @ a premium of ₹ 1 per share. Amount was payable as follows:—**

**Application — 5**

**Allotment — 3 + 1**

**Call — 2**

**Mr. A was unable to pay allotment and call money on 400 shares, whereas as Mr. B holder of 300 shares failed to pay call money. Company forfeited these shares after making call and subsequently company reissued 500 of these shares @ ₹ 8 per share, including all shares of Mr. A. Give journal entries in the books of Company.**

**Solution :**

**Journal Entries**

**In the books of the Company**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (5,000 × 5) | Dr. | | 25,000 | |
| | To Equity share application A/c | | | | 25,000 |
| | (Being application money received) | | | | |
| 2. | Equity share application A/c (5,000 × 5) | Dr. | | 25,000 | |
| | To Equity share capital A/c | | | | 25,000 |
| | (Being application money transferred to capital A/c) | | | | |
| 3. | Equity share allotment A/c (5,000 × 4) | Dr. | | 20,000 | |
| | To Equity share capital A/c (5,000 × 3) | | | | 15,000 |
| | To Securities Premium Reserve A/c (5,000 × 1) | | | | 5,000 |
| | (Being allotment money due) | | | | |
| 4. | Bank A/c (4600 × 4) | Dr. | | 18,400 | |
| | To Equity share allotment A/c | | | | 18,400 |
| | (Being allotment money received) | | | | |
| 5. | Equity share call A/c (5,000 × 2) | Dr. | | 10,000 | |
| | To Equity share capital A/c | | | | 10,000 |
| | (Being call money due) | | | | |

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 6. | Bank A/c (4300 × 2)<br>To Equity share call A/c<br>(Being call money received) | Dr. | | 8,600 | <br>8,600 |
| 7.(i) | **Forfeiture of shares when premium amount had already been received :**<br>Equity share capital A/c (300 × 10)<br>To Equity share forfeiture A/c (300 × 8)<br>To Equity share call A/c (300 × 2)<br>(Being 300 shares forfeited on non-payment of call money) | <br><br>Dr. | | <br><br>3,000 | <br><br><br>2,400<br>600 |
| (ii) | **Forfeiture of shares when premium amount had not been received :**<br>Equity share capital A/c (400 × 10)<br>Securities Premium Reserve A/c (400 × 1)<br>To Equity share forfeiture A/c (400 × 5)<br>To Equity share allotment A/c (400 × 4)<br>To Equity share call A/c (400 × 2)<br>(Being 300 shares forfeited on non-payment of allotment (including premium) & call money) | <br><br>Dr.<br>Dr. | | <br><br>4,000<br>400 | <br><br><br><br>2,000<br>1,600<br>800 |
| 8. | Bank A/c (500 × 8)<br>Equity share forfeiture A/c (500 × 2)<br>To Equity share capital A/c (500 × 10)<br>(Being 500 shares reissued @ ₹ 8 per share) | Dr.<br>Dr. | | 4,000<br>1,000 | <br><br>5,000 |
| 9. | Equity share forfeiture A/c (1)<br>To Capital Reserve A/c<br>(Being balance transferred to Capital Reserve A/c) | Dr. | | 1,800 | <br>1,800 |

**Working Note :-**

| No. of shares :- | | | Forfeited Amount |
|---|---|---|---|
| A | 400 × 5 | = | 2,000 |
| B | 100 × 8 | = | 800 |
| | | | 2,800 |
| Less : Loss on reissue (500 × 2) | | | (1,000) |
| Transferred to Capital Reserve | | | 1,800 |

**Q.4 A Company issued 10,000 shares in the following manner:—**

| | | | |
|---|---|---|---|
| **1st Jan.** | **On application** | - | **₹ 4** |
| **1st Apr.** | **On allotment** | - | **₹ 3** |
| **1st June** | **On 1st call** | - | **₹ 2** |
| **1st July** | **On 2nd call & final call** | - | **₹ 1** |

**Mr. R holder of 300 shares paid his 1st and 2nd call money on his shares at the time of allotment. Whereas, Mr. S holder of 200 shares failed to pay 1st & 2nd call money upto 31st July *i.e.* date of closing records. Company decided to allow and charge interest on calls in advance & interest on calls in arrears as per rates specified in Table F of Companies Act, 2013. You are required to give necessary journal entries in the books of the company.**



**Solution :**

### In the books of Company
### Journal Entries

| Date | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1st Jan. | Bank A/c (10,000 × 4)<br>To Equity share application A/c<br>(Being application amount received) | Dr. | | 40,000 | <br>40,000 |
| | Equity share application A/c (10,000 × 4)<br>To Equity share capital A/c<br>(Being application amount transferred to capital A/c) | Dr. | | 40,000 | <br>40,000 |
| 1st Apr. | Equity share allotment A/c (10,000 × 3)<br>To Equity share capital A/c<br>(Being allotment amount due) | Dr. | | 30,000 | <br>30,000 |
| | Bank A/c (10,000 × 3) + (300 × 3)<br>To Equity share allotment A/c (30000 + 900)<br>(Being allotment amount received) | Dr. | | 30,900 | <br>30,900 |
| | **OR** | | | | |
| 1st Apr. | Bank A/c (10,000 × 3 + 300 × 2 + 300 × 1)<br>To Equity share allotment A/c (10,000 × 2)<br>To Calls in advance A/c (300 × 3)<br>(Being allotment amount received along with calls amount paid in advance) | Dr. | | 30,900 | <br>30,000<br>900 |
| 1st June | Equity share first call A/c (10,000 × 2)<br>To Equity share capital A/c<br>(Being 1st call money due) | Dr. | | 20,000 | <br>20,000 |
| | Bank A/c (9,500 × 2)<br>Calls in arrear A/c (200 × 2)<br>Calls in advance A/c (300 × 3)<br>To Equity share 1st call A/c (10000 × 2)<br>(Being 1st call money received) | Dr.<br>Dr.<br>Dr. | | 19,000<br>400<br>600 | <br><br><br>20,000 |
| 1st July | Equity share second & final call A/c (10,000 × 1)<br>To Equity share capital A/c (10,000 × 1)<br>(Being final call amount due) | Dr. | | 10,000 | <br>10,000 |
| | Bank A/c (9,500 × 1)<br>Calls in arrear A/c (200 × 1)<br>Calls in advance A/c (300 × 1)<br>To Equity share second & final call A/c (10,000 × 1)<br>(Being final call amount received) | Dr.<br>Dr.<br>Dr. | | 9,500<br>200<br>300 | <br><br><br>10,000 |
| 31st July | Interest on calls in advance A/c (1)<br>To Equity shareholder (Mr. R)<br>(Being interest on calls in advance due on 300 shares) | Dr. | | 21 | <br>21 |
| | Equity shareholder A/c (Mr. R)<br>To Bank A/c<br>(Being interest on calls in advance received by Mr. R) | Dr. | | 21 | <br>21 |

| Date | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| | Statement of Profit and loss A/c | Dr. | | 21 | |
| | To Interest on calls in advance A/c | | | | 21 |
| | (Being amount of interest transferred to Profit and loss A/c) | | | | |
| | Equity shareholder A/c (Mr. S) | Dr. | | 8.34 | |
| | To Interest on calls in arrear A/c | | | | 8.34 |
| | (Being amount of interest on calls in arrears due) | | | | |
| | Bank A/c | Dr. | | 8.34 | |
| | To Equity shareholder A/c (Mr. S) | | | | 8.34 |
| | (Being amount of calls arrear interest received on 200 share) | | | | |
| | Interest on calls in arrears A/c | Dr. | | 8.34 | |
| | To Statement of Profit & Loss A/c | | | | 8.34 |
| | (Being amount of interest written off) | | | | |

**Working Notes :-**

1. **Calculation of Interest on calls in advance of Mr. R.**

For Ist call :

$$\frac{(300\text{ shares} \times 2) \times 2 \times 12}{100 \times 12} = ₹\ 12.00$$

For 2nd & final call :

$$\frac{(300\text{ shares} \times 1) \times 3 \times 12}{100 \times 12} = ₹\ 9.00$$

**Total = ₹ 21.00**

2. **Calculation of Interest on calls in arrear of Mr. S.**

For 1st call :

$$\frac{(200\text{ shares} \times 2) \times 2 \times 10}{100 \times 12} = ₹\ 6.67$$

For 2nd & final call :

$$\frac{(200\text{ shares} \times 2) \times 1 \times 10}{100 \times 12} = ₹\ 1.67$$

**Total = ₹ 8.34**

**Q.5 A company purchased some plant of ₹ 2,00,000 from Mr. R. Company decided to issue its shares of ₹ 10 each against purchase considerations. Show the necessary journal entries in the books of companies.**

**(1) If shares were issued @ ₹ 10 per share.**

**(2) If shares were issued @ ₹ 12.50 per share.**



**Solution :**

**Journal Entries**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Plant A/c | Dr. | | 2,00,000 | |
| | To Vendors A/c (Mr. R) | | | | 2,00,000 |
| | (Being plant purchased by the company from Mr. R) | | | | |
| **Case (1):-** | | | | | |
| 2. | Vendor's A/c (Mr. R) | Dr. | | 2,00,000 | |
| | To Equity share capital A/c | | | | 2,00,000 |
| | (Being shares issued by the company @ ₹ 10 per share) | | | | |
| | NOTE : No. of shares to be issued = Amount payable/ issued price of shares = 2,00,000/10 = 20,000 shares. | | | | |
| **Case (2):-** | | | | | |
| 3. | Vendor's A/c (Mr. R) | Dr. | | 2,00,000 | |
| | To Equity share capital A/c | | | | 1,60,000 |
| | To Securities Premium Reserve A/c | | | | 40,000 |
| | (Being shares issued by the company @ ₹ 12.50 per share) | | | | |
| | No. of shares to be issued = $\frac{2,00,000}{12.5}$ = 16,000 shares. | | | | |

**Q.6 A Company issued its shares of ₹ 10 each in the following manner :—**

**On application :- 3 + 1**

**On allotment :- 2 + 2**

**On 1st call :- 4 + 1**

**On 2nd call & final call :- 1 + 2**

**Mr. R holder of 300 shares failed to pay 1st call & 2nd call money. Company forfeited his shares. Give entry for forfeiture.**

**Solution :**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Equity share capital A/c (300 × 10) | Dr. | | 3,000 | |
| | Securities Premium Reserve A/c (300 × 3) | Dr. | | 900 | |
| | To Equity share forfeiture A/c (300 × 5) | | | | 1,500 |
| | To Equity share Ist call A/c (300 × 5) | | | | 1,500 |
| | To Equity share IInd call (300 × 3) | | | | 900 |
| | (Being 300 equity shares forfeited, on non-payment of Ist and IInd call money) | | | | |

**Q.7 A Company issued 30,000 shares of ₹ 10 each in the following manner:—**

**Application - ₹ 4**
**Allotment - ₹ 3**
**1st call - ₹ 2**
**2nd & final call - ₹ 1**

**Company received the application of 50,000 shares. Company made allotment of shares in the following manner:-**

| Category | Share Applied for | Shares Allotted |
|---|---|---|
| I | 2,000 | Nil |
| II | 8,000 | 8,000 |
| III | 20,000 | 15,000 |
| IV | 20,000 | 7,000 |
| | 50,000 | 30,000 |

**Excess of money on application was to be adjusted upto last call. Give necessary journal entries in the books of Company (if all calls duly received).**

**Solution :**

**Analytical table**

(Adjustment)

| Category | Shares applied | Shares allotted | Money received @ ₹ 4 | App. @ ₹ 4 | All. @ ₹ 3 | Ist call @ ₹ 2 | IInd call @ ₹ 1 | Refund |
|---|---|---|---|---|---|---|---|---|
| I | 2,000 | Nil | 8,000 | — | — | — | — | 8,000 |
| II | 8,000 | 8,000 | 32,000 | 32,000 | — | — | — | — |
| III | 20,000 | 15,000 | 80,000 | 60,000 | 20,000 | — | — | — |
| IV | 20,000 | 7,000 | 80,000 | 28,000 | 21,000 | 14,000 | 7,000 | 10,000 |
| Total | **50,000** | **30,000** | **2,00,000** | **1,20,000** | **41,000** | **14,000** | **7,000** | **18,000** |

**Journal Entries**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c | Dr. | | 2,00,000 | |
| | To Equity share application A/c | | | | 2,00,000 |
| | (Being application money received) | | | | |
| 2. | Equity share application A/c | Dr. | | 2,00,000 | |
| | To Equity share capital A/c | | | | 1,20,000 |
| | To Equity share allotment A/c | | | | 41,000 |
| | To Equity share Ist call A/c* | | | | 14,000 |
| | To Equity share IInd call A/c* | | | | 7,000 |
| | To Bank A/c | | | | 18,000 |
| | (Being excess application money received adjusted) | | | | |



| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 3. | Equity share allotment A/c (30,000 × 3) | Dr. | | 90,000 | |
| | To Equity share capital A/c | | | | 90,000 |
| | (Being allotment money due) | | | | |
| 4. | Bank A/c | Dr. | | 49,000 | |
| | To Equity share allotment A/c | | | | 49,000 |
| | (Being allotment money received) | | | | |
| 5. | Equity share 1st call A/c (30,000 × 2) | Dr. | | 60,000 | |
| | To Equity share capital A/c | | | | 60,000 |
| | (Being 1st call money due) | | | | |
| 6. | Bank A/c | Dr. | | 46,000 | |
| | To Equity share 1st call A/c | | | | 46,000 |
| | (Being 1st call money received) | | | | |
| 7. | Equity share IInd call A/c (30,000 × 1) | Dr. | | 30,000 | |
| | To Equity share capital A/c | | | | 30,000 |
| | (Being 2nd call money due) | | | | |
| 8. | Bank A/c | Dr. | | 23,000 | |
| | To Equity share IInd call A/c | | | | 23,000 |
| | (Being 2nd call money received) | | | | |

*In place of Equity share Ist and IInd call, Calls in advance A/c may be credited with ₹ 21, 000.

**Q.8 A Company issued 10,000 shares of ₹ 10 each, in the following manner:—**

**Application ₹ 3**
**Allotment ₹ 4**
**1st call ₹ 2**
**2nd call ₹ 1**

**Company received the application for 13,000 shares Company rejected & refunded the amount of applications of 1,000 shares & made the *pro rata* allotment on remaining applications. Mr. R holder of 500 shares failed to pay any amount after application money. Company forfeited his shares after making last call and subsequently reissued 400 of these shares @ ₹ 7 per share. Give necessary journal entries in the books of the company.**

**Solution :**

**In the books of company**

**Journal Entries**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (13000 × 3) | Dr. | | 39,000 | |
| | To Equity share application A/c | | | | 39,000 |
| | (Being application money received) | | | | |

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 2. | Equity share application A/c (13000 × 3)<br>To Equity share capital A/c (10000 × 3)<br>To Equity share allotment A/c<br>To Bank A/c (1000 × 3)<br>(Being excess money on application adjusted) | Dr. | | 39,000 | <br>30,000<br>6,000<br>3,000 |
| 3. | Equity share allotment A/c (10,000 × 4)<br>To Equity share capital A/c<br>(Being allotment money due) | Dr. | | 40,000 | <br>40,000 |
| 4. | Bank A/c (1)<br>To Equity share allotment A/c<br>(Being allotment money received) | Dr. | | 32,300 | <br>32,300 |
| 5. | Equity share 1st call A/c (10,000 × 2)<br>To Equity share capital A/c<br>(Being 1st call money due) | Dr. | | 20,000 | <br>20,000 |
| 6. | Bank A/c (9,500 × 2)<br>To Equity share 1st call A/c<br>(Being 1st call money received) | Dr. | | 19,000 | <br>19,000 |
| 7. | Equity share second call A/c (10,000 × 1)<br>To Equity share capital A/c<br>(Being IInd call money due) | Dr. | | 10,000 | <br>10,000 |
| 8. | Bank A/c (9,500 × 1)<br>To Equity share IInd call A/c<br>(Being money received on IInd call) | Dr. | | 9,500 | <br>9,500 |
| 9. | Equity share capital A/c (500 × 10)<br>To Equity share forfeiture A/c<br>To Equity share allotment A/c<br>To Equity share Ist call (500 × 2)<br>To Equity share IInd call (500 × 1)<br>(Being 500 shares forfeited) | Dr. | | 5,000 | <br>1,800<br>1,700<br>1,000<br>500 |
| 10. | Bank A/c (400 × 7)<br>Equity share forfeiture A/c (400 × 3)<br>To Equity share capital A/c (400 × 10)<br>(Being 400 shares reissued @ ₹ 7) | Dr.<br>Dr. | | 2,800<br>1,200 | <br><br>4,000 |
| 11. | Equity share forfeiture A/c (2)<br>To Capital Reserve A/c<br>(Being balance transferred to Capital Reserve) | Dr. | | 240 | <br>240 |



**Working Note :—**

(1) 10,000 shares Allotted – 12,000 shares Applied

Mr. R 500 shares [Allotted] – $\frac{12000}{10000} \times 500 = 600$ shares [Applied]

Application money to be paid $= 500 \times 3 =$ ₹ 1500

Application money actually paid $= 600 \times 3 =$ ₹ 1800

Excess = 300 (included in allotment money)

∴ **Amount received at the time of allotment :**

| | |
|---|---|
| Amount to be received (10000 × 4) | 40,000 |
| Less : Received earlier | (6,000) |
| | 34,000 |
| Less : Default of Mr. R. [(500 × 4) - 300] | (1,700) |
| | **32,300** |

(2)

| **No. of Shares** | **Forfeited Amount** | |
|---|---|---|
| 500 shares | $\frac{1800}{500} \times 400 =$ | |
| 400 shares | | 1,440 |
| Less: Loss on reissue | | (1,200) |
| **Transferred to Capital Reserve** | | **240** |

**Q.9 A Company issued 10,000 shares of ₹ 10 each at a premium of ₹ 3 per share in the following manner:**

**Application ₹ 4**

**Allotment ₹ 5 + 3**

**On call ₹ 1**

**Company received application for 13,000 shares. Company rejected & refunded the amount of application of 1,000 shares and made *pro rata* on remaining applications. Mr. R holder of 500 shares failed to pay any amount after application money. Company forfeited his shares after making call and subsequently re-issued 350 shares out of them @ ₹ 8 per share. Give necessary journal entries in the books of the Company.**

**Solution :**

**Journal Entries**

**In the books of the Company**

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c (13000 × 4)<br>To Equity share application A/c<br>(Being application money received) | Dr. | | 52,000 | 52,000 |

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 2. | Equity share application A/c (13000 × 4) | Dr. | | 52,000 | |
| | To Equity share capital A/c (10000 × 4) | | | | 40,000 |
| | To Equity share allotment A/c | | | | 8,000 |
| | To Bank A/c (1000 × 4) | | | | 4,000 |
| | (Being *pro rata* allotment made on excess application received) | | | | |
| 3. | Equity share allotment A/c (10,000 × 8) | Dr. | | 80,000 | |
| | To Equity share capital A/c (10,000 × 5) | | | | 50,000 |
| | To Securities Premium reserve A/c (10,000 × 3) | | | | 30,000 |
| | (Being allotment money due) | | | | |
| 4. | Bank A/c (1) | Dr. | | 68,400 | |
| | To Equity share allotment A/c | | | | 68,400 |
| | (Being allotment money received) | | | | |
| 5. | Equity share Ist call A/c (10,000 × 1) | Dr. | | 10,000 | |
| | To Equity share capital A/c | | | | 10,000 |
| | (Being first call amount due) | | | | |
| 6. | Bank A/c (9500 × 1) | Dr. | | 9,500 | |
| | To Equity share 1st call A/c | | | | 9,500 |
| | (Being 1st call money received) | | | | |
| 7. | Equity share capital A/c (500 × 10) | Dr. | | 5,000 | |
| | Securities premium reserve A/c (500 × 3) | | | 1,500 | |
| | To Equity share forfeiture A/c | | | | 2,400 |
| | To Equity share allotment A/c | | | | 3,600 |
| | To Equity share Ist call (500 × 1) | | | | 500 |
| | (Being 500 shares forfeited on non-payment of allotment & call money) | | | | |
| 8. | Bank A/c (350 × 8) | Dr. | | 2,800 | |
| | Equity share forfeiture A/c (350 × 2) | Dr. | | 700 | |
| | To Equity share capital A/c (350 × 10) | | | | 3,500 |
| | (Being 350 shares reissued @ ₹ 8 per share) | | | | |
| 9. | Equity share forfeiture A/c (2) | Dr. | | 980 | |
| | To Capital Reserve A/c | | | | 980 |
| | (Being balance transferred to Capital Reserve) | | | | |

**Working Note:—**

| | Allotted | | Applied |
|---|---|---|---|
| 1. | 10,000 | – | 12,000 |
| | 500 | – | $\frac{12000}{10000} \times 500 = 600$ |

Application money to be paid $= 500 \times 4 = 2000$

Application money actually paid $= 600 \times 4 = 2400$



Excess amount $= 2400 - 2000 = 400$
(included in allotment)

| | ₹ |
|---|---|
| Amount received (10,000 × 8) | 80,000 |
| Less : Amount received earlier | (8,000) |
| Less : Default (500 × 8) | (4,000) |
| ∴ **Allotment money received** | **68,000** |

2.

| No. of shares | Forfeited amount | ₹ |
|---|---|---|
| 500 | $\frac{2400}{500} \times 350 =$ (application and extra money paid) | ₹ 1,680 |
| 350 | | |
| | Less : Loss on reissue | (700) |
| | Transferred to Capital Reserve | **980** |

**Q.10 X Co. Ltd. invited applications for 20,000 of its Equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable ₹ 3 on application, ₹ 7 on allotment including premium and the balance on first and final call.**

**Applications for 25,000 shares were received. It was decided:**

**(a) to refuse allotment to the applicants for 1,000 shares**

**(b) to allot in full to applicants for 4,000 shares**

**(c) to allot the balance of the available shares in *pro rata* among the other applications, and**

**(d) to utilise excess application moneys in part payment.**

**Mr. X holding 200 shares to whom shares had been allotted on *pro rata* basis failed to pay the amount due on allotment and call and Mr. Y holding 100 shares to whom full allotment was made failed to pay the amount due on call only. These shares were forfeited.**

**160 forfeited shares of Mr. X and 40 forfeited shares of Mr. Y were re-issued at a discount of Re.1 per share to Mr. Z. *Show the necessary Journal Entries including cash in the books of X Co. Ltd.***

**Solution:**

**Journal Entries in the Books of X Co. Ltd.**

| Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| Bank A/c | Dr. | 75,000 | |
| To Share application A/c | | | 75,000 |
| (Application money received) | | | |
| Share allotment A/c | Dr. | 1,40,000 | |
| Share application A/c | Dr. | 60,000 | |

| Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| To Share capital A/c | | | 1,60,000 |
| To Share premium A/c | | | 40,000 |
| (Shares allotted, allotment money due & application money on the shares allotted adjusted) | | | |
| Share application A/c | Dr. | 15,000 | |
| To Bank A/c | | | 3,000 |
| To Share allotment A/c | | | 12,000 |
| (Excess application money adjusted/refunded) | | | |
| Bank A/c | Dr. | 1,26,750 | |
| To Share allotment A/c | | | 1,26,750 |
| (Share allotment money received from all except X holding 200 shares) | | | |
| 1st & Final Call A/c | Dr. | 40,000 | |
| To Share capital A/c | | | 40,000 |
| (1st & final call @ ₹ 2/- due) | | | |
| Bank A/c | Dr. | 39,400 | |
| To 1st & Final call A/c | | | 39,400 |
| (1st & final call received from all except from X & Y holding 200 & 100 shares) | | | |
| Share capital A/c (200×10) | Dr. | 2,000 | |
| Share premium A/c (200×2) | Dr. | 400 | |
| To Share allotment A/c | | | 1,250 |
| To 1st call A/c | | | 400 |
| To Share forfeiture A/c | | | 750 |
| (200 shares of X forfeited for non-payment of allotment money & 1st call) | | | |
| Share capital A/c | Dr. | 1,000 | |
| To 1st call A/c | | | 200 |
| To share for forfeiture A/c | | | 800 |
| (100 share of Y forfeited for non-payment of 1st call, premium has been collected hence not reversed) | | | |
| Bank A/c (200 × 9) | Dr. | 1,800 | |
| Share forfeiture A/c (200 × 1) | Dr. | 200 | |
| To Share capital A/c | | | 2,000 |
| (160 forfeited shares originally belonging to X & 40 forfeited shares belonging to Y re-issued at a discount of Re.1/-) | | | |



| Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| Share forfeiture A/c | Dr. | 440 | |
| To Capital reserve A/c | | | 440 |
| (Balance of Share forfeiture A/c on 160 shares of X re-issued (750/200) × 160 = 600 less discount allowed on re-issue ₹160/- transferred to capital reserve) | | | |
| Share forfeiture A/c | Dr. | 280 | |
| To Capital reserve A/c | | | 280 |
| (Balance of Share forfeiture A/c on 40 shares of Y re-issued (800/100) × 40 = 320 - 40 (Discount allowed) = 280) | | | |

**Working Notes:**

| Application | | Allotment | | | | Adjustment of Excess Money | | |
|---|---|---|---|---|---|---|---|---|
| No. | Amount @ ₹ 3 | Nos. | Allotment money @ ₹ 7 | Application money adj. @ ₹ 3 | Excess application money | Against allotment | Calls in advance | Refund |
| 1,000 | 3,000 | - | - | - | 3,000 | - | - | 3,000 |
| 4,000 | 12,000 | 4,000 | 28,000 | 12,000 | - | - | - | - |
| 20,000 | 60,000 | 16,000 | 1,12,000 | 48,000 | 12,000 | 12,000 | - | |
| 25,000 | 75,000 | 20,000 | 1,40,000 | 60,000 | 15,000 | 12,000 | - | 3,000 |

| Allotment money received: | | Amount X failed to pay: | | |
|---|---|---|---|---|
| Share premium @ ₹ 2/- | 40,000 | Gross amount due from X | 200 × 7 | 1,400 |
| Share Capital @ ₹ 5/- | 1,00,000 | (-) excess application money | 12,000 × 200 | 150 |
| Total allotment dues | 1,40,000 | adjusted | 16,000 | |
| (-) Excess Application money adjusted | 12,000 | Net due from X which he failed to pay | | 1,250 |
| Net due | 1,28,000 | | | |
| (-) Not recd. from Mr. X | 1,250 | | | |
| Allotment money received | 1,26,750 | | | |

**Q.11 Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:**

**(i) ₹ 2 per share payable on application, to be received by 1st July, 2017;**

**(ii) Allotment to be made on 10th July, 2017 and a further ₹ 5 per share (including the premium) to be payable;**

**(iii) The final call for the balance to be made, and the money received by 30th April, 2018.**

**Applications were received for 4,20,000 shares and were dealt with as follows:**

**(1) Applicants for 20,000 shares received allotment in full;**

(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited. [May 2018, 10 Marks]

**Solution:**

**Journal of Piyush Limited**

| Date 2017 | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| July 1 | Bank A/c (Note 1 - Column 3) | Dr. | 8,40,000 | |
| | To Equity Share Application A/c | | | 8,40,000 |
| | (Being application money received on 4,20,000 shares @ ₹ 2 per share) | | | |
| July 10 | Equity Share Application A/c | Dr. | 8,40,000 | |
| | To Equity Share Capital A/c | | | 2,60,000 |
| | To Equity Share Allotment A/c (Note 1 - Column 5) | | | 4,00,000 |
| | To Bank A/c (Note 1- Column 6) | | | 1,80,000 |
| | (Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No ...... dated...) | | | |
| | Equity Share Allotment A/c | Dr. | 6,50,000 | |
| | To Equity Share Capital A/c | | | 3,90,000 |
| | To Securities Premium A/c | | | 2,60,000 |
| | (Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....) | | | |
| | Bank A/c (Note 1 - Column 8) | Dr. | 2,50,000 | |
| | To Equity Share Allotment A/c | | | 2,50,000 |
| | (Being balance allotment money received) | | | |
| | Equity Share Final Call A/c | Dr. | 6,50,000 | |
| | To Equity Share Capital A/c | | | 6,50,000 |
| | (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No .... dated....) | | | |
| April 30 | Bank A/c | Dr. | 6,50,000 | |
| | To Equity Share Final Call A/c | | | 6,50,000 |
| | (Being final call money on 1,30,000 shares @ ₹ 5 each received) | | | |



*Working Note:*

**Calculation for Adjustment and Refund**

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount Received on Application (1 × ₹ 2) | Amount Required on Application (2 × ₹ 2) | Amount adjusted on Allotment | Refund [3-4-5] | Amount due on Allotment | Amount received on Allotment |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| (i) | 20,000 | 20,000 | 40,000 | 40,000 | Nil | Nil | 1,00,000 | 1,00,000 |
| (ii) | 1,00,000 | 50,000 | 2,00,000 | 1,00,000 | 1,00,000 | Nil | 2,50,000 | 1,50,000 |
| (iii) | 3,00,000 | 60,000 | 6,00,000 | 1,20,000 | 3,00,000 | 1,80,000 | 3,00,000 | Nil |
| **TOTAL** | **4,20,000** | **1,30,000** | **8,40,000** | **2,60,000** | **4,00,000** | **1,80,000** | **6,50,000** | **2,50,000** |

**Q.12 Give necessary journal entries for the forfeiture and re-issue of shares :**

(i) **X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.**

(ii) **X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.**

(iii) **X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 per share.** [Nov. 2018, 10 Marks]

**Solution:**

(i) **Journal**

| S. No. | Particulars | | L.F. | Amount (₹) | Amount (₹) |
|---|---|---|---|---|---|
| (i) | Equity share capital A/c (300 × 10) | Dr. | | 3,000 | |
| | To Equity Share Allotment A/c (300 × 3) | | | | 900 |
| | To Equity Share First & Final Call A/c (300 × 4) | | | | 1,200 |
| | To Share Forfeiture A/c (300 × 3) | | | | 900 |
| | (Being shares forfeited of X due to non-payment of allotment and final call) | | | | |
| (ii) | Bank A/c (300 × 8) | Dr. | | 2,400 | |
| | Share Forfeiture A/c (300 × 2) | Dr. | | 600 | |
| | To Equity Share Capital A/c (300 × 10) | | | | 3,000 |
| | (Being shares reissued at discount of ₹ 2) | | | | |
| (iii) | Share Forfeiture A/c | Dr. | | 300 | |
| | To Capital Reserve A/c | | | | 300 |
| | (Being profit on reissue transferred to Capital Reserve) | | | | |

(ii)

### Journal

| S. No. | Particulars | | L.F. | Amount (₹) | Amount (₹) |
|---|---|---|---|---|---|
| (i) | Equity share capital A/c (200 × 7) | Dr. | | 1,400 | |
| | To Call in Arrears A/c (200 × 2) | | | | 400 |
| | To Share Forfeiture A/c (200 × 5) | | | | 1,000 |
| | (Being shares forfeited of X due to non-payment of final call) | | | | |
| (ii) | Bank A/c (150 × 6) | Dr. | | 900 | |
| | Share Forfeiture A/c (150 × 4) | Dr. | | 600 | |
| | To Equity Share Capital A/c (150 × 10) | | | | 1,500 |
| | (Being shares reissued at discount of ₹ 4) | | | | |
| (iii) | Share Forfeiture A/c (150 × 1) | Dr. | | 150 | |
| | To Capital Reserve A/c | | | | 150 |
| | (Being profit on reissue transferred to Capital Reserve) | | | | |

(iii)

### Journal

| S. No. | Particulars | | L.F. | Amount (₹) | Amount (₹) |
|---|---|---|---|---|---|
| (i) | Equity share Capital A/c (100 × 6) | Dr. | | 600 | |
| | To Discount on Issue of Equity Shares (100 × 1) | | | | 100 |
| | To Calls in Arrears A/c (100 × 3) | | | | 300 |
| | To Share Forfeiture A/c (100 × 2) | | | | 200 |
| | (Being shares forfeited of X due to non-payment of allotment and final call) | | | | |
| (ii) | Bank A/c (80 × 8) | Dr. | | 640 | |
| | Discount on Issue of Equity Shares (80 × 1) | Dr. | | 80 | |
| | To Equity Share Capital A/c (80 × 6) | | | | 480 |
| | To Securities premium A/c (80 × 3) | | | | 240 |
| | (Being share reissued at ₹ 8 and original discount cancelled) | | | | |
| (iii) | Share Forfeiture A/c (80 × 2) | Dr. | | 160 | |
| | To Capital Reserve A/c | | | | 160 |
| | (Being profit on reissue transferred to Capital Reserve) | | | | |

**Note:-** Although this question 6(a)(iii), containing issue of shares at discount, has been asked in the examination but as per Companies Act, 2013, a company cannot issue shares at discount to general public.

**Q.13 Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each.**



**The amounts were payable as follows :**

**On application - ₹ 3 per share**
**On allotment - ₹ 5 per share**
**On first and final call - ₹ 2 per share.**

**Applications were received for 3,00,000 shares and *pro rata* allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share. Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd. [May 2019, 10 Marks]**

**Solution :**

### In the books of Bhagwati Limited
### Journal Entries

| S. No. | Particulars | | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| 1. | Bank A/c (3,00,000×3) | Dr. | 9,00,000 | |
| | To Equity Share Application A/c | | | 9,00,000 |
| | (Being application money received on 3,00,000 equity shares @ ₹ 3 per share) | | | |
| 2. | Equity Share Application A/c | Dr. | 9,00,000 | |
| | To Equity Share Capital A/c (2,00,000 × 3) | | | 6,00,000 |
| | To Equity Share Allotment A/c (2,00,000 × 1.5) | | | 3,00,000 |
| | (Being transfer of equity share application money to equity share capital A/c and excess money adjusted towards amount due on allotment) | | | |
| 3. | Equity Share Allotment A/c (2,00,000 × 5) | Dr. | 10,00,000 | |
| | To Equity Share Capital A/c | | | 10,00,000 |
| | (Being allotment money due on 2,00,000 equity shares @ ₹ 5 per share) | | | |
| 4. | Bank A/c (2,00,000 × 3.5) | Dr. | 7,00,000 | |
| | To Equity Share Capital A/c | | | 7,00,000 |
| | (Being remaining allotment money received on 2,00,000 equity share) | | | |
| 5. | Equity Share First & Final Call A/c (200000 × 2) | Dr. | 4,00,000 | |
| | To Equity Share Capital A/c | | | 4,00,000 |
| | (Being equity share first & final call due on 2,00,000 equity shares @ ₹ 2 per share) | | | |
| 6. | Bank A/c (197000 × 2) | Dr. | 3,94,000 | |
| | To Equity Share First & Final Call A/c | | | 3,94,000 |
| | (Being equity share first & final call money received on 1,97,000 shares @ ₹ 2 per share) | | | |
| 7. | Equity Share Capital A/c (3000 × 10) | Dr. | 30,000 | |
| | To Equity Share Forfeiture A/c (3000 × 8) | | | 24,000 |
| | To Equity Share First & Final Call A/c (3000 × 2) | | | 6,000 |
| | (Being 3,000 equity shares forfeited on account of non-payment of first & final call money) | | | |

| S. No. | Particulars | | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| 8. | Bank A/c (2500 × 6) | Dr. | 15,000 | |
| | Equity Share Forfeiture A/c (2500 × 4) | Dr. | 10,000 | |
| | To Equity Share Capital A/c (2500 × 10) | | | 25,000 |
| | (Being reissue of 2,500 forfeited shares as fully paid up @ ₹ 6 per share) | | | |
| 9. | Equity Share forfeiture A/c (2500 × 4) | Dr. | 10,000 | |
| | To Capital Reserve A/c | | | 10,000 |
| | (Being profit on reissue of forfeited shares transferred to Capital Reserve) | | | |

**Q.14 B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently reissued to Z as fully paid-up at a discount of ₹ 2 per share.**

**Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company. [Nov. 2019, 15 Marks]**

**Solution :**

**In the books of B Limited**

**Journal Entries**

| Date | Particulars | | L. F. | Amount | Amount |
|---|---|---|---|---|---|
| | Bank A/c (50000 × 3) | Dr. | | 150000 | |
| | To Share application A/c | | | | 150000 |
| | (Being application money on 50000 equity shares of ₹ 10 each @ ₹ 3 per share received) | | | | |
| | Share application A/c | Dr. | | 150000 | |
| | To Share Capital A/c | | | | 150000 |
| | (Being application money transferred to Share Capital A/c) | | | | |
| | Share allotment A/c (50000 × 5) | Dr. | | 250000 | |
| | To Share Capital A/c (50000 × 3) | | | | 150000 |
| | To Securities premium reserve A/c (50000 × 2) | | | | 100000 |
| | (Being allotment money on 50000 equity shares of ₹ 10 each @ ₹ 5 per share transferred to Share Capital A/c and Securities premium reserve A/c) | | | | |
| | Bank A/c (49000 × 5) | Dr. | | 245000 | |
| | To Share allotment A/c | | | | 245000 |
| | (Being allotment money received except from Mr. X, holder of 1000 shares) | | | | |



| Date | Particulars | | L. F. | Amount | Amount |
|---|---|---|---|---|---|
| | Share Call A/c (50000 × 4) | Dr. | | 200000 | |
| | To Share Capital A/c | | | | 200000 |
| | (Being call money on 50000 equity shares of ₹ 10 each @ ₹ 4 per share transferred to Share Capital A/c) | | | | |
| | Bank A/c (47000 × 4) | Dr. | | 188000 | |
| | To Share Call A/c | | | | 188000 |
| | (Being call money received except from Mr. X holder of 1000 shares and Mr. Y holder of 2000 shares) | | | | |
| | Share Capital A/c (1000 × 10) | Dr. | | 10000 | |
| | Securities premium reserve A/c (1000 × 2) | Dr. | | 2000 | |
| | To Share forfeiture A/c (1000 × 3) | | | | 3000 |
| | To Share allotment A/c (1000 × 5) | | | | 5000 |
| | To Share Call A/c (1000 × 4) | | | | 4000 |
| | (Being shares of Mr. X forfeited for non-payment of allotment money and call money) | | | | |
| | Share Capital A/c (2000 × 10) | Dr. | | 20000 | |
| | To Share forfeiture A/c (2000 × 6) | | | | 12000 |
| | To Share Call A/c (2000 × 4) | | | | 8000 |
| | (Being shares of Mr. Y forfeited for non-payment of call money) | | | | |
| | Bank A/c (2500 × 8) | Dr. | | 20000 | |
| | Share forfeiture A/c (2500 × 2) | Dr. | | 5000 | |
| | To Share Capital A/c (2500 × 10) | | | | 25000 |
| | (Being shares reissued at a discount of ₹ 2 per share) | | | | |
| | Share forfeiture A/c (1) | Dr. | | 7000 | |
| | To Capital reserve A/c | | | | 7000 |
| | (Being amount transferred to Capital Reserve A/c) | | | | |

**Balance sheet of B Limited**

**as at ...............**

| Particulars | Note No. | Amount | Amount |
|---|---|---|---|
| **I. Equity and Liabilities** | | | |
| **(1) Shareholders' funds** | | | |
| (a) Share Capital | 1 | 498000 | |
| (b) Reserves and Surplus | 2 | 105000 | 603000 |
| **Total** | | | **603000** |

| Particulars | Note No. | Amount | Amount |
|---|---|---|---|
| **II. Assets** | | | |
| **(1) Current Assets** | | | |
| (a) Cash and cash equivalents | 3 | | 603000 |
| **Total** | | | **603000** |

**Working note:**

**1. Calculation of Capital reserve**

| | |
|---|---|
| Mr. X: 1000 × 3 = | 3000 |
| Mr. Y: 1500 × 6 = | 9000 |
| | 12000 |
| Loss on reissue | - 5000 |
| | **7000** |

**Notes to Accounts:**

| | ₹ | ₹ |
|---|---|---|
| **1. Share Capital:** | | |
| Authorised Capital | | |
| Equity shares of ₹ 10 each | | ....... |
| Issued Capital | | |
| 50000 Equity shares of ₹ 10 each | | **500000** |
| Subscribed, Called up & Paid-up Capital | | |
| 49500 Equity shares of ₹ 10 each | 495000 | |
| *Add:* Share forfeiture (500 × 6) | 3000 | **498000** |
| **2. Reserves and Surplus:** | | |
| Securities premium reserve | 98000 | |
| Capital Reserve | 7000 | **105000** |
| **3. Cash and cash equivalent** | | **603000** |

**Q.15 ABC Limited issued 20,000 equity shares of ₹ 10 each payable as :**

**-₹ 2 per share on application**

**-₹ 3 per share on allotment**

**-₹ 4 per share on first call**

**-₹ 1 per share on final call**

**All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All those 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently reissued to Mr. John as fully paid-up at a discount of ₹ 2 per share.**

**Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.** **[Nov. 2020, 10 Marks]**



**Solution:**

**In the books of ABC Limited**
**Journal Entries**

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | Bank A/c | Dr. | | 40,000 | |
| | To Equity Share Application A/c | | | | 40,000 |
| | (Being Share application money received on 20,000 shares @ ₹ 2 per share) | | | | |
| | Equity Share Application A/c | Dr. | | 40,000 | |
| | To Equity Share Capital A/c | | | | 40,000 |
| | (Being Share application money transferred to Share Capital) | | | | |
| | Equity Share Allotment A/c | Dr. | | 60,000 | |
| | To Equity Share Capital A/c | | | | 60,000 |
| | (Being Share allotment money made due on 20,000 Shares @ ₹ 3 per share) | | | | |
| | Bank A/c | Dr. | | 60,000 | |
| | To Equity Share Allotment A/c | | | | 60,000 |
| | (Being Share allotment money received) | | | | |
| | Equity Share first call A/c | Dr. | | 80,000 | |
| | To Equity Share Capital A/c | | | | 80,000 |
| | (Being Share first call due on 20,000 shares @ ₹ 4 per share) | | | | |
| | Bank A/c | Dr. | | 78,800 | |
| | To Equity Share first call A/c | | | | 78,800 |
| | (Being Share first call money received on 19,700 shares) | | | | |
| | Equity Share Final Call A/c | Dr. | | 20,000 | |
| | To Equity Share Capital A/c | | | | 20,000 |
| | (Being Share final Call due on 20,000 shares @ ₹ 1 per share) | | | | |
| | Bank A/c | Dr. | | 19,700 | |
| | To Equity Share Final Call A/c | | | | 19,700 |
| | (Being Share final Call received on 19,700 shares) | | | | |

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | (300 × 10) Equity Share Capital A/c | Dr. | | 3,000 | |
| | (300 × 5) To Forfeited Shares A/c | | | | 1,500 |
| | (300 × 4) To Equity Share First Call A/c | | | | 1,200 |
| | (300 × 1) To Equity Share Final Call A/c | | | | 300 |
| | (Being 300 shares of Mr. Bird forfeited on non-payment of first and final call) | | | | |
| | (300 × 8) Bank A/c | Dr. | | 2,400 | |
| | (300 × 2) Forfeited Shares A/c | Dr. | | 600 | |
| | (300 × 10) To Equity Share Capital A/c | | | | 3,000 |
| | (Being forfeited share reissued to Mr. John @ ₹ 8 per share) | | | | |
| | (300 × 3) Forfeited Shares A/c | Dr. | | 900 | |
| | To Capital Reserve A/c | | | | 900 |
| | (Being profit on reissue of 300 shares of ₹ 10 each transferred to Capital Reserve account) | | | | |

**Q.16 A Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid-up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :**

*(i)* **₹ 2 per share payable on application, to be received by 31st May, 2020;**

*(ii)* **Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);**

*(iii)* **The final call for the balance to be made, and the money received by 31st December, 2020.**

**Applications were received for 5,60,000 shares and dealt with as follows:**

**(1) Applicants for 10,000 shares received allotment in full;**

**(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;**

**(3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and**

**(4) The money due on final call was received on the due date.**

**You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.**
**[Jan. 2021, 15 Marks]**



*Solution :*

**In the Books of A Limited**
**Journal Entries**

| Date 2020 | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| 31 May | Bank A/c | Dr. | 11,20,000 | |
| | To Equity Share Application A/c | | | 11,20,000 |
| | (Being application money received on 5,60,000 equity shares @ ₹ 2 per share) | | | |
| 10 June | Equity Share Application A/c | Dr. | 11,20,000 | |
| | To Equity Share Capital A/c | | | 2,70,000 |
| | To Equity Share Allotment A/c | | | 5,50,000 |
| | To Bank A/c | | | 3,00,000 |
| | (Being application money transferred to Equity Share Capital Account, adjusted in share allotment and excess refunded) | | | |
| " " | Equity Share Allotment A/c (1,35,000 × 5) | Dr. | 6,75,000 | |
| | To Equity Share Capital A/c (1,35,000 × 1) | | | 1,35,000 |
| | To Securities Premium A/c (1,35,000 × 4) | | | 5,40,000 |
| | (Being allotment made due on 1,35,000 shares @ ₹ 5 per share including premium of ₹4 per share) | | | |
| | Bank A/c | Dr. | 1,25,000 | |
| | To Equity Share Allotment A/c | | | 1,25,000 |
| | (Being remaining allotment money received) | | | |
| | Equity Share final Call A/c | Dr. | 9,45,000 | |
| | To Equity Share Capital A/c | | | 9,45,000 |
| | (Being final call made due on 1,35,000 shares @ ₹ 7 per share) | | | |
| 31 Dec. | Bank A/c | Dr. | 9,45,000 | |
| | To Equity Share final Call A/c | | | 9,45,000 |
| | (Being final call money received) | | | |

**ANALYTICAL TABLE**

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount received on Application @ ₹ 2 | Amount required on Application @ ₹ 2 | Amount adjusted on Allotment (₹) | Refund (₹) |
|---|---|---|---|---|---|---|
| *(a)* | 10,000 | 10,000 | 20,000 | 20,000 | Nil | Nil |
| *(b)* | 50,000 | 25,000 | 1,00,000 | 50,000 | 50,000 | Nil |
| *(c)* | 5,00,000 | 1,00,000 | 10,00,000 | 2,00,000 | 5,00,000 | 3,00,000 |
| **TOTAL** | **5,60,000** | **1,35,000** | **11,20,000** | **2,70,000** | **5,50,000** | **3,00,000** |

**Q.17 X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows :**

- **₹ 9 per share (including premium) on application and allotment**
- **Balance on the First and Final Call**

**Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on *pro rata* basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.**

**Pass necessary journal entries for the above transactions in the books of X Limited. [July 2021, 15 Marks]**

**Solution :**

**In the Books of X Ltd.**

**Journal Entry**

| Date | Particulars | L.F. | Dr. | Cr. |
|---|---|---|---|---|
| I | (300000 × 9) Bank A/c Dr. | | 27,00,000 | |
| | To Equity Shares Application & Allotment A/c | | | 27,00,000 |
| | (Being application money received on 300000 shares @ ₹ 9 each) | | | |
| II | Equity Shares Application & Allotment A/c Dr. | | 27,00,000 | |
| | (75000 × 4) To Equity Shares Capital A/c | | | 3,00,000 |
| | (75000 × 5) To Securities Premium A/c | | | 3,75,000 |
| | (200000 × 9) To Bank A/c | | | 18,00,000 |
| | To Calls in advance A/c | | | 2,25,000 |
| | (Being Application money transferred & money refunded) | | | |
| III | Equity Shares First & Final Call A/c Dr. | | 4,50,000 | |
| | (75000 × 6) To Equity Shares Capital A/c | | | 4,50,000 |
| | (Being First & Final Call money made due) | | | |
| IV | Bank A/c Dr. | | 2,21,625 | |
| | Calls in advance A/c Dr. | | 2,25,000 | |
| | Calls in arrear A/c Dr. | | 3,375 | |
| | To Equity Shares First & Final Call | | | 4,50,000 |
| | (Being Final call money received & adjustment of Calls in advance) | | | |



| Date | Particulars | L.F. | Dr. | Cr. |
|---|---|---|---|---|
| V | (1125 × 10) Equity Share Capital A/c Dr. | | 11,250 | |
| | To Share Forfeiture A/c | | | 7,875 |
| | To Calls in Arrear A/c | | | 3,375 |
| | (Being 1125 Equity Shares of Mr. Raj forfeited for the non-payment of final call) | | | |
| VI | (1125 × 6) Bank A/c Dr. | | 6,750 | |
| | (1125 × 4) Share forfeiture A/c Dr. | | 4,500 | |
| | (1125 × 10) To Equity Share Capital A/c | | | 11,250 |
| | (Being forfeited share reissued @ ₹ 4 discount per share) | | | |
| VII | Share forfeiture A/c Dr. | | 3,375 | |
| | To Capital reserve A/c | | | 3,375 |
| | (Being share forfeiture transferred to Capital Reserve) | | | |

**Working Note:—**

**1. Calculation of Shares Allotted to Mr. Raj:**

**Pro-rata basis:**

| | |
|---|---|
| Shares applied | 3,00,000 |
| *Less:* Shares rejected | 2,00,000 |
| Shares left for *Pro rata* basis | 1,00,000 |

Shares applied 100000 ________ Shares Allotted = 75,000

Shares applied by Mr. Raj 1,500 ________ Shares Allotted = $\frac{75,000}{1,00,000} \times 1,500$

= 1,125 Shares

**2. Calculation of amount received on First & Final Call:**

| | ₹ |
|---|---|
| Amount to be received [75,000 × 6] | 4,50,000 |
| *Less:* Amount received earlier in advance | 2,25,000 |
| | 2,25,000 |
| *Less:* **Calls in arrears of Mr. Raj** | |
| 1125 Shares × 6 = 6,750 | |
| - received in adv. 3,375 | 3,375 |
| | 2,21,625 |

**3. Excess received from Mr. Raj**

| | ₹ |
|---|---|
| Amount received on Application from Mr. Raj 1,500 Shares × 9 | 13,500 |
| Amount to be received on Application 1,125 Shares × 9 | 10,125 |
| Excess received from him | 3,375 |

**4. Calculation of Capital Reserve:-**

| | ₹ |
|---|---|
| Amount of forfeiture | 7,875 |
| *Less:* Discount allowed on re-issue | 4,500 |
| Transfer to capital reserve A/c | 3,375 |

**Q.18 Fashion Garments Ltd. invited applications for issuing 10,000 Equity Shares of ₹10 each. The amount was payable as follows:—**

| | | | |
|---|---|---|---|
| *(i)* | **On Application** | - | **₹ 1 per share** |
| *(ii)* | **On Allotment** | - | **₹ 2 per share** |
| *(iii)* | **On First call** | - | **₹ 3 per share** |
| *(iv)* | **On Second and Final Call** | - | **₹ 4 per share** |

**The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.**

**Pass necessary Journal entries in the books of Fashion Garments Ltd.**

**[Dec. 2021, 15 Marks]**

**Solution :** **In the Books of Fashion Garments Ltd.**

**Journal Entries**

| S. No. | Particulars | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|
| 1. | Bank A/c (10000 eq. sh. × ₹ 1) Dr. | | 10,000 | |
| | To Equity Share Application A/c | | | 10,000 |
| | (Being application money received on 10000 eq. shares @ ₹ 1 per share) | | | |
| 2. | Equity Share Application A/c Dr. | | 10,000 | |
| | To Equity Share Capital A/c | | | 10,000 |
| | (Being application money transferred to share capital) | | | |



| S. No. | Particulars | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|
| 3. | Equity Share Allotment A/c Dr. | | 20,000 | |
| | To Equity Share Capital A/c | | | 20,000 |
| | (Being allotment made due on 10000 equity share @ ₹ 2 per share) | | | |
| 4. | Bank A/c (9900 eq. sh. × ₹ 2) Dr. | | 19,800 | |
| | To Equity Share Allotment A/c | | | 19,800 |
| | (Being allotment money received on 9900 equity shares @ ₹ 2 per share) | | | |
| 5. | Equity Share Capital A/c (100 eq. sh × ₹ 3) Dr. | | 300 | |
| | To Equity Share Allotment A/c (100 eq. sh × ₹ 2) | | | 200 |
| | To Equity Share Forfeiture A/c (100 eq. sh × ₹ 1) | | | 100 |
| | (Being shares of Ram forfeited on non-payment of allotment) | | | |
| 6. | Equity Share 1st Call A/c (9900 eq. sh × ₹ 3) Dr. | | 29,700 | |
| | To Equity Share Capital A/c | | | 29,700 |
| | (Being 1st Call money made due on 9900 equity share @ 3 per share) | | | |
| 7. | Bank A/c Dr. | | 29,250 | |
| | To Equity Share 1st Call A/c | | | 29,250 |
| | (Being 1st Call money received on 9750 shares @ ₹ 3 per share) | | | |
| 8. | Equity Share Capital A/c (150 eq. sh × ₹ 6) Dr. | | 900 | |
| | To Equity Share Forfeiture A/c (Eq. sh 150 × ₹ 3) | | | 450 |
| | To Equity Share 1st Call A/c (Eq. sh 150 × ₹ 3) | | | 450 |
| | (Being shares of Shyam forfeited on non- payment of first call) | | | |
| 9. | Eq. Share 2nd & Final Call A/c (9,750 eq. sh. × ₹ 4) Dr. | | 39,000 | |
| | To Equity Share Capital A/c | | | 39,000 |
| | (Being 2nd and final call made due on 9,750 equity share @ ₹ 4 per share) | | | |
| 10. | Bank A/c Dr. | | 38,800 | |
| | To Equity Share 2nd & Final Call A/c | | | 38,800 |
| | (Being 2nd and final call money received on 9700 equity share @ ₹ 4 per share) | | | |

| S. No. | Particulars | | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|---|
| 11. | Equity Share Capital A/c (50 eq. sh. × ₹ 10) | Dr. | | 500 | |
| | To Eq. Share Forfeiture A/c (50 eq. sh. × ₹ 6) | | | | 300 |
| | To Eq. Share 2nd & Final Call A/c (50 eq. sh. × ₹ 4) | | | | 200 |
| | (Being shares of Mohan forfeited on non-payment second & final call) | | | | |
| 12. | Bank A/c (300 eq. sh. ₹ 9) | Dr. | | 2,700 | |
| | Equity Share Forfeiture A/c (300 eq. sh. ₹ 1) | Dr. | | 300 | |
| | To Equity Share Capital A/c | | | | 3,000 |
| | (Being 300 shares reissued @ 9 per share) | | | | |
| 13. | Equity Share Forfeiture A/c | Dr. | | 550 | |
| | To Capital Reserve A/c (1) | | | | 550 |
| | (Being balance of share forfeiture account transferred to capital reserve account) | | | | |

1. Amount forfeited ₹ 850
   (₹ 100 + ₹ 450 + ₹ 300)
   *Less :* Loss on reissue (₹ 300)
   Amount transfer to capital reserve ₹ 550

**Q.19 A Limited issued 20,000 Equity shares of ₹ 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates). [June 2022, 15 Marks]**

**Solution :**

**Journal Entries**

| Date | Particulars | | L.F. | Dr. | Cr. |
|---|---|---|---|---|---|
| | Bank A/c (20000 × 2) | Dr. | | 40,000 | |
| | To Equity Share application A/c | | | | 40,000 |
| | (Being application money received @ ₹ 2 per share on 20,000 equity shares) | | | | |



| Date | Particulars | | L.F | Dr. | Cr. |
|---|---|---|---|---|---|
| | Equity Share application A/c | Dr. | | 40,000 | |
| | To Equity Share Capital A/c | | | | 40,000 |
| | (Being application money transferred to equity share capital A/c) | | | | |
| | Equity Share allotment A/c (20000 × 4) | Dr. | | 80,000 | |
| | To Equity Share Capital A/c (20000 × 3) | | | | 60,000 |
| | To Securities Premium A/c (20000 ×1) | | | | 20,000 |
| | (Being allotment money made due on 20000 equity shares) | | | | |
| | Bank A/c | Dr. | | 80,000 | |
| | To Equity Share allotment A/c | | | | 80,000 |
| | (Being allotment money received) | | | | |
| | Equity Share First Call A/c (20000 × 2) | Dr. | | 40,000 | |
| | To Equity Share Capital A/c | | | | 40,000 |
| | (Being First Call money made due on 20000 equity share) | | | | |
| | Bank A/c | Dr. | | 46,000 | |
| | To Equity Share First Call A/c | | | | 40,000 |
| | To Calls in Advance A/c (2000 × 3) | | | | 6,000 |
| | (Being First Call money received along with calls in advance) | | | | |
| | Equity Share final call A/c (20000 × 3) | Dr. | | 60,000 | |
| | To Equity Share Capital A/c | | | | 60,000 |
| | (Being final call money made due @ 3 per share on 20000 equity shares of ₹ 10 each) | | | | |
| | Bank A/c | Dr. | | 53,100 | |
| | Calls in Advance A/c | Dr. | | 6,000 | |
| | Calls in arrear A/c (300 × 3) | Dr. | | 900 | |
| | To Equity Share Final Call A/c | | | | 60,000 |
| | (Being final call money received on 17700 equity shares) | | | | |
| | Interest on Calls in Advance A/c | Dr. | | 240 W.N.1 | |
| | To Bank A/c | | | | 240 |
| | (Being interest on calls in advance paid) | | | | |

| Date | Particulars | | L.F | Dr. | Cr. |
|---|---|---|---|---|---|
| | Bank A/c | Dr. | | 615 | |
| | To Interest on calls in arrears A/c | | | | 15WN2 |
| | To Calls in arrear A/c (200 × 3) | | | | 600 |
| | (Being interest on calls in arrear received from a shareholder (i) along with his arrear) | | | | |
| | Bank A/c | Dr. | | 310 | |
| | To Calls in arrear A/c (100 × 3) | | | | 300 |
| | To Interest on calls in arrears A/c | | | | 10WN2 |
| | (Being interest on calls in arrear received from a shareholder (ii) along with his arrear ) | | | | |

**Working Note:-**

**1.** Calculation of interest on calls in advance:

$$[2000\times3]\times\frac{12}{100}\times\frac{4}{12}=₹\,240$$

**2.** Calculation of interest on calls in arrear:

**On (i)** $(200\times3)\times\frac{10}{100}\times\frac{3}{12}=₹\,15$

**On (ii)** $(100\times3)\times\frac{10}{100}\times\frac{4}{12}=₹\,10$

**Q.20 PQR Limited issued 2,00,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay the allotment and call money and Mr. K. holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently reissued to Mr. L as fully paid up at a discount of ₹ 1 per share. Pass necessary journal entries in the books of PQR Limited. Also prepare balance sheet and notes to accounts of the company. [Dec. 2022, 15 Marks]**



**Solution :**

**In the Books of PQR Ltd.**
**Journal Entry**

| Date | Particulars | | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|---|
| | Bank A/c (200000 eq. sh × ₹ 3) | Dr. | | 6,00,000 | |
| | To Equity Share Application A/c | | | | 6,00,000 |
| | (Being application money received on 200000 eq. share @ ₹ 3 per share) | | | | |
| | Equity Share Application A/c | Dr. | | 6,00,000 | |
| | To Equity Share Capital A/c | | | | 6,00,000 |
| | (Being application money transferred to share capital A/c) | | | | |
| | Equity Share Allotment A/c | Dr. | | 10,00,000 | |
| | To Equity Share Capital A/c | | | | 6,00,000 |
| | To Securities Premium A/c | | | | 4,00,000 |
| | (Being allotment money made due @ ₹ 3 + ₹ 2 on 200000 eq. share of ₹ 10 each ) | | | | |
| | Bank A/c (195000 eq. sh × ₹ 5) | Dr. | | 9,75,000 | |
| | Calls in arrear (5000 eq. sh × ₹ 5) | | | 25,000 | |
| | To Equity Share Allotment A/c | | | | 10,00,000 |
| | (Being allotment money received on 195000 eq. share @ ₹ 3 + ₹ 2 per share ) | | | | |
| | Equity Share Final Call A/c (200000 eq. sh × ₹ 4) | Dr. | | 8,00,000 | |
| | To Equity Share Capital A/c | | | | 8,00,000 |
| | (Being final call made due @ ₹ 4 Per share on 200000 eq. share) | | | | |
| | Bank A/c (185000 eq. sh × ₹ 4) | Dr. | | 7,40,000 | |
| | Calls in arrear A/c (15000 eq. sh × ₹ 4) | Dr. | | 60,000 | |
| | To Equity Share Final Call A/c | | | | 8,00,000 |
| | (Being Final Call money received on 185000 eq. share) | | | | |
| | Equity Share Capital A/c (5000 eq. sh × ₹ 10) | Dr. | | 50,000 | |
| | Securities Premium A/c (5000 eq. sh × ₹ 2) | Dr. | | 10,000 | |
| | To Share forfeiture A/c (5000 eq. sh × ₹ 3) | | | | 15,000 |
| | To Calls in arrears A/c (5000 eq. sh × ₹ 9) | | | | 45,000 |
| | (Being 5000 eq. share of Mr. J forfeited ) | | | | |
| | Equity Share Capital A/c (10000 eq. sh × ₹ 10) | Dr. | | 1,00,000 | |
| | To Share forfeiture A/c (10000 eq. sh × ₹ 6) | | | | 60,000 |
| | To Calls in arrear A/c (10000 eq. sh × ₹ 4) | | | | 40,000 |
| | (Being 10000 eq. share of Mr. K forfeited) | | | | |

| Date | Particulars | L.F. | Amt. (Dr.) | Amt. (Cr.) |
|---|---|---|---|---|
| | Bank A/c (10000 eq. sh. × ₹ 9) Dr. | | 90,000 | |
| | Equity Share Forfeiture A/c (10000 eq. sh. × ₹ 1) Dr. | | 10,000 | |
| | To Equity Share Capital A/c | | | 1,00,000 |
| | (Being forfeited share reissued @ ₹ 9 per share) | | | |
| | Equity Share Forfeiture A/c Dr. | | 35,000 | |
| | To Capital Reserve A/c (1) | | | 35,000 |
| | (Being balance of share forfeiture account transferred to capital reserve A/c) | | | |

**Working Note:-**

**1. Calculation of Capital Reserve:-**

**Amount forfeited:**

| | | ₹ |
|---|---|---|
| J | 5000 eq. share × ₹ 3 | =15000 |
| K | 5000 eq. share × ₹ 6 | = 30000 |
| | 10000 eq. share | = 45000 |
| | Less: Loss on reissue | (10000) |
| | | ₹ 35000 |

**In the Books of PQR Ltd.**

**Balance Sheet as at.,..........**

| Particulars | Note No. | ₹ |
|---|---|---|
| **I. Equity and Liabilities** | | |
| **Shareholder's fund** | | |
| Share Capital | 1 | 19,80,000 |
| Reserve & Surplus | 2 | 4,25,000 |
| **Total** | | **24,05,000** |
| **II. Assets** | | |
| **Non-Current Assets** | | |
| **Current Assets** | | |
| Cash & cash equivalent | 3 | 24,05,000 |
| **Total** | | **24,05,000** |



**Working Note:**

1. **Share Capital:-**

| | | ₹ |
|---|---|---|
| **Authorised Capital** | | |
| **Issued share Capital** | | |
| 200000 equity share @ ₹ 10 | | 20,00,000 |
| **Subscribed Capital** | | |
| 195000 shares @ ₹ 10 | | 19,50,000 |
| Add: Share forfeiture A/c (₹ 75,000 - ₹ 10,000 - ₹ 35,000) | 30,000 | 19,80,000 |
| | | 19,80,000 |

2. **Reserve & Surplus:-**

| | | ₹ |
|---|---|---|
| Securities Premium [₹ 4,00,000 – ₹10,000] | | 3,90,000 |
| Capital Reserve | | 35,000 |
| | Total | 4,25,000 |

3. **Cash & Cash Equivalent:-**

| | |
|---|---|
| Bank [₹ 6,00,000 + ₹ 9,75,000 + ₹ 7,40,000 + ₹ 90,000] | 24,05,000 |

**Q.21 BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:**

| | |
|---|---|
| On Application | — ₹ 3 per share |
| On Allotment | — ₹ 5 per share (including premium) |
| On First and Final Call | — ₹ 4 per share |

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

| Category | No. of shares Applied | No. of shares Allotted |
|---|---|---|
| I | 1,60,000 | 80,000 |
| II | 1,20,000 | 40,000 |

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

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

**[June 2023, 15 Marks]**

**Solution :**

**In the Books of BP Ltd.**
**Journal Entries**

| Date | Particulars | | L.F. | Amt.(Dr.) | Amt.(Cr.) |
|---|---|---|---|---|---|
| | Bank A/c (360000 eq. sh. × ₹ 3) | Dr. | | 10,80,000 | |
| | To Equity Share Application A/c | | | | 10,80,000 |
| | (Being application money received on 360000 eq. shares @ ₹ 3 per share) | | | | |
| | Equity Share Application A/c | Dr. | | 10,80,000 | |
| | To Equity Share Capital A/c | | | | 3,60,000 |
| | To Equity Share Allotment A/c | | | | 4,40,000 |
| | To Bank A/c | | | | 2,80,000 |
| | (Being application money transferred to share capital A/c, share allotment A/c & money refunded) | | | | |
| | Equity Share Allotment A/c | Dr. | | 6,00,000 | |
| | To Equity Share Capital A/c (120000 eq. sh × ₹ 3) | | | | 3,60,000 |
| | To Securities Premium A/c (120000 eq. sh × ₹ 2) | | | | 2,40,000 |
| | (Being allotment money made due @ ₹ 5 per share on 120000 eq. shares) | | | | |
| | Bank A/c (₹ 600000 – ₹ 440000) | Dr. | | 1,60,000 | |
| | To Equity Share Allotment A/c | | | | 1,60,000 |
| | (Being allotment money received on 120000 eq. share) | | | | |
| | Equity Share Final Call A/c | Dr. | | 4,80,000 | |
| | To Equity Share Capital A/c (120000 eq.sh × ₹ 4) | | | | 4,80,000 |
| | (Being final call money due @ 4 per share on 120000 eq. shares) | | | | |
| | Bank A/c | Dr. | | 4,78,640 | |
| | Calls in arrears A/c (340 eq.sh × ₹ 4) | Dr. | | 1,360 | |
| | To Equity Share Final Call A/c | | | | 4,80,000 |
| | (Being Final Call money received on 1,19,660 eq. shares) | | | | |



| Date | Particulars | | L.F. | Amt.(Dr.) | Amt.(Cr.) |
|---|---|---|---|---|---|
| | Equity Share Capital A/c (340 eq.sh × ₹10) | Dr. | | 3400 | |
| | To Share Forfeiture A/c (340 eq.sh × ₹ 6) | | | | 2040 |
| | To Calls in arrears A/c (340 eq. sh × ₹ 4) | | | | 1,360 |
| | (Being 340 eq. shares forfeited for non-payment of final call) | | | | |
| | Bank A/c (340 eq. sh. × ₹13) | Dr. | | 4,420 | |
| | To Equity Share Capital A/c (340 eq. sh × ₹ 10) | | | | 3400 |
| | To Securities Premium A/c (340 eq. sh × ₹ 3) | | | | 1020 |
| | (Being forfeited shares reissued @ 13 per share) | | | | |
| | Share Forfeiture A/c | Dr. | | 2,040 | |
| | To Capital Reserve A/c | | | | 2,040 |
| | (Being balance in share forfeiture A/c transferred to capital reserve A/c) | | | | |

**Working Note:-**

**ANALYTICAL TABLE**

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount received on Application @ ₹ 3 | Amount required on Application @ ₹ 3 | Amount adjusted on Allotment @ 5 (₹) | Refund (₹) |
|---|---|---|---|---|---|---|
| I | 1,60,000 | 80,000 | 4,80,000 | 2,40,000 | 2,40,000 | -- |
| II | 1,20,000 | 40,000 | 3,60,000 | 1,20,000 | 2,00,000 | 40,000 |
| III | 80,000 | Nil | 2,40,000 | -- | -- | 2,40,000 |
| **TOTAL** | **3,60,000** | **1,20,000** | **10,80,000** | **3,60,000** | **4,40,000** | **2,80,000** |

19
CHAPTER

# DEBENTURES

## SHORT NOTES

### Q.1 Meaning of debentures

**Ans. Meaning of debentures:**

- Debenture means "an instrument in writing issued by a company under its common seal, acknowledging its indebtedness for a certain sum of money and undertaking to repay it on or after a fixed future date."
- According to sec. 2(*12*) of the Companies Act, 1956 (now section 2(30) of Companies Act, 2013) "Debenture include debenture stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not."

**Characteristic features of a debenture:**

- It is issued by the company and is in the form of a certificate of indebtedness.
- It usually specifies the date of redemption. It also provides for the re-payment of principal and interest at specified date or dates.
- It generally creates a charge on the undertaking or undertakings of the company.
- Usually the words *pari passu* appear in the terms and conditions of debentures.
  - This means that all the debentures of a particular class will receive the money proportionately in case the company is unable to discharge the whole obligation.

### Q.2 Discount on debentures

**Ans. Discount on debentures:**

- The discount is a capital loss and it should be written off as early as possible.
- Even whole amount can be written off in the year of issue itself against share premium or any other capital profit.

- Otherwise Debenture Discount can be written off over the lifetime of debentures as follows (applying matching principle):
  (1) If the Debentures are redeemable at the end of a period, then the Discount will be written off equally over that period.

### Q.3 Issue of Debentures as Collateral Security

**Ans. Issue of Debentures as Collateral Security:**

Issue of Debentures as Collateral Security means issue of debentures as an additional security, *i.e.,* in addition to the prime security. It is to be realised only when the prime security fails to pay the amount of the loan. For example, when a company takes a loan of ₹ 10,00,000 from a bank, it may have to issue debentures as collateral security in addition to the principal security.

Debentures issued as a collateral security can be dealt with in the book in two ways:

(i) ***First Method :*** Journal entry is not passed in the books of account at the time of issue of debentures as collateral security. However, it is disclosed by way of information below debentures, which are shown as Long-term Borrowings under Non-Current Liabilities or as Short-term Borrowings under Current Liabilities.

(ii) ***Second Method :*** Debentures issued as collateral security may be recorded in the books of account. The Journal entry passed is :

Debentures Suspense A/c Dr. [This appears on the assets side]
To ....% Debentures A/c [This appears on the liabilities side]

When the loan is paid the above entry is cancelled by means of a reverse entry.

### Q.4 Floating Charge [June 2023, 1 Mark]

**Ans. Floating Charge:**

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

## DIFFERENCES

### Q.1 Premium on issue of debentures and Premium on redemption of debentures

**Ans. Premium on issue of debentures and Premium on redemption of debentures:**

| Premium on Issue of Debentures | Premium on Redemption of Debentures |
|---|---|
| 1. It is a capital profit and used in writing off the capital loss. | It is a capital loss. |
| 2. The balance of premium on issue of Debentures Account, (Securities Premium) is shown on the liabilities side, under the head 'Shareholders' Funds' and sub-head 'Reserves and Surplus'. | It is a liability and appears under the head 'Non-Current Liabilities' and sub-head 'Long-term Borrowing' till the redemption of debentures. |



## TRUE OR FALSE

**Q.1 Debenture Redemption Premium Account and Discount on issue of debentures Account are Nominal Accounts.**

**Ans. False:** Debenture Redemption Premium Account is a Personal Account but Discount on issue of Debentures Account is a Nominal Account.

**Q.2 Now Debentures can be issued at Par/Premium but not at discount.**

**Ans. False:** Debentures can be issued at Par/Premium/discount since there are no restrictions on issue of debentures at discount.

**Q.3 Like Shares a Company can issue debentures with voting rights.**

**Ans. False:** A Company cannot issue debentures with voting rights.

**Q.4 A fixed charge generally covers all the assets of the company including future one.** **[Dec. 2022, 2 Marks]**

**Ans. False:** Fixed charge is created on those assets which are specific (movable or immovable) and is identifiable whereas floating charge is created on the entire class of assets and covers both existing & future assets.

**Q.5 Perpetual debentures are payable at the time of liquidation of the company.** **[June 2023, 2 Marks]**

**Ans. True:** Perpetual debentures are also known as irredeemable debentures. These are not repayable during the life time of the company. They are payable only at the time of liquidation of the company.

## PRACTICAL QUESTIONS

**Q.1 A Company issued 1000, 9% debentures @ ₹ 100 each, in following manner :—**

**Application ₹ 40**
**Allotment ₹ 30-10**
**First call ₹ 20**
**Second and final call ₹ 10**

**Mr. R holder of 20 debentures failed to pay the 1st and 2nd call money. Company decided to charge ₹ 35 as Interest on calls-in-arrear. Give necessary journal entries in the books of the company.**

**Solution:**

## Journal Entries

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Bank A/c | Dr. | | 40,000 | |
| | To 9% debenture application A/c | | | | 40,000 |
| | (Being application money received on 1,000 debentures @ ₹ 40 each) | | | | |
| 2. | 9% debenture application A/c | Dr. | | 40,000 | |
| | To 9% debenture A/c | | | | 40,000 |
| | (Being application money transferred to 9% debenture A/c) | | | | |
| 3. | 9% debenture allotment A/c | Dr. | | 20,000 | |
| | Discount on issue of 9% debenture A/c | Dr. | | 10,000 | |
| | To 9% debenture A/c | | | | 30,000 |
| | (Being allotment due on 1,000 debenture @ ₹ 30 each) | | | | |
| 4. | Bank A/c | Dr. | | 20,000 | |
| | To 9% debenture allotment A/c | | | | 20,000 |
| | (Being amount received on allotment of 9% debenture) | | | | |
| 5. | 9% debenture Ist call A/c | Dr. | | 20,000 | |
| | To 9% debenture A/c | | | | 20,000 |
| | (Being first and final call due on 1,000 debenture @ ₹ 20 each) | | | | |
| 6. | Bank A/c | Dr. | | 19,600 | |
| | To 9% debenture Ist call A/c | | | | 19,600 |
| | (Being amount received on first call) | | | | |
| 7. | 9% debenture IInd and final call A/c | Dr. | | 10,000 | |
| | To 9% debenture A/c | | | | 10,000 |
| | (Being second and final call due on 1000 debentures @ ₹ 10 per debenture) | | | | |
| 8. | Bank A/c | Dr. | | 9,800 | |
| | To 9% debenture second and final call A/c | | | | 9,800 |
| | (Being amount received on second and final call) | | | | |
| 9. | 9% debenture holder A/c | Dr. | | 35 | |
| | To Interest on calls-in-arrears A/c | | | | 35 |
| | (Being interest on calls-in-arrear charged by the company) | | | | |



**Q.2 A Company purchased some plant costing ₹ 4,30,000 at an agreed price of ₹ 4,00,000. Company decided to issue its 8% debentures of ₹ 100 each against purchased consideration. Give necessary accounting entries in the following cases:—**

**(a) If debentures were issued @ ₹ 100 per debenture**

**(b) If debentures were issued @ ₹ 80 per debenture**

**(c) If debentures were issued @ ₹ 125 per debenture**

**Solution :**

## Journal Entries

| S. No. | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 1. | Plant A/c | Dr. | | 4,30,000 | |
| | To Vendor A/c | | | | 4,00,000 |
| | To Capital Reserve A/c | | | | 30,000 |
| | (Being asset/plant purchased at an agreed price of ₹ 4,00,000) | | | | |
| 2.(a) | Vendor A/c | Dr. | | 4,00,000 | |
| | To 8% debenture A/c (4000 × 100) | | | | 4,00,000 |
| | (Being 8% debentures issued to vendors @ ₹ 100 each) | | | | |
| 2.(b) | Vendor A/c (5000 × 80) | Dr. | | 4,00,000 | |
| | Discount on 8% debentures A/c | Dr. | | 1,00,000 | |
| | To 8% debenture A/c | | | | 5,00,000 |
| | (Being 8% debentures issued @ ₹ 80 per debenture to vendors) | | | | |
| 2.(c) | Vendors A/c (3200 × 125) | Dr. | | 4,00,000 | |
| | To 8% debenture A/c | | | | 3,20,000 |
| | To Securities Premium reserve A/c (3200 × 25) | | | | 80,000 |
| | (Being 8% debenture issued to vendor @ ₹ 125 each). | | | | |

**Working Note :—**

♦ No. of debentures to be issued $= \dfrac{\text{Purchase Consideration}}{\text{Issued price of debentures}}$

**1st case :-** $= \dfrac{4,00,000}{100} = 4,000$ debentures

**2nd case :-** $= \dfrac{4,00,000}{80} = 5,000$ debentures

**3rd case :-** $= \dfrac{4,00,000}{125} = 3200$ debentures

**Q.3 A Company took a bank loan of ₹ 5,00,000 from SBI and issued its 6000, 10% debentures of ₹ 100 each as collateral security to loan. Give necessary accounting treatment.**

**Solution :**

◆ **Ist method :—**

When debenture issued as collateral security are not shown as issued debentures in the balance sheet of the company.

| | | | | |
|---|---|---|---|---|
| (i) | Bank A/c Dr.<br>To Bank loan A/c<br>(Being bank loan taken on issue of 6000, 10% debentures of ₹ 100 each as collateral security) | | 5,00,000 | 5,00,000 |
| (ii) | No entry required for issuing debentures. | | | |

**Balance sheet (Extract) as at ..............**

| | Particulars | | ₹ |
|---|---|---|---|
| I | **Equity and liability** | | |
| | Non-current liabilities | | |
| | (a) Long term borrowings | 1 | 5,00,000 |
| | **Total** | | **5,00,000** |
| II | **Assets** | | |
| | Current assets | | |
| | (a) Cash and cash equivalents | | 5,00,000 |
| | **Total** | | **5,00,000** |

**Note :—**

**(1) Long term borrowings :—**

| | | ₹ |
|---|---|---|
| | Bank Loan from SBI<br>(on collateral security of 6,000, 10% debentures of ₹ 100 each) | 5,00,000 |

◆ **IInd method :—**

When debentures issued as collateral security are shown as issued debentures in the books of the company.

| | | | |
|---|---|---|---|
| (i) | Bank A/c Dr.<br>To Bank loan A/c<br>(Being bank loan taken) | 5,00,000 | 5,00,000 |



| | | | |
|---|---|---|---|
| (ii) | 10% debenture suspense A/c Dr.<br>To 10% debenture A/c<br>(Being 6,000, 10% debentures of ₹ 100 each issued as collateral security to loan) | 6,00,000 | 6,00,000 |

**Balance sheet (Extract) as at .......**

| | Particulars | Note No. | ₹ |
|---|---|---|---|
| I | **Equity and liabilities** | | |
| | Non-current liabilities | | |
| | (a) Long term borrowings | 1 | 5,00,000 |
| | **TOTAL** | | **5,00,000** |
| II | **Assets** | | |
| | Current assets | | |
| | (a) Cash and cash equivalents | | 5,00,000 |
| | **TOTAL** | | **5,00,000** |

**Note :-**

**1. Long term borrowings :**

| | ₹ |
|---|---|
| Bank Loan from SBI<br>(on collateral security of 6,000, 10% debentures of ₹ 100 each). | 5,00,000 |

**Q.4 A Company issued 1000, 12% debentures of ₹ 100 each on 1st Jan 2016 at a premium of 10%. Interest was given/payable on 30th June and 31st December, every year subject to 10% TDS. Give necessary journal entries for the year 2016.**

**Solution :**

**Journal Entries**

| Date | Particulars | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|
| 2016<br>1st Jan | Bank A/c (1000 × 110) Dr.<br>To 12% debenture A/c (1000 × 100)<br>To Premium on issue of 12% debenture A/c (1000 × 10)<br>(Being 1000, 12% debenture of ₹ 100 each issued @ a premium of 10%) | | 1,10,000 | 1,00,000<br>10,000 |

| Date | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 30th June | Interest on 12% debenture A/c | Dr. | | 6,000 | |
| | To 12% debenture holder A/c | | | | 5,400 |
| | To TDS payable A/c (6000 × 10%) | | | | 600 |
| | (Being interest due on debentures (half yearly) and tax deducted at source) | | | | |
| | 12% debenture holder A/c | Dr. | | 5,400 | |
| | TDS payable A/c | Dr. | | 600 | |
| | To Bank A/c | | | | 6,000 |
| | (Being interest paid and TDS payable) | | | | |
| 31st Dec. | Interest on 12% debenture A/c | Dr. | | 6,000 | |
| | To 12% debenture holder A/c | | | | 5,400 |
| | To TDS payable A/c (6000 × 10%) | | | | 600 |
| | (Being half yearly interest due on debentures and tax deducted at source.) | | | | |
| | 12% debenture holder A/c | Dr. | | 5,400 | |
| | TDS payable A/c | Dr. | | 600 | |
| | To Bank A/c | | | | 6,000 |
| | (Being interest paid and TDS paid on 12% debentures). | | | | |
| | Statement of Profit & Loss A/c | Dr. | | 12,000 | |
| | To Interest on 12% debenture A/c | | | | 12,000 |
| | (Being interest transferred to statement of Profit and loss A/c) | | | | |

**Q.5 ABC company issued 1000, 9% debentures of ₹ 100 each at a discount of 5% on 1st Jan, 2011. These debentures were to be redeemed after 5 years. Show necessary journal entries at the time of issue of debentures. Also prepare discount on issue of 9% debentures A/c.**

**Solution :**

◆ At the time of issue :—

### Journal Entries

| Date | Particulars | | L.F. | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 2011 1st Jan | Bank A/c | Dr. | | 95,000 | |
| | Discount on issue of 9% debentures A/c | Dr. | | 5,000 | |
| | To 9% debenture A/c | | | | 1,00,000 |
| | (Being 9% debenture issued @ a discount of 5%) | | | | |



### Discount on issue of 9% debenture a/c

| Date | Particulars | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ |
|---|---|---|---|---|---|---|---|
| 2011 1st Jan. | To 9% debentures A/c | | 5,000 | 2011 31st Dec. | By Statement of Profit & loss A/c | | 1,000 |
| | | | | | By balance c/d | | 4,000 |
| | | | 5,000 | | | | 5,000 |
| 2012 1st Jan. | To balance b/d | | 4,000 | 2012 31st Dec. | By Statement of Profit and loss A/c | | 1,000 |
| | | | | | By balance c/d | | 3,000 |
| | | | 4,000 | | | | 4,000 |
| 2013 1st Jan. | To balance b/d | | 3,000 | 2013 31st Dec. | By Statement of Profit & loss A/c | | 1,000 |
| | | | | | By balance c/d | | 2,000 |
| | | | 3,000 | | | | 3,000 |
| 2014 1st Jan. | To balance b/d | | 2,000 | 2014 31st Dec. | By Statement of Profit & loss A/c | | 1,000 |
| | | | | | By balance c/d | | 1,000 |
| | | | 2,000 | | | | 2,000 |
| 2015 1st Jan. | To balance b/d | | 1,000 | 2015 31st Dec. | By Statement of Profit and loss A/c | | 1,000 |
| | | | 1,000 | | | | 1,000 |

### Balance sheet as at 31st December 2011

| | Note No. | ₹ |
|---|---|---|
| **Assets :—** | | |
| Non-current assets other non-current assets | | 3,000 |
| Current assets other current assets | | 1,000 |

**Working Note :—**

(1) $\frac{₹\ 5,000}{5 \text{ years}} = ₹\ 1,000$

**Q.6 Suppose company decided to redeem its debentures in the following manner :—**

- **At the end of the year 2011 ₹ 20,000**
- **At the end of the year 2012 ₹ 30,000**

- At the end of the year 2013 ₹ 10,000
- At the end of the year 2014 ₹ 20,000
- At the end of the year 2015 ₹ 20,000

**Calculate the amount to be written off at the end of every year.**

**Solution :**

| Year | Amount utilized or outstanding debentures* | Ratio | Discount to be written off |
|---|---|---|---|
| 2011 | 1,00,000 | $\frac{10}{29}$ | $5,000 \times \frac{10}{29} = 1724$ |
| 2012 | 80,000 | $\frac{8}{29}$ | $5,000 \times \frac{8}{29} = 1379$ |
| 2013 | 50,000 | $\frac{5}{29}$ | $5,000 \times \frac{5}{29} = 862$ |
| 2014 | 40,000 | $\frac{4}{29}$ | $5,000 \times \frac{4}{29} = 690$ |
| 2015 | 20,000 | $\frac{2}{29}$ | $5,000 \times \frac{2}{29} = 345$ |
| | 2,90,000 | | 5,000 |

*At the beginning of the year or before redemption

**Q.7 Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.**

**Calculate the amount of discount to be written-off in each of the 5 years.**
**[Nov. 2018, 5 Marks]**

**Solution :**

**Total amount of Discount = 1,00,000 × 0.60 = ₹ 60,000**

| At the end of Year | Amount of outstanding debentures | Ratio | Amount of discount to be written off |
|---|---|---|---|
| 1st | 10,00,000 | 1/5 | 60,000 = 12000 |
| 2nd | 10,00,000 | 1/5 | 60,000 = 12000 |
| 3rd | 10,00,000 | 1/5 | 60,000 = 12000 |
| 4th | 10,00,000 | 1/5 | 60,000 = 12000 |
| 5th | 10,00,000 | 1/5 | 60,000 = 12000 |

**Q.8 On 1st January 2018, Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.**

**Pass necessary journal entries for the accounting year 2018.**
**[May 2019, 5 Marks]**



**Solution :**

**Journal Entries**

| Date | Particulars | | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| Jan. 1 | Bank A/c | | 18,00,000 | |
| | Loss on Issue of 10% Debentures A/c | Dr. | 3,00,000 | |
| | To 10% Debenture A/c | | | 20,00,000 |
| | To Premium on Redemption of 10% Debentures A/c | | | 1,00,000 |
| | (Being 10% Debentures of ₹ 20,00,000 issued @10% discount which were to be redeemed @ 5% premium) | | | |
| June 30 | Interest on 10% Debentures A/c | Dr. | 1,00,000 | |
| | To 10% Debenture holder's A/c | | | 90,000 |
| | To TDS payable A/c | | | 10,000 |
| | (Being interest due on debentures (half yearly) and tax deducted at source) | | | |
| | 10% Debenture Holder's A/c | Dr. | 90,000 | |
| | TDS Payable A/c | Dr. | 10,000 | |
| | To Bank A/c | | | 1,00,000 |
| | (Being interest and TDS paid) | | | |
| Dec. 31 | Interest on 10% debenture A/c | Dr. | 1,00,000 | |
| | To 10% Debenture holder's A/c | | | 90,000 |
| | To TDS Payable A/c | | | 10,000 |
| | (Being interest due on debentures (half yearly) and tax deducted at source) | | | |
| | 10% Debenture Holder's A/c | Dr. | 90,000 | |
| | TDS Payable A/c | Dr. | 10,000 | |
| | To Bank A/c | | | 1,00,000 |
| | (Being interest and TDS paid) | | | |
| | Statement of Profit & Loss A/c | Dr. | 2,60,000 | |
| | To Interest on 10% Debentures A/c | | | 2,00,000 |
| | To Loss on issue of Debentures A/c (3,00,000 × 1/5) | | | 60,000 |
| | (Being Interest & 1/5th Loss on issue of debentures transferred to Statement of Profit & Loss Account) | | | |

**Q.9 Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:**

**(i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.**

**(ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.**

**(iii) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value.**

**You are required to pass necessary Journal Entries. [Nov. 2020, 5 Marks]**

**Solution:**

**In the books of Y Company Ltd.**

**Journal Entries**

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| (i) (a) | Fixed Assets A/c Dr. | | 13,00,000 | |
| | To Vendor A/c | | | 13,00,000 |
| | (Being purchase of fixed assets from vendor) | | | |
| (b) | Vendor A/c Dr. | | 13,00,000 | |
| | Discount on issue of debentures A/c Dr. | | 2,00,000 | |
| | To 12% Debentures A/c | | | 15,00,000 |
| | (Being issue of debentures of ₹ 15,00,000 to vendor in purchase consideration of fixed assets) | | | |
| (ii) (a) | Bank A/c Dr. | | 27,00,000 | |
| | To Debentures application & allotment A/c | | | 27,00,000 |
| | (Being application & allotment money received on 5000 debentures @ ₹ 540 each) | | | |
| (b) | Debentures application & allotment A/c Dr. | | 27,00,000 | |
| | Discount on issue of debentures A/c Dr. | | 3,00,000 | |
| | To 12% Debentures A/c | | | 30,00,000 |
| | (Being issue of 5,000,12% Debentures @ ₹ 540 per debenture) | | | |
| (iii) (a) | Bank A/c Dr. | | 14,00,000 | |
| | To Bank Loan A/c | | | 14,00,000 |
| | (Being loan of ₹ 14,00,000 taken from bank by issuing debentures of ₹ 15,00,000 as collateral security) | | | |
| (b) | 12% Debenture Suspense A/c Dr. | | 15,00,000 | |
| | To 12% Debentures A/c | | | 15,00,000 |
| | (Being 12% debentures of ₹ 15,00,000 issued as collateral security) | | | |

# 20 CHAPTER FINANCIAL STATEMENT OF COMPANIES [SCHEDULE III]

## DESCRIPTIVE QUESTIONS

**Q.1 List of requirements for preparation of financial statement of companies as per Companies Act, 2013.**

**Ans. List of requirements for preparation of financial statement of companies as per Companies Act, 2013 :**

1. **Books of Account etc. Section 128:** Every Co. shall keep **at its registered office, books of account** and **other relevant books** and **papers** and **financial statement** for every financial year which **gives true and fair view** of the state of affairs of the Co., **including branches.** It shall be kept **on accrual basis and by double entry system.** It can be maintained on electronic mode also. Such books of account & vouchers shall be maintained in good order for **minimum 8 (eight) previous financial year.**
2. As per **section 2(40) Financial Statement** includes (i) Balance sheet (ii) Profit & loss A/c (iii) Cash Flow Statement (iv) Statement of Changes in Equity (v) Explanatory Notes.

   **Note:** One Person Co., Small Co., & Dormant Co. may not prepare Cash Flow Statement.
3. As per **section 2(41) Financial Year** should be ending on 31st March every year.
4. **Balance Sheet** should be in the Vertical Form given in Part I of Schedule III to the Companies Act, 2013 *[u/s 129(1)]*
5. **Profit & Loss Account** should be in the Vertical Form given in Part II of Schedule III *[u/s 129(1)]*
6. As per proviso to section 129 the companies for which separate forms are prescribed by the statute governing their activity need not follow Schedule III like **Banking, Insurance & Electricity Companies.** Acts & Regulations governing Electricity Co. do not provide any format for Financial Statement hence the same will be prepared as per Schedule III.

## SHORT NOTES

### Q.1 Operating Cycle

**Ans. Operating Cycle :**

Operating Cycle is defined in Schedule III of the Companies Act, 2013 as follows:

"Operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the operating cycle cannot be identified, it is assumed to have duration of 12 months."

### Q.2 Contingent Liabilities

**Ans. Contingent Liabilities :**

(a) Contingent Liabilities are those liabilities which may or may not arise because they are dependent on a happening in future. For example, Proposed Dividend is shown as Contingent Liability because it is subject to approval of shareholders.

Contingent liability is not recorded in the books of account but is disclosed in the Notes to Accounts for the information of the users. It is to be classified into:

(i) Claims against the company not acknowledged as debts;

(ii) Bills Receivable discounted from Bank not yet due for payment;

(iii) Proposed Dividend; and

(iv) Other money for which the company is contingently liable.

### Q.3 Commitments

**Ans. Commitments :**

(a) Commitments mean financial commitments due to activities agreed to by the company to be undertaken by it in future. They are to be classified into:

(i) Estimated amounts of contracts remaining to be executed on Capital Account and not provided for;

(ii) Uncalled liability on shares and other investments partly paid;

(iii) Other commitments (Nature to be specified).

### Q.4 Quoted Investment

**Ans. Quoted Investment:**

Quoted Investment is an investment in respect of which a quotation or permission to deal on a recognized stock exchange has been granted.



### Q.5 Trade Investment

**Ans. Trade Investment:**

Trade Investment is an investment by a company in the shares or debentures of another company, not being its subsidiary, for the purpose of promoting the trade or business of the first company.

### Q.6 Extraordinary item

[June 2023, 1 Mark]

**Ans. Extraordinary items:**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the business and, therefore, are not expected to occur frequently/regularly. For example loss from earthquake, winning from lottery etc.

## TRUE OR FALSE

**Q.1 Maximum number of members in case of private company is 50.**

**Ans. False:** Maximum number of members in case of private company is 200.

**Q.2 While drafting the balance sheet of a company bills receivables are shown under the head Other Current Assets.**

**Ans. False:** While drafting the balance sheet of a company bills receivables are shown under the sub-head Trade receivables.

**Q.3 When duration of operating cycle cannot be identified, it is assumed of 12 months.**

**Ans. True:** Normally operating cycle is less than or more than 12 months in any business but when it is difficult to identify the duration of operating cycle of any business it is assumed as of 12 months.

**Q.4 Securities premium received by a company is added to share capital while preparing the balance sheet of a company.**

**Ans. False:** Securities premium is not added to share capital but is shown under the sub-head Reserves and Surplus.

**Q.5 It is mandatory for a company to deduct provision for bad and doubtful debts from trade receivables.**

**Ans. False:** It is not mandatory for any company to deduct provision for bad and doubtful debts from trade receivables. A company may show their provision under the sub-head of short term provisions in the head of current liabilities as per their choice.

**Q.6 A company registered under Companies Act, 2013 in India may prepare its balance sheet in horizontal form only.**

**Ans. False:** A company registered under Companies Act, 2013 in India must prepare its balance sheet in vertical format only as stated in Schedule III.

**Q.7 Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.**

**Ans. False:** Debenture suspense account appears under the head of Non-Current Assets in the Assets side of Balance Sheet of a company.



21 CHAPTER

# ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

## DESCRIPTIVE QUESTIONS

**Q.1 What do you mean by issue of Bonus shares?**

**Ans.**

**Bonus Issue**

- Bonus issue is also known as capitalisation of profits/reserves. It is the free distribution of shares to the existing shareholders. Only free reserve & profits, share premium received in cash & Capital Redemption Reserve can be utilised for issuing fully paid Bonus Shares. Capital reserve realised in cash can also be utilised for bonus issue. However, Revaluation reserve cannot be utilized, since it is not realised in cash.
- Further, once the decision to make bonus issue is made, it cannot be withdrawn.
- As per section 63(1) of Companies Act, 2013, company may issue fully paid up bonus shares to its members, out of:
  - (*i*) Its free reserves (as per section 2 (43) free reserves means reserves available for distribution as dividend as per latest audited balance-sheet.)
  - (*ii*) The securities premium account [sec. 52(2)] or
  - (*iii*) The capital redemption reserve account [sec. 55(4)]
  - (*iv*) Revaluation reserve cannot be used.
- As per section 63(2) Bonus issue shall be allowed if:
  - (*a*) It is authorised by articles,
  - (*b*) Recommended by board & authorised in general meeting,
  - (*c*) The company has not defaulted in payment of interest or principal of fixed deposit or debt securities, payment of statutory dues of employees like PF, Gratuity, Bonus etc.
  - (*d*) Partly paid-up shares, if any, are made fully paid up, before bonus issue.
  - (*e*) The company shall comply with other conditions as may be prescribed.

- As per Section 63(3) Bonus issue shall not be in lieu of dividend.
- As per Article 39 of table 'F' under schedule I a company can resolve to use free reserves & surplus for:
  - Converting partly paid share into fully paid share by bonus or
  - Issuing fully paid bonus shares
  - To members who would have been entitled thereto, if distributed by way of dividend and in the same proportions.

## SHORT NOTES

### Q.1 Right Issue.

**Ans.** Any company, public or private, intending to raise its subscribed share capital by way of issue of further shares is governed by the provisions of Section 62(1)(*a*) of the Companies Act, 2013. Whenever a company decides to issue new shares to the outsiders, dilution occurs in respect of the voting rights as well as the earning per share of the existing shareholders. In order to preserve the rights & the position of the existing shareholders, Companies Act, 2013 provides for the offer of Right Shares through a letter of offer to the shareholders in proportion to their existing shareholding. The existing shareholders are given an option to subscribe these shares, if they like, at the first instance. The shareholders are also given the right to renounce this right wholly or partially in favour of some other person provided the right to renounce is not prohibited by articles of the company. Thus, right issue is a pre-emptive right that is given to an existing shareholder in preference to an outsider. When the right issue offer is availed by an existing shareholder the value of right is determined as given below: —

Value of Right = Cum-right value of the share Ex-right value of the share

$$\text{Where, Ex-right value of the shares} = \frac{\text{Cum right value of the existing shares} + (\text{Right shares} \times \text{Issue Price})}{\text{Existing number of shares} + \text{Number of right shares}}$$

### Q.2 Advantages of Right Issue.

**Ans. Advantages of Right Issue are as follows:**

1. Right shares ensure reduction in dilution of financial and governance rights of existing shareholders & maintain their proportional holding in the company.
2. It is a cost-effective way of raising capital since issue of prospectus is not required.
3. Right issue is a better method of raising capital than a public issue since it is logistically much easier to handle.
4. The additional shares can be acquired by the existing shareholders at a lesser (discounted) price than the market price of the existing shares.



### Q.3 Disadvantages of Right Issue.

**Ans. Disadvantages of Right Issue are as follows:**

Despite the considerable advantages offered by the right issue, it invariably leads to dilution in the market value of the shares of the company and has following disadvantages:

1. It results in decrease in Earning Per Share.
2. If the shareholders renounce the right shares, it results in dilution of their rights.
3. Limited amount of funds can be raised as capital by way of right shares depending on the existing equity value of the firm as prescribed by SEBI.
4. A right issue by a company is often viewed suspiciously by the shareholders as a precursor to negative trends.

## TRUE OR FALSE

**Q.1 Revaluation reserve may be utilised for issuing fully paid bonus shares.**

**Ans. False:** Revaluation reserve cannot be utilised for issuing fully paid bonus shares.

**Q.2 Bonus issue means an issue of additional shares to existing shareholders by paying cash.**

**Ans. False:** Bonus issue means an issue of additional shares to existing shareholders, free of cost, in proportion to their existing holding.

**Q.3 Issuing of right shares results in increase in Earning per share.**

**Ans. False:** Issuing of right shares results in decrease in Earning per share.

## PRACTICAL QUESTIONS

**Q.1 Following items appear in the Trial Balance of Saral Ltd. (a listed Company) as on 31st March, 2015:**

| Particulars | Amount |
|---|---|
| 4,500 Equity Shares of ₹ 100 each | 4,50,000 |
| Capital Reserve (including ₹ 40,000 being profit on sale of Plant) | 90,000 |
| Securities Premium | 40,000 |
| Capital Redemption Reserve | 30,000 |
| General Reserve | 1,05,000 |
| Profit and Loss Account (Cr. Balance) | 65,000 |

**The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 2 shares held. Company decided that there should be the minimum reduction in free reserves.**

**Pass necessary Journal Entries in the books of Saral Ltd.**

**[CA Inter May 2014, 4 Marks]**
**[CA Inter RTP]**

**Solution:**

**Journal Entries**

| Particulars | | ₹ | ₹ |
|---|---|---|---|
| Capital Redemption Reserve A/c | Dr. | 30,000 | |
| Securities Premium A/c | Dr. | 40,000 | |
| Capital Reserve (Realized in cash) | Dr. | 40,000 | |
| General Reserve A/c | Dr. | 1,05,000 | |
| P&L A/c | Dr. | 10,000 | |
| To Bonus to Shareholders | | | 2,25,000 |
| (Being issue of bonus shares in the ratio of 1:2) | | | |
| Bonus to Shareholders A/c | Dr. | 2,25,000 | |
| To Equity Share Capital | | | 2,25,000 |
| (Being capitalization of Profit) | | | |

**Q.2 Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:**

| Particulars | Amount |
|---|---|
| **9,000 Equity Shares of ₹ 100 each** | **9,00,000** |
| **Securities Premium** | **80,000** |
| **Capital Redemption Reserve** | **1,40,000** |
| **General Reserve** | **2,10,000** |
| **Profit and Loss Account (Cr. Balance)** | **90,000** |

**The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves.**

**Pass necessary Journal Entries in the books Hello Ltd.**

**[CA Inter RTP]/[CA Inter MTP]**

**Solution:**

**Journal Entries**

| | | | |
|---|---|---|---|
| Capital Redemption Reserve A/c | Dr. | 1,40,000 | |
| Securities Premium A/c | Dr. | 80,000 | |
| General Reserve A/c | Dr. | 80,000 | |
| To Bonus to Shareholders | | | 3,00,000 |
| (Being issue of bonus shares in the ratio of 1:3) | | | |



| | | | |
|---|---|---|---|
| Bonus to Shareholders A/c | Dr. | 3,00,000 | |
| To Equity Share Capital | | | 3,00,000 |
| (Being capitalization of Profit) | | | |

**Q.3 Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:**

| Particulars | Amount |
|---|---|
| **3,000 Equity Shares of ₹ 100 each** | **3,00,000** |
| **Securities Premium (collected in cash)** | **40,000** |
| **Capital Redemption Reserve** | **30,000** |
| **General Reserve** | **1,00,000** |

**The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves.**

**Pass necessary Journal Entries in the books of Beta Ltd. [CA Inter MTP]**

**Solution:**

**Journal Entries**

| | | | |
|---|---|---|---|
| Capital Redemption Reserve A/c | Dr. | 30,000 | |
| Securities Premium A/c | Dr. | 40,000 | |
| General Reserve A/c | Dr. | 30,000 | |
| To Bonus to Shareholders | | | 1,00,000 |
| (Being issue of bonus shares in the ratio of 1:3) | | | |
| Bonus to Shareholders A/c | Dr. | 1,00,000 | |
| To Equity Share Capital | | | 1,00,000 |
| (Being capitalization of Profit) | | | |

**Q.4 Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2018.**

| Issued and Subscribed Capital: | ₹ |
|---|---|
| 10,000; 10% Preference Shares of ₹ 10 each fully paid | 1,00,000 |
| 1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up | 8,00,000 |
| Reserves and Surplus: | |
| General Reserve | 2,40,000 |
| Securities Premium (collected in cash) | 25,000 |
| Profit and Loss Account | 1,20,000 |

**On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.** **[CA Inter May 2018, 4 Marks]**

**Solution:**

**Journal Entries**

| Date | Particulars | Dr. | Cr. |
|---|---|---|---|
| **2018** | | ₹ | ₹ |
| April 1 | Equity Share Final Call A/c Dr. | 2,00,000 | |
| | To Equity Share Capital A/c | | 2,00,000 |
| | (Being final call of ₹ 2 per share on 1,00,000 equity shares due) | | |
| April 15 | Bank A/c Dr. | 2,00,000 | |
| | To Equity Share Final Call A/c | | 2,00,000 |
| | (Being final Call money on 1,00,000 equity shares received) | | |
| | Securities Premium A/c Dr. | 25,000 | |
| | General Reserve A/c (*See* Note below) Dr. | 1,75,000 | |
| | To Bonus to Shareholders A/c | | 2,00,000 |
| | (Being bonus issue in the ratio of 1:5 by utilizing various reserves) | | |
| April 15 | Bonus to Shareholders A/c Dr. | 2,00,000 | |
| | To Equity Share Capital A/c | | 2,00,000 |
| | (Being capitalization of profit) | | |

***Note:*** Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

**Q.5 Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:**

| Particulars | ₹ |
|---|---|
| **80,000 Equity shares of ₹ 10 each, ₹ 8 paid-up** | **6,40,000** |
| **Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)** | **1,10,000** |
| **Revaluation Reserve** | **80,000** |
| **Capital Redemption Reserve** | **75,000** |
| **Securities Premium** | **60,000** |
| **General Reserve** | **2,10,000** |
| **Profit & Loss Account (Cr. Balance)** | **1,00,000** |



**On 1st April, 2019, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2019. On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. *Pass necessary journal entries in the Books of Star Ltd.*** **[CA Inter January 2021, 5 Marks]**

**Solution:**

**Journal Entries in the books of Star Ltd.**

| 2019 | Particulars | Dr. | Cr. |
|---|---|---|---|
| | | ₹ | ₹ |
| April 1 | Equity Share Final Call A/c Dr. | 1,60,000 | |
| | To Equity Share Capital A/c | | 1,60,000 |
| | (Being final call of ₹ 2 per share on 80,000 equity shares made due) | | |
| | Bank A/c Dr. | 1,60,000 | |
| | To Equity Share Final Call A/c | | 1,60,000 |
| | (Being final call money on 80,000 equity shares received) | | |
| June 1 | Capital Redemption Reserve A/c Dr. | 75,000 | |
| | Capital Reserve A/c Dr. | 45,000 | |
| | Securities Premium A/c Dr. | 60,000 | |
| | General Reserve A/c (b.f.) Dr. | 1,40,000 | |
| | To Bonus to Shareholders A/c | | 3,20,000 |
| | (Being bonus issue of two shares for every five shares held, by utilizing various reserves) | | |
| | Bonus to Shareholders A/c Dr. | 3,20,000 | |
| | To Equity Share Capital A/c | | 3,20,000 |
| | (Being capitalization of profit) | | |

**Q.6 Following items appear in the Trial Balance of x Ltd. as at 31st March, 2013:**

| Particulars | ₹ |
|---|---|
| **Authorised share capital:** | |
| **3,00,000 equity shares of ₹ 10 each** | **30,00,000** |

| **Particulars** | ₹ |
|---|---|
| **Issued and Subscribed share capital:** | |
| **80,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid up** | 6,00,000 |
| **1,20,000 Equity Shares of ₹ 10 each** | 12,00,000 |
| **Capital Redemption Reserve** | 2,60,000 |
| **Plant Revaluation Reserve** | 20,000 |
| **Securities Premium Account** | 1,20,000 |
| **General Reserve** | 2,00,000 |
| **Profit & Loss Account** | 1,00,000 |
| **Capital Reserve (including ₹ 50,000 being profit on sale of machinery)** | 1,50,000 |
| **Remaining balance of capital reserve is on account of non-cash items.** | |

**The company decided to convert the partly paid equity shares into fully paid shares by way of bonus and to issue fully paid-up bonus shares to the holders of fully paid up shares in the same ratio.**

**You are required to pass the necessary journal entries assuming that there should be minimum reduction in free reserves. [CA Inter RTP]**

**Solution:**

**Journal Entries**

| No. | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| (i) | Equity Share Final Call A/c | Dr. | 2,00,000 | |
| | To Equity Share Capital A/c | | | 2,00,000 |
| | (Being the final call of ₹ 2.50 each on 80,000 equity shares due to make them fully paid up) | | | |
| (ii) | Capital Reserve A/c | Dr. | 50,000 | |
| | General Reserve A/c | Dr. | 1,50,000 | |
| | To Bonus to Shareholders A/c | | | 2,00,000 |
| | (Being the transfer of ₹ 50,000 from Capital Reserve and ₹ 1,50,000 from General Reserve to make the partly paid up shares fully paid up) | | | |
| (iii) | Bonus to Shareholders A/c | Dr. | 2,00,000 | |
| | To Equity Share Final Call A/c | | | 2,00,000 |
| | (Being the amount due on final call adjusted from Bonus to Shareholders A/c) | | | |
| (iv) | Capital Redemption Reserve A/c | Dr. | 2,60,000 | |
| | Securities Premium A/c | Dr. | 1,20,000 | |
| | General Reserve A/c | Dr. | 20,000 | |



| No. | Particulars | | ₹ | ₹ |
|---|---|---|---|---|
| | To Bonus to Shareholders A/c | | | 4,00,000 |
| | (Being the bonus declared by issuing 1 bonus share for every 3 shares) | | | |
| | **Note:** | | | |
| | Ratio of Bonus declared is ₹ 2.50 for every ₹ 7.50 paid-up share *i.e.* 1/3rd or 1 share for every 3 shares. | | | |
| | Thus, | | | |
| | Amount of Bonus issue = (1,20,000 × 1/3) × ₹ 10 = ₹ 4,00,000. | | | |
| (v) | Bonus to Shareholders A/c | Dr. | 4,00,000 | |
| | To Equity Share Capital A/c | | | 4,00,000 |
| | (Being the issue of 40,000 shares of ₹ 10 each by way of bonus) | | | |

***Note:*** Capital Redemption Reserve and Securities Premium can be utilized to issue fully paid-up Bonus Shares but not for converting partly paid shares into fully paid shares.

**Q.7 Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018:**

| **Particulars** | ₹ |
|---|---|
| **Authorized capital:** | |
| **3,00,000 equity shares of ₹ 10 each** | **30,00,000** |
| **25,000, 10% preference shares of ₹ 10 each** | **2,50,000** |
| | **32,50,000** |
| **Issued and subscribed capital:** | |
| **2,70,000 equity shares of ₹ 10 each fully paid up** | **27,00,000** |
| **24,000, 10% preference shares of ₹ 10 each fully paid up** | **2,40,000** |
| | **29,40,000** |
| **Reserves and surplus:** | |
| **General reserve** | **3,60,000** |
| **Capital redemption reserve** | **1,20,000** |
| **Securities premium (in cash)** | **75,000** |
| **Profit and loss account** | **6,00,000** |
| | **11,55,000** |

**On 1st April, 2018, (the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.**

***Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.***

**[CA Inter November 2019, 4 Marks]**

**Solution:**

**Journal Entries**

| Date | Particulars | Dr. | Cr. |
|---|---|---|---|
| April 1 | Capital Redemption Reserve A/c | 1,20,000 | |
| | Securities Premium A/c | 75,000 | |
| | General Reserve A/c | 3,60,000 | |
| | Profit and Loss A/c (b.f.) | 5,25,000 | |
| | To Bonus to Equity Shareholders A/c | | 5,25,000 |
| | (Being Bonus issue @ two shares for every five shares held by utilizing various reserves) | | |
| | Bonus to Shareholders A/c | 10,80,000 | |
| | To Equity Share Capital A/c | | 10,80,000 |
| | (Being Issue of bonus shares) | | |

**Balance Sheet (Extract)**
**as on 1st April, 2018 (after bonus issue)**

| | | Particulars | Notes | Amount (₹) |
|---|---|---|---|---|
| 1 | | **Equity and Liabilities** | | |
| | | Shareholders' funds | | |
| | (a) | Share capital | 1 | 40,20,000 |
| | (b) | Reserves and Surplus | 2 | 75,000 |

**Notes to Accounts:**

| | | | (₹) |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | Authorized share capital: | | |
| | 3,78,000 Equity shares of ₹ 10 each - Note 1 | | **37,80,000** |
| | 25,000 10% Preference shares of ₹ 10 each | | **2,50,000** |
| | Total | | 40,30,000 |
| | Issued, subscribed and fully paid share capital: | | |
| | 3,78,000 Equity shares of ₹ 10 each, fully paid | | |
| | (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus) | | 37,80,000 |
| | 24,000 10% Preference shares of ₹ 10 each | | 2,40,000 |
| | Total | | 40,20,000 |
| 2 | **Reserves and Surplus** | | |
| | Capital Redemption Reserve | 1,20,000 | |
| | *Less:* Utilized | 1,20,000 | Nil |
| | Securities Premium | 75,000 | |



| | | |
|---|---|---|
| *Less:* Utilised for bonus issue | (75,000) | Nil |
| General reserve | 3,60,000 | |
| *Less:* Utilised for bonus issue | (3,60,000) | Nil |
| Profit & Loss Account | 6,00,000 | |
| *Less:* Utilised for bonus issue | (5,25,000) | 75,000 |
| Total | | 75,000 |

***Note 1:*** Authorized capital has been increased by the minimum required amount *i.e.* ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

**Q.8 Following is the extract of the Balance Sheet of K Ltd. (listed company) as at 31st March, 2020**

| | ₹ |
|---|---|
| **Authorized capital:** | |
| **3,00,000 Equity shares of ₹ 10 each** | **30,00,000** |
| | **30,00,000** |
| **Issued and Subscribed capital:** | |
| **2,00,000 Equity shares of ₹ 10 each ₹ 8 paid up** | **16,00,000** |
| **Reserves and surplus:** | |
| **General Reserve** | **3,60,000** |
| **Capital Redemption Reserve** | **1,20,000** |
| **Securities premium (not realised in cash)** | **75,000** |
| **Profit and Loss Account** | **6,00,000** |

**On 1st April, 2020, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.**

***Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.*** **[CA Inter July 2021, 5 Marks]**

**Solution:**

**Journal Entries**

| Date | Particulars | ₹ | ₹ |
|---|---|---|---|
| 1-04-2020 | Equity Share Final Call A/c | 4,00,000 | |
| | To Equity Share Capital A/c | | 4,00,000 |
| | (Being final call of ₹ 2 per share on 2,00,000 equity shares) | | |
| 25-04-2020 | Bank A/c | 4,00,000 | |
| | To Equity Share Final Call A/c | | 4,00,000 |
| | (Final Call money on 2,00,000 equity shares received) | | |

| Date | Particulars | ₹ | ₹ |
|---|---|---|---|
| | Capital Redemption Reserve A/c | 1,20,000 | |
| | General Reserve A/c | 3,60,000 | |
| | Profit and Loss A/c | 20,000 | |
| | To Bonus to shareholders | | 5,00,000 |
| | (Being provision for bonus shares at one share for every four shares) | | |
| | Bonus to shareholders | 5,00,000 | |
| | To Equity Share Capital A/c | | 5,00,000 |
| | (Being issue of bonus shares) | | |

**Extract of Balance Sheet**

| | ₹ |
|---|---|
| ***Authorized Capital*** | |
| 3,00,000 Equity shares of ₹ 10 each | 30,00,000 |
| ***Issued and Subscribed Capital*** | |
| 2,50,000 Equity shares of ₹ 10 each, fully paid | 25,00,000 |
| (Out of the above 50,000 Equity shares ₹ 10 each were issued by way of bonus shares) | |
| ***Reserves and Surplus*** | |
| Securities premium (not realized in cash) | 75,000 |
| Profit and Loss Account | 5,80,000 |

***Note:*** As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

## RIGHT SHARE

**Q.1** Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200.

You are required to calculate the (*i*) Ex-right value of a share; (*ii*) Value of a right share?

**[CA Inter RTP]/[CA Inter MTP]**



**Solution:**

**Ex-right value of the shares:**

= **(Cum-right value of the existing shares + Rights shares × Issue Price)** / (Existing No. of shares + No. of right shares)

= (₹ 200 × 5 Shares + ₹ 125 × 1 Share) / (5 + 1) Shares

= ₹ 1,125 / 6 shares = ₹ 187.50 per share.

**Value of right:**

= **Cum-right value of the share - Ex-right value of the share**

= ₹ 200 - ₹ 187.50 = ₹ 12.50 per share.

**Q.2** Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value (cum-right) of the share is ₹ 360 and the company is offering one right share of ₹ 180 each to its existing shareholders.

You are required to calculate the value of a right.

What should be the ex-right value of a share? **[CA Inter RTP]**

**Solution:**

**Ex-right value of the shares:**

= (Cum-right value of the existing shares + Rights shares × Issue Price) / (Existing Number of shares + Number of Right shares)

= (₹ 360 × 2 Shares + ₹ 180 × 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

**Value of right:**

= Cum-right value of the share – Ex-right value of the share

= ₹ 360 – ₹ 300 = ₹ 60 per share.

Thus, any one desirous of having a confirmed allotment of one share from the company at ₹ 180 will have to pay ₹ 120 (2 shares × ₹ 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

**Q.3** A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four basis. The cum-right market price of a share is ₹ 150. **[CA Inter RTP]**

Calculate the value of a right.

**Solution:**

**Ex-right value of the shares:**

$$= \frac{\text{(Cum-right value of the existing shares + Rights shares Issue Price)}}{\text{(Existing Number of shares + Rights Number of shares)}}$$

= (₹ 150 × 4 Shares + ₹ 125 × 1 Share) / (4 + 1) Shares

= ₹ 725 / 5 shares = ₹ 145 per share.

**Value of right:**

= Cum-right value of the share – Ex-right value of the share

= ₹ 150 – ₹ 145 = ₹ 5 per share.

# 22 CHAPTER REDEMPTION OF PREFERENCE SHARES

## DESCRIPTIVE QUESTIONS

**Q.1 Discuss the provisions of Section 55 of the Companies Act, 2013.**

**Ans.** As per sec. 55 of Companies Act, 2013, a company limited by shares may, if so, authorised by its Articles, issue preference shares which, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue subject to such conditions as may be prescribed.

**Provided further** that—

(a) No such shares can be redeemed except out of the profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;

(b) No such shares can be redeemed unless they are fully paid;

(c) In case of such class of companies, as may be prescribed and whose financial statements comply with the accounting standards prescribed for such class of companies under Section 133, the premium, if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed;

(d) Where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of the divisible profits, (*i.e.*, the profits which would otherwise have been available for dividends), be transferred to a reserve account called Capital Redemption Reserve Account, a sum equal to the nominal amount of the shares redeemed;

The utilisation of CRR Account is further restricted to issuance of fully paid-up bonus shares only.

**Q.2 Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares. [CA Inter November 2018, 4 Marks]**

**Ans. A company may prefer issue of new equity shares in the following situations:**

(a) When the company realizes that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

**Advantages of redemption of preference shares by issue of fresh equity shares:**

(1) No cash outflow of money is required - now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

**Disadvantages of redemption of preference shares by issue of fresh equity shares:**

(1) There will be dilution of future earnings.

(2) Share-holding in the company is changed.

## SHORT NOTES

**Q.1 Methods of redemption of preference shares.**

**Ans.** Methods of redemption of preference shares:

(a) By fresh issue of shares

(b) By capitalisation of undistributed profits

(c) By Combination of (a) and (b)

## TRUE OR FALSE

**Q.1 When preference shares are redeemed out of the Profit of the company, a reserve is created in the name of Capital redemption reserve.**

**Ans. True:** When preference shares are redeemed out of the Profit of the company, a reserve is created in the name of Capital redemption reserve.

**Q.2 Capital redemption reserve is utilized for issuing of fully paid bonus shares only.**

**Ans. True:** Capital redemption reserve is utilised for issuing of fully paid bonus shares only.

**Q.3 A company can redeem its partly paid-up preference shares.**

**Ans. False:** No such shares can be redeemed unless they are fully paid.

## PRACTICAL QUESTIONS

**Q.1 The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000.**



**Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated.**
**Also, determine the number of shares if the company decides to issue shares in multiples of ₹ 50 only. [CA Inter MTP]**

**Solution:**

| | |
|---|---|
| Nominal value of preference shares | ₹ 5,00,000 |
| Maximum possible redemption out of profits | ₹ 3,00,000 |
| Minimum proceeds of fresh issue | ₹ 5,00,000 - 3,00,000 = ₹ 2,00,000 |
| Proceed of one share | = ₹ 9 |
| Minimum number of shares | $= \frac{2,00,000}{9}$ = 22,222.22 shares |

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares. (rounded off to higher side)

**If shares are to be issued in multiples of 50:**

Then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

**Q.2 A Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)
= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$5,000 \times 100 = Nil + 50,000 \times 10$

$5,00,000 = Nil + 5,00,000$ (given)

***Step 2: Journal Entries:***

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c | Dr. | 5,00,000 | |
| | To Equity Share Capital A/c | | | 5,00,000 |
| | (Being the issue of 50,000 Equity Shares of ₹ 10 each at par for the purpose of redemption of preference shares) | | | |
| | 8% Redeemable Preference Share Capital A/c | Dr. | 5,00,000 | |
| | To Preference Shareholders A/c | | | 5,00,000 |

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | (Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c<br>To Bank A/c<br>(Being the amount paid on redemption of preference shares) | Dr. | 5,00,000 | 5,00,000 |

**Q.3 B Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up.**

**You are required to pass necessary Journal Entries including cash transactions in the books of the company.**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

= 10,000 × 100 = *Nil* (given) + 10,00,000 (balancing figure)

= 10,00,000 = *Nil* + 10,00,000

Thus,

No. of shares to be issued = 1,00,000 (assuming face value = 10)

***Step 2: Journal Entries:***

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c<br>To Equity Share Capital A/c<br>To Securities Premium A/c<br>(Being the issue of 1,00,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share) | Dr. | 12,00,000 | <br>10,00,000<br>2,00,000 |
| | 10% Redeemable Preference Share Capital A/c<br>To Preference Shareholders A/c<br>(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c) | Dr. | 10,00,000 | 10,00,000 |
| | Preference Shareholders A/c<br>To Bank A/c<br>(Being the amount paid on redemption) | Dr. | 10,00,000 | 10,00,000 |



**Q.4 C India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up.**

**You are required to pass necessary Journal Entries including cash transactions in the books of the company. [CA Inter MTP]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

9,000 × 100 = *Nil* (given) + 9,00,000 (balancing figure)

9,00,000 = *Nil* + 9,00,000

Thus,

No. of shares to be issued = 1,00,000 (We are given that face value per share = 9)

***Step 2: Journal Entries:***

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c<br>To Equity Share Capital A/c<br>(Being the issue of 10,000 Equity Shares of ₹ 9 each at par) | Dr. | 90,000 | 90,000 |
| | 10% Redeemable Preference Shares Capital A/c<br>To Preference Shareholders A/c<br>(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c) | Dr. | 90,000 | 90,000 |
| | Preference Shareholders A/c<br>To Bank A/c<br>(Being the amount paid on redemption of preference shares) | Dr. | 90,000 | 90,000 |

**Q.5 The following are the extracts from the balance sheet of ABC Ltd. as on 31st December, 20X1:**

**Share capital: 50,000 Equity shares of ₹ 10 each fully paid - ₹ 5,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,50,000.**

**Reserve & Surplus: Capital reserve - ₹ 1,00,000; General reserve - ₹ 1,00,000; Profit and Loss Account - ₹ 75,000.**

**On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.**

**You are required to prepare necessary Journal Entries including cash transactions in the books of the company. [CA Inter RTP]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$1{,}500 \times 100 = 1{,}50{,}000$ (given) + *Nil* (balancing figure)

$1{,}50{,}000 = 1{,}50{,}000 + Nil$

***Step 2: Journal Entries:***

| Date 20X2 | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| Jan 1 | 10% Redeemable Preference Share Capital A/c | Dr. | 1,50,000 | |
| | Premium on Redemption of Preference Shares | | 15,000 | |
| | To Preference Shareholders A/c | | | 1,65,000 |
| | (Being the amount payable on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 1,65,000 | |
| | To Bank A/c | | | 1,65,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | General Reserve A/c | Dr. | 1,00,000 | |
| | Profit & Loss A/c | Dr. | 50,000 | |
| | To Capital Redemption Reserve A/c | | | 1,50,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |
| | Profit & Loss A/c | Dr. | 15,000 | |
| | To Premium on Redemption of Preference Shares A/c | | | 15,000 |
| | (Being premium on redemption charged to Profit and Loss A/c) | | | |

***Note:*** Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

**Q.6 The following are the extracts from the Balance Sheet of Meera Ltd. as on 31st December, 2017.**

**Share capital: 60,000 Equity shares of ₹ 10 each fully paid - ₹ 6,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,50,000.**

**Reserve & Surplus: Capital reserve - ₹ 75,000; Securities premium - ₹ 75,000; General reserve - ₹ 1,12,500; Profit and Loss Account - ₹ 62,500**

**On 1st January, 2018, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve.**



**You are required to prepare necessary Journal Entries including cash transactions in the books of the company. [CA Inter RTP]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$1{,}500 \times 100 = 1{,}50{,}000$ (given) + *Nil* (balancing figure)

$1{,}50{,}000 = 1{,}50{,}000 + Nil$

***Step 2: Journal Entries:***

| Date 2018 | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| Jan 1 | 10% Redeemable Preference Share Capital A/c | Dr. | 1,50,000 | |
| | Premium on Redemption of Pref. shares | Dr. | 15,000 | |
| | To Preference Shareholders A/c | | | 1,65,000 |
| | (Being the amount payable on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 1,65,000 | |
| | To Bank A/c | | | 1,65,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | Profit & Loss A/c | Dr. | 15,000 | |
| | To Premium on Redemption of Pref. Shares | | | 15,000 |
| | (Being adjustment of premium on redemption) | | | |
| | General Reserve A/c | Dr. | 1,12,500 | |
| | Profit & Loss A/c | Dr. | 37,500 | |
| | To Capital Redemption Reserve A/c | | | 1,50,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |

***Note:*** Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

**Q.7 The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.**

**Share capital: 40,000 Equity shares of ₹ 10 each fully paid - ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,00,000.**

**Reserve & Surplus: Capital reserve - ₹ 50,000; Securities premium - ₹ 50,000; General reserve - ₹ 75,000; Profit and Loss Account - ₹ 35,000**

**On 1st January, 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.**

**You are required to pass necessary Journal Entries including cash transactions in the books of the company.**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$1{,}000 \times 100 = 1{,}00{,}000$ (given) + *Nil* (balancing figure)

$1{,}00{,}000 = 1{,}00{,}000 +$ *Nil*

***Step 2: Journal Entries:***

| Date 20X2 | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| Jan 1 | 10% Redeemable Preference Share Capital A/c | Dr. | 1,00,000 | |
| | To Preference Shareholders A/c | | | 1,00,000 |
| | (Being the amount payable on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 1,00,000 | |
| | To Bank A/c | | | 1,00,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | General Reserve A/c | Dr. | 75,000 | |
| | Profit & Loss A/c | Dr. | 25,000 | |
| | To Capital Redemption Reserve A/c | | | 1,00,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |

***Note:*** Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

**Q.8 The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.**

**Share capital: 40,000 Equity shares of ₹ 10 each fully paid - ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,00,000.**

**Reserve & Surplus: Capital reserve - ₹ 50,000; Securities premium - ₹ 50,000; General reserve - ₹ 75,000; Profit and Loss Account - ₹ 35,000**



**On 1st January, 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.**

**You are required to pass necessary Journal Entries including cash transactions in the books of the company. [CA Inter MTP]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$1{,}000 \times 100 = 1{,}00{,}000$ (given) + *Nil* (balancing figure)

$1{,}00{,}000 = 1{,}00{,}000 +$ *Nil*

***Step 2: Journal Entries:***

| Date 20X2 | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| Jan 1 | 10% Redeemable Preference Share Capital A/c | Dr. | 1,00,000 | |
| | To Preference Shareholders A/c | | | 1,00,000 |
| | (Being the amount payable on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 1,00,000 | |
| | To Bank A/c | | | 1,00,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | General Reserve A/c | Dr. | 75,000 | |
| | Profit & Loss A/c | Dr. | 25,000 | |
| | To Capital Redemption Reserve A/c | | | 1,00,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |

***Note:*** Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

**Q.9 Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.**

**It was decided by the company to issue the following:**

**(*i*) 40,000 Equity Shares of ₹ 10 each at par**

**(*ii*) 2,000 12% Debentures of ₹ 700 each.**

**The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits.**

**Show journal entries in the books of the company.**

**[CA Inter May 2018, 10 Marks]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$5{,}000 \times 100 = 1{,}00{,}000$ (balancing figure) $+ 40{,}000 \times 10$ (given)

$5{,}00{,}000 = 1{,}00{,}000 + 4{,}00{,}000$

***Note:*** **Issue of debentures do not qualify for the above equation. It is only a means to arrange funds.**

***Step 2: Journal Entries:***

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c | Dr. | 4,00,000 | |
| | To Equity Share Capital A/c | | | 4,00,000 |
| | (Being the issue of 40,000 equity shares of ₹ 10 each at par) | | | |
| | Bank A/c | Dr. | 2,00,000 | |
| | To 12% Debenture A/c | | | 2,00,000 |
| | (Being the issue of 2,000 Debentures of ₹ 100 each) | | | |
| | 10% Redeemable Preference Share Capital A/c | Dr. | 5,00,000 | |
| | Premium on Redemption of Preference Shares A/c | Dr. | 50,000 | |
| | To Preference Shareholders A/c | | | 5,50,000 |
| | (Being the amount payable on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 5,50,000 | |
| | To Bank A/c | | | 5,50,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | Profit & Loss A/c | Dr. | 50,000 | |
| | To Premium on Redemption of Preference Shares A/c | | | 50,000 |
| | (Being the adjustment of premium on redemption against Profits & Loss Account) | | | |
| | Profit & Loss A/c | Dr. | 1,00,000 | |
| | To Capital Redemption Reserve A/c (Working Note) | | | 1,00,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |



**Q.10 The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000, 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31-03-2020. The other particulars as at 31-03-2020 are as follows:**

| Particulars | Amount (₹) |
|---|---|
| General Reserve | 1,20,000 |
| Profit & Loss Account | 60,000 |
| Investment Allowance Reserve (not free for distribution as dividend) | 15,000 |
| Cash at bank | 1,95,000 |

**Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.**

**Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.**

**Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31-03-2020 of BK Ltd., after the redemption is carried out.**

**[CA Inter January 2021, 12 Marks]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$2{,}000 \times 100 = 1{,}15{,}500$ (Working Note) $+ 84{,}500$ (Working Note)

$1{,}00{,}000 = 75{,}000 + 25{,}000$

***Working Note:***

**Number of Shares to be issued for redemption of Preference Shares:**

| | | |
|---|---|---|
| Face value of shares redeemed | ₹ 2,00,000 | |
| *Less:* Profit available for distribution as dividend: | | |
| General Reserve: ₹ (1,20,000-40,000) | ₹ 80,000 | |
| Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments) | ₹ 35,500 | |
| | ₹ (1,15,500) | ₹ 84,500 |

Therefore, No. of shares to be issued = 84,500/₹ 10 = 8,450 shares.

*Step 2: Journal Entries:*

**Journal Entries**

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c | Dr. | 84,500 | |
| | To Equity Share Capital A/c | | | 84,500 |
| | (Being the issue of 8,450 Equity Shares of ₹ 10 each) | | | |
| | 9% Redeemable Preference Share Capital A/c | Dr. | 2,00,000 | |
| | Premium on Redemption of Preference Shares A/c | Dr. | 20,000 | |
| | To Preference Shareholders A/c | | | 2,20,000 |
| | (Being the amount paid on redemption transferred to Preference Shareholders Account) | | | |
| | Bank A/c | Dr. | 40,500 | |
| | Profit and Loss A/c (loss on sale) A/c | Dr. | 4,500 | |
| | To Investment A/c | | | 45,000 |
| | (Being investment sold at loss of ₹ 4,500) | | | |
| | Preference Shareholders A/c | Dr. | 2,20,000 | |
| | To Bank A/c | | | 2,20,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | Profit & Loss A/c | Dr. | 20,000 | |
| | To Premium on Redemption of Preference Shares A/c | | | 20,000 |
| | (Being the premium payable on redemption is adjusted against Profit & Loss Account) | | | |
| | General Reserve A/c | Dr. | 80,000 | |
| | Profit & Loss A/c | Dr. | 35,500 | |
| | To Capital Redemption Reserve A/c | | | 1,15,500 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | | |

**Balance Sheet as on..........**
**[Extracts]**

| | Particulars | Notes No. | ₹ |
|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | |
| 1. | **Shareholders' funds** | | |
| | (a) Share capital | 1 | 3,84,500 |
| | (b) Reserves and Surplus | 2 | 1,70,500 |



| | Particulars | Notes No. | ₹ |
|---|---|---|---|
| | **ASSETS** | | |
| | **Current Assets** | | |
| 1. | Cash and cash equivalents (1,95,000 + 84,500 + 40,500 - 2,20,000) | | 1,00,000 |

***Notes to accounts:***

| | | | |
|---|---|---|---|
| 1. | **Share Capital** | | |
| | 38,450 Equity shares (30,000 + 8,450) of ₹ 10 each fully paid up | | 3,84,500 |
| 2. | **Reserves and Surplus** | | |
| | General Reserve | 40,000 | |
| | Profit and loss account | *NIL* | |
| | Capital Redemption Reserve | 1,15,500 | |
| | Investment Allowance Reserve | 15,000 | 1,70,500 |

**Q.11 The capital structure of AP Ltd. consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1-4-20X1).**

**Undistributed reserve and surplus stood as:**

**General Reserve ₹ 80,000;**

**Profit and Loss Account ₹ 20,000;**

**Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000;**

**Cash at bank amounted to ₹ 98,000.**

**Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.**

**Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out. [CA Inter RTP]**

**Solution:**

***Step 1: Equation to Identify the amount of CRR Transfer:***

Preference Share Capital (Face Value of PSC)

= Capital Redemption Reserve (CRR) + Proceeds of Fresh Issue (Without premium)

$1{,}000 \times 100 = 75{,}000$ (Working Note) + 25,000 (balancing figure)

$1{,}00{,}000 = 75{,}000 + 25{,}000$

***Working Note:***

*No. of Shares to be issued for redemption of Preference Shares:*

| | | |
|---|---|---|
| Face value of shares redeemed | | ₹ 1,00,000 |
| *Less:* Profit available for distribution as dividend: | | |
| General Reserve: ₹ (80,000-20,000) | ₹ 60,000 | |
| Profit and Loss (20,000 - 10,000 set aside for adjusting premium payable on redemption of preference shares) | ₹ 10,000 | |
| Investment Allowance Reserve: (₹ 10,000-5,000) | ₹ 5,000 | (₹ 75,000) |
| | | ₹ 25,000 |

Therefore, No. of shares to be issued = 25,000/₹ 10 = 2,500 shares.

***Step 2: Journal Entries:***

| Date | Particulars | Dr. (₹ ) | Cr. (₹ ) |
|---|---|---|---|
| | Bank A/c Dr. | 25,000 | |
| | To Equity Share Capital A/c | | 25,000 |
| | (Being the issue of 2,500 Equity Shares of ₹ 10 each at par) | | |
| | 8% Redeemable Preference Share Capital A/c Dr. | 1,00,000 | |
| | Premium on Redemption of Preference Shares A/c Dr. | 10,000 | |
| | To Preference Shareholders A/c | | 1,10,000 |
| | (Being the amount paid on redemption transferred to Preference Shareholders Account) | | |
| | Preference Shareholders A/c Dr. | 1,10,000 | |
| | To Bank A/c | | 1,10,000 |
| | (Being the amount paid on redemption of preference shares) | | |
| | Profit & Loss A/c Dr. | 10,000 | |
| | To Premium on Redemption of Preference Shares A/c | | 10,000 |
| | (Being the premium payable on redemption is adjusted against Profit & Loss Account) | | |
| | General Reserve A/c Dr. | 60,000 | |
| | Profit & Loss A/c Dr. | 10,000 | |



| Date | Particulars | Dr. (₹ ) | Cr. (₹ ) |
|---|---|---|---|
| | Investment Allowance Reserve A/c Dr. | 5,000 | |
| | To Capital Redemption Reserve A/c | | 75,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account) | | |

**Balance Sheet as on............**

**[Extract]**

| | | Particulars | Notes No. | ₹ |
|---|---|---|---|---|
| | | **EQUITY AND LIABILITIES** | | |
| 1. | | **Shareholders' funds** | 1 | 2,25,000 |
| | (a) | Share capital | 2 | 1,00,000 |
| | (b) | Reserves and Surplus | | ? |
| | | **Total** | | 13,000 |
| | | | | ? |
| 2. | | **ASSETS** | | |
| | | **Current Assets** | | |
| | | Cash and cash equivalents (98,000 + 25,000 - 1,10,000) | | |
| | | **Total** | | |

***Notes to Accounts:***

| | | |
|---|---|---|
| 1. | **Share Capital** | |
| | 22,500 Equity shares (20,000 + 2,500) of ₹ 10 each fully paid up | 2,25,000 |
| 2. | **Reserves and Surplus** | 20,000 |
| | General Reserve | 75,000 |
| | Capital Redemption Reserve | 5,000 |
| | Investment Allowance Reserve | 1,00,000 |

**Q.12 The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:**

| **Particulars** | **(₹)** |
|---|---|
| **EQUITY AND LIABILITIES:** | |
| **1. Shareholder's funds:** | **5,80,000** |
| **(a) Share Capital** | **96,000** |
| **(b) Reserves and Surplus** | |
| **2. Current Liabilities:** | **1,13,000** |
| **Trade Payables** | |

| Particulars | (₹) |
|---|---|
| **Total** | **7,89,000** |
| **ASSETS:** | |
| **1. Non-Current Assets** | |
| **(a) Property, Plant and Equipment** | |
| **Tangible Assets** | **6,90,000** |
| **(b) Non-Current investments** | **37,000** |
| **2. Current Assets** | |
| **Cash and cash equivalents (Bank)** | **62,000** |
| **Total** | **7,89,000** |

**The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1-4-2017)**

**Reserves and Surplus comprises statement of profit and loss only.**

**In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:**

**(a) to sell all the investments for ₹ 30,000.**

**(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.**

**(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.**

**You are required to**

**(1) Pass Journal Entries to record the above transactions.**

**(2) Prepare Balance Sheet as on completion of the above transactions.**

**[CA Inter May 2019, 10 Marks]**

**Solution:**

**Journal Entries**

| | Particulars | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 1. | Bank A/c | 75,000 | |
| | To Share Application A/c | | 75,000 |
| | (Being application money received on 1,250 shares @ ₹ 60 per share) | | |
| 2. | Share Application A/c | 75,000 | |
| | To Equity Share Capital A/c | | 62,500 |
| | To Securities Premium A/c | | 12,500 |
| | (Being disposition of application money received) | | |



| | Particulars | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 3. | Preference Share Capital A/c | 1,30,000 | |
| | Premium on Redemption of Preference Shares A/c | 13,000 | |
| | To Preference Shareholders A/c | | 1,43,000 |
| | (Being amount payable on redemption of preference shares) | | |
| 4. | Profit and Loss A/c | 13,000 | |
| | To Premium on Redemption of Preference Shares A/c | | 13,000 |
| | (Being writing off premium on redemption out of profits) | | |
| 5. | Bank A/c | 30,000 | |
| | Profit and Loss A/c (loss on sale) A/c | 7,000 | |
| | To Investment A/c | | 37,000 |
| | (Being sale of investments at a loss of ₹ 3,500) | | |
| 6. | Preference Shareholders A/c | 1,43,000 | |
| | To Bank | | 1,43,000 |
| | (Being amount paid to Preference shareholders) | | |
| 7. | Profit and Loss A/c | 67,500 | |
| | To Capital Redemption Reserve A/c | | 67,500 |
| | (Being transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) *i.e.*, ₹ 1,30,000 – ₹ 62,500) | | |

**Balance Sheet of Clean Ltd. (after redemption)**

| | Particulars | Notes No. | ₹ |
|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | |
| **1.** | **Shareholders' funds** | | |
| | (a) Share capital | 1 | 5,12,500 |
| | (b) Reserves and Surplus | 2 | 88,500 |
| **2.** | **Current liabilities** | | |
| | Trade Payables | | 1,13,000 |
| | Total | | 7,14,000 |
| | **ASSETS** | | |
| 1. | **Non-Current Assets** | | |
| | Property, Plant and Equipment | | |
| | Tangible asset | | 6,90,000 |

| | Particulars | Notes No. | ₹ |
|---|---|---|---|
| 2. | **Current Assets** | | |
| | Cash and cash equivalents (bank) | 3 | 24,000 |
| | Total | | 7,14,000 |

***Notes to accounts:***

| | | ₹ |
|---|---|---|
| 1. | Share Capital | |
| | Equity share capital ₹ (4,50,000 + 62,500) | 5,12,500 |
| 2. | Reserves and Surplus | |
| | Capital Redemption Reserve | 67,500 |
| | Profit and Loss Account ₹ (96,000 – 13,000 – 7,000 – 67,500) | 8,500 |
| | Security Premium | 12,500 |
| | | 88,500 |
| 3. | Cash and cash equivalents | |
| | Balances with banks ₹ (62,000 + 75,000 +30,000 – 1,43,000) | 24,000 |

**Working Note:**

**Calculation of Number of Shares:**

| | | ₹ |
|---|---|---|
| Amount payable on redemption (1,30,000 + 10% Premium) | | 1,43,000 |
| *Less:* Sale price of investment | | (30,000) |
| | | 1,13,000 |
| *Less:* Available bank balance (62,000 – 24,000) | | (38,000) |
| Funds required from fresh issue | | 75,000 |
| No. of shares = 75,000/60 | = | 1,250 shares |

# 23 CHAPTER REDEMPTION OF DEBENTURES

## DESCRIPTIVE QUESTION

**Q.1 What are the Provisions under the Companies Act, 2013 for issue of Debentures?**

**Ans. Provisions under the Companies Act, 2013 for issue of Debentures Section 71:**

**(1)** According to section 71 (1) of The Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly, at the time of redemption. Provided that the issue of such debentures with an option to convert into shares, wholly or partly, shall be approved by a special resolution passed at a general meeting.

**(2)** No company shall issue any debentures which carry any voting rights.

**(3)** Secured debentures may be issued by a company subject to such terms & conditions as may be prescribed.

**(4)** Where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for redemption of debentures.

## SHORT NOTES

**Q.1 Methods of Redemption of Debentures**

**Ans. Methods of Redemption of Debentures**

1. By payment in Lumpsum
2. By payment in instalments
3. By purchase in open market
4. By conversion into shares

## TRUE OR FALSE

**Q.1 A debenture issued at a discount can be redeemed at a premium.**

**Ans. True:** A debenture issued at a discount can be redeemed at a premium.

**Q.2 Debentures cannot be redeemed during the life time of the company.**

**Ans. False:** Debentures are usually redeemable *i.e.*, either redeemed in cash or convertible to equity shares after a time period.

**Q.3 Debenture redemption reserve account is created out of its profits which are available for distribution of dividend.**

**Ans. True:** Debenture redemption reserve account is created out of its profits which are available for distribution of dividend.

## PRACTICAL QUESTION

**Q.1 The following balances appeared in the books of XYZ company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021; 12% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 6% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 11,00,000. The interest on debentures had been paid up to December 31, 2021.**

**On February 28, 2022, the investments were realised at par and the debentures were paid off at 102, together with accrued interest.**

**Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.**

**Solution:** **In the Books of XYZ Company**

**12% Mortgage Debentures Account**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Feb. 28 | To Debenture holders A/c | 10,00,000 | Jan.1 | By Balance b/d | 10,00,000 |
| | **Total** | **10,00,000** | | **Total** | **10,00,000** |

**Debenture Redemption Reserve Account**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Feb. 28 | To General Reserve* (transferred) | 1,00,000 | Jan. 1 | By Balance b/d | 50,000 |
| | | | " " | By Profit & loss A/c (b/f) | 50,000 |
| | **Total** | **1,00,000** | | **Total** | **1,00,000** |

*Amount to be transferred to DRR before the redemption = ₹ 1,00,000 [*i.e.* 10% of 10,00,000].



Balance available ₹ 50,000

DRR required = ₹ 1,00,000 – ₹ 50,000 = ₹ 50,000

**Premium on Redemption of Debentures Account**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Feb. 28 | To Debenture holders A/c | 20,000 | Feb. 28 | By Profit & Loss A/c | 20,000 |
| | **Total** | **20,000** | | **Total** | **20,000** |

**Debentures Redemption Reserve Investment Account**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Jan. 1 | To Balance b/d | 1,50,000 | Feb. 28 | By Bank A/c | 1,50,000 |
| | **Total** | **1,50,000** | | **Total** | **1,50,000** |

**Debenture Interest Account**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Feb. 28 | To Bank (10,000100 | 20,000 | Feb. 28 | By Profit& Loss A/c | 20,000 |
| | **Total** | **20,000** | | **Total** | **20,000** |

**Bank a/c**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| Jan 01 | To Balance b/d | 11,00,000 | Feb 28 | By Debentures Interest A/c | 20,000 |
| Feb 28 | To Interest on Debentures Redemption Investments (1,50,000 × 6% × 2/12) | 1,500 | | By Debenture-holders (10,000 | 10,20,000 |
| " " | To Debentures Redemption reserve investment A/c | 1,50,000 | | By Balance c/d | 2,11,500 |
| | **Total** | **12,51,500** | | **Total** | **12,51,500** |

**Q.2 The following balances appeared in the books of Sarrow Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:**

**(i) 12% Debentures ₹ 9,00,000**

**(ii) Balance of DRR ₹ 35,000**

**(iii) DRR Investment ₹ 1,35,000 represented by 10% ₹ 1,350 Secured Bonds of the Government of India of ₹ 100 each.**

**Annual contribution to the DRR was made on 31st March every year. On 31.3.2022 balance at bank was ₹ 18,50,000 before receipt of interest. The investments were realised at par for redemption of debentures at a premium of 20% on the above date.**

**You are required to prepare the following accounts for the year ended 31st March, 2022**

1. **Debentures Account**
2. **DRR Account**
3. **DRR Investment Account**
4. **Bank Account**
5. **Debenture Holders Account.**

**Solution:**

**In the books of Sarrow Ltd.**

**12% Debentures Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31 Mar, 2022 | To Debenture holders A/c | 9,00,000 | 1st Apr, 2021 | By Balance b/d | 9,00,000 |
| | **Total** | **9,00,000** | | **Total** | **9,00,000** |

**DRR Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31 Mar, 2022 | To General reserve A/c* (transferred) | 90,000 | 1st Apr, 2021 | By Balance b/d | 35,000 |
| | | | 1st Apr, 2021 | By Profit & Loss A/c* | 55,000 |
| | **Total** | **90,000** | | **Total** | **90,000** |

- Calculation of DRR before redemption = 10% of ₹ 9,00,000 = 90,000

Available balance = ₹ 35,000

DRR required = ₹ 90,000 – ₹ 35,000 = ₹ 55,000.

**10% Secured Bonds of Govt. (DRR Investment) a/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1st April, 2021 | To Balance b/d | 1,35,000 | 31 Mar, 2022 | By Bank A/c (sold) | 1,35,000 |
| | **Total** | **1,35,000** | | **Total** | **1,35,000** |

**Bank A/c**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| 31 Mar, 2022 | To Balance b/d | 18,50,000 | 31 Mar, 2022 | By Debenture holders A/c | 10,80,000 |
| | To Interest on DRR Investment (1,35,000 10%) | 13,500 | | By Balance c/d | 9,18,500 |
| | To DRR Investment A/c | 1,35,000 | | | |
| | **Total** | **19,98,500** | | **Total** | **19,98,500** |



**Debenture holder A/c**

| 2022 | Particulars | ₹ | 2022 | Particulars | ₹ |
|---|---|---|---|---|---|
| 31 Mar, 2022 | To Bank A/c | 10,80,000 | 31 Mar, 2022 | By 12% Debentures | 9,00,000 |
| | | | | By Premium on redemption of debentures (9,00,00020%) | 1,80,000 |
| | **Total** | **10,80,000** | | **Total** | **10,80,000** |

**Q.3 The Balance Sheet of Raman Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at31st March, 2021 is as under:**

| Particulars | Note No. | ₹ |
|---|---|---|
| **I. EQUITY & LIABILITIES** | | |
| **1 Shareholder's Funds** | | |
| **(a) Share Capital** | 1 | 4,00,000 |
| **(b) Reserves and Surplus** | 2 | 1,80,000 |
| **2 Non-Current Liabilities** | | |
| **(a) Long term borrowings** | 3 | 1,00,000 |
| **3 Current Liabilities** | | |
| **(a) Trade Payables** | | 1,20,000 |
| **Total** | | **8,00,000** |
| **II. ASSETS** | | |
| **1 Non-Current Assets** | | |
| **(a) Property, Plant & Equipment** | 4 | 2,50,000 |
| **2 Current Assets** | | |
| **(a) Inventories** | | 1,50,000 |
| **(b) Trade Receivables** | | 1,00,000 |
| **(c) Cash and bank balances** | 5 | 3,00,000 |
| **Total** | | **8,00,000** |

**Notes to Accounts**

| S.No. | | ₹ | ₹ |
|---|---|---|---|
| 1. | **Share Capital** | | |
| | **Authorised share capital** | | |
| | **50,000 shares of ₹10 each fully paid** | | **5,00,000** |
| | **Issued and subscribed share capital** | | |
| | **40,000 shares of ₹10 each fully paid** | | **4,00,000** |

| | | | |
|---|---|---|---|
| 2. | **Reserve and Surplus** | | |
| | **Profit & Loss Account** | | **1,80,000** |
| 3. | **Long term borrowings** | | |
| | **9 % Debentures** | | **1,00,000** |
| 4. | **Property, Plant and Equipment** | | |
| | **Freehold property** | | **2,50,000** |
| 5. | **Cash and bank balances** | | |
| | **Cash at bank** | **2,80,000** | |
| | **Cash in hand** | **20,000** | **3,00,000** |

**At the Annual General Meeting, it was resolved:**

**(a) To give existing shareholders the option to purchase one ₹10 share at ₹15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.**

**(b) To issue one bonus share for every five shares held.**

**(c) To repay the debentures at a premium of 5%.**

**Give the necessary journal entries to record these transactions.**

**Solution :**

**Journal of Raman Ltd.**

| S. No. | Particulars | L.F. | Amount (Dr.)₹ | Amount (Cr.)₹ |
|---|---|---|---|---|
| 1. | Bank A/c Dr.<br>To Equity Shareholders A/c<br>(Being application money received on 10,000 shares @ ₹15 per share to be issued as rights shares in the ratio of 1:4) | | 1,50,000 | 1,50,000 |
| 2. | Equity Shareholders A/c Dr.<br>To Equity Share Capital A/c<br>To Securities Premium A/c<br>(Being share application money on 10,000shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account, vide Board's Resolution dated...) | | 1,50,000 | 1,00,000<br>50,000 |
| 3. | Securities Premium A/c Dr.<br>Profit & Loss A/c Dr.<br>To Bonus to Shareholders A/c<br>(Being amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated....) | | 50,000<br>50,000 | 1,00,000 |
| 4. | Bonus to Shareholders A/c Dr.<br>To Equity Share Capital A/c<br>(Being issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated...) | | 1,00,000 | 1,00,000 |
| 5. | Profit & Loss A/c Dr.<br>To Debenture Redemption Reserve A/c<br>(Being DRR created 10% 1,00,000) | | 10,000 | 10,000 |
| 6. | Debenture Redemption Reserve Investment A/c Dr.<br>To Bank A/c<br>(Being DRR Investment created 15%1,00,000) | | 15,000 | 15,000 |
| 7. | 9 % Debentures A/c Dr.<br>Premium Payable on Redemption @5% A/c Dr.<br>To Debenture holders A/c<br>(Being amount payable to debentures holders) | | 1,00,000<br>5,000 | 1,05,000 |
| 8. | Profit & Loss A/c Dr.<br>To Premium Payable on Redemption A/c<br>(Premium payable on redemption of debentures charged from Profit & loss A/c) | | 5,000 | 5,000 |
| 9. | Debenture Redemption Reserve A/c Dr.<br>To General reserve A/c<br>(Being DRR transferred to general reserve) | | 10,000 | 10,000 |
| 10. | Bank A/c Dr.<br>To Debenture Redemption Reserve Investment A/c<br>(Being DRR Investment realised) | | 15,000 | 15,000 |
| 11. | Debenture holders A/c Dr.<br>To Bank A/c<br>(Being amount paid to debenture holders on redemption) | | 1,05,000 | 1,05,000 |



**Q.4 Hari Ltd. had issued 20,000, 13% Convertible debentures of ₹ 100 each on 1st April, 2012. The debentures are due for redemption on 1st July, 2014. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option.**

**Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.**

**[CA Inter RTP]/[CA Inter MTP]**

**Solution:**

**Computation of number of equity shares to be allotted:**

| Particulars | No. |
|---|---|
| Total number of debentures | 20,000 |
| *Less:* Debenture holders not opted for conversion | (2,500) |
| Debenture holders opted for conversion | 17,500 |
| Option for conversion | 20% |
| Number of debentures to be converted (20% of 17,500) | 3,500 |
| Redemption value of 3,500 debentures at a premium of 5% [3,500 × (100 + 5)] | ₹ 3,67,500 |
| Issue price of shares | 15 |
| No. of Equity shares issued on conversion [₹ 3,67,500/₹ 15] | 24,500 shares |

**Q.5 A Company had issued 25,000, 12% Debentures of ₹ 100 each on 1st April, 2018. The Debentures were due for redemption on 1st July, 2020. The terms of issue of Debentures provided that they will be redeemable at a premium of 5% and also conferred option to convert 20% of their holding into equity Shares (Nominal value ₹ 10 each) at a price of ₹ 20 per share.**

**Debenture holders holding 5,000 Debentures did not exercise the option.**

***Calculate the number of Equity shares to be allotted to the debenture holders exercising the option to the maximum.***

**[CA Inter December 2021, 4 Marks]**

**Solution:**

**Computation of number of equity shares to be allotted:**

| Particulars | Number of debentures |
|---|---|
| Total number of debentures | 25,000 |
| *Less:* Debenture holders not opted for conversion | (5,000) |
| Debenture holders opted for conversion | 20,000 |
| Option for conversion | 20% |
| Number of debentures to be converted (20% of 20,000) | 4,000 |
| Redemption value of 4,000 debentures at a premium of 5% [4,000 × (100 + 5)] | ₹ 4,20,000 |
| Equity shares of ₹ 10 each issued on conversion [₹ 4,20,000/₹ 20] | 21,000 shares |

# SOLVED PAPER: DEC. 2023 (SUGGESTED ANSWERS)

**Q.1(*a*): State with reasons, whether the following statements are True or False:**

**(*i*) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.**

**(*ii*) The gain from sale of capital assets is added to revenue to ascertain the net profit of the business.**

**(*iii*) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.**

**(*iv*) Sum of the year's digit method is an example of accelerated method of charging depreciation.**

**(*v*) Inauguration expenses of ₹ 10 lakhs incurred on the new unit in an existing business is a capital expenditure.**

**(*vi*) Discount column of cash book records the trade discount.**

**[6 × 2 = 12 Marks]**

**Ans.**

(*i*) ***Refer to Chapter No. 2 Q. No. 3***

(*ii*) **True:** The gain from sale of capital assets is added to revenue to ascertain the net profit but it should not be added to revenue to ascertain net operating profit of business.

(*iii*) **False:-** Depreciation is non-cash and operating expense which is to be provided for whether there are profits or losses in the business.

(*iv*) **True:** Sum of the year's digit method is an example of accelerated method of charging depreciation where by the method declines the assets value at an accelerated rate.

(*v*) **False:** Inauguration expenses of ₹ 10 lakhs incurred on the new unit in an existing business is a revenue expenditure.

(*vi*) **False:** Discount column of cash book records only cash discount.

**Q.1(*b*): Briefly explain the following terms :**

**(*i*) Conversion Cost**

**(*ii*) Diminishing Balance Method**

**(*iii*) Money Measurement Concept**

**(*iv*) Realisation Concept** **[4 × 1=4 Marks]**

**Ans.**

(*i*) **Conversion Cost:-** Conversion cost means cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, *i.e.*, direct labour, direct expenses and subcontracted work, and production overheads as applicable (excluding expenses which relate to general administration, finance, selling and distribution.)

(*ii*) **Diminishing Balance Method:-**Under this method the % of depreciation will be applied in 1st year on original cost and there after every year on the written down value at the beginning of that year. W.D.V. rate for charging depreciation can be worked out by following formula:-

$$\text{W.D.V. Rate} = 1 - \sqrt[N]{\frac{\text{Scrap Value}}{\text{cost}}}$$

Where 'N' is life of Asset in years.

Under the diminishing balance method, the amount of depreciation written off every year is not the same. Larger amounts are charged in the earlier years of the life of an asset than in the later years. In this method the annual charge for depreciation is calculated by applying a fixed percentage of the diminishing value of the asset. The diminishing balance method will never reduce the book value of the asset to zero.

(*iii*) *Refer to Chapter No. 2 Q. No. 5. Page No. 2.3*

(*iv*) *Refer to Chapter No. 2 Q. No. 6. Page No. 2.4*

**Q.1(*c*): From the following information, ascertain the value of Closing Stock as on 31st March, 2023.**

| Particulars | (₹) |
|---|---|
| Opening Stock | 1,47,500 |
| Cash Sales | 5,50,000 |
| Credit Sales | 4,00,000 |
| Purchases | 8,85,000 |
| Manufacturing Expenses | 1,35,000 |
| Advertisement Expenses | 43,000 |
| Rate of Gross Profit on Cost | 25% |



**At the time of valuing inventory as on 31st March, 2022, a sum of ₹ 12,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 40,000.** **[4 Marks]**

**Ans.**

**Memorandum Trading A/c for the year ended 31st March, 2023**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| To Opening Stock (₹ 1,47,500 + ₹ 12,500) | 1,10,000 | 50,000 | 1,60,000 | By Sales | 9,10,000 | 40,000 | 9,50,000 |
| | | | | By Closing Stock (bal. fig.) | 4,02,000 | | 4,02,000 |
| To Purchases | 8,85,000 | | 8,85,000 | | | | |
| To Manufacturing exp. | 1,35,000 | | 1,35,000 | By Gross Loss | | 10,000 | 10,000 |
| To Gross Profit (25% on cost or 20% on sales) | 1,82,000 | | 1,82,000 | | | | |
| **Total** | **13,12,000** | **50,000** | **13,62,000** | **Total** | **13,12,000** | **50,000** | **13,62,000** |

**So, value of Stock on the date of fire = ₹ 4,02,000**

**Note:-** Advertisement expenses will not be considered for the purpose of preparing Trading a/c.

**Q.2(*a*): From the following particulars, prepare a Bank Reconciliation Statement as on 31st December, 2022.**

**(*i*) Debit balance (overdraft) shown by the pass book ₹ 2,48,000.**

**(*ii*) Cheques of ₹ 2,10,000 were issued in the last week of December, but of these ₹ 1,40,000 only were presented for payment.**

**(*iii*) A Cheque for ₹ 19,200 drawn for the payment of telephone bill had been entered in the cash book as ₹ 29,200 but was shown correctly in the bank statement.**

**(*iv*) A Cheque received of ₹ 37,520 entered twice in the Cash Book.**

**(*v*) A Cheque for ₹ 1,17,000 was issued for purchase of merchandise and was paid by the bank but not recorded in cash book.**

**(*vi*) Interest on overdraft and bank charges amounting to ₹ 3,500 were not entered in the Cash Book.**

**(*vii*) A Cheque for ₹ 45,000 was credited in the Pass Book but was not recorded in the Cash Book.**

**(*viii*) A bill of exchange for ₹ 26,200 which was discounted with bank, returned dishonoured but no entry was made in the cash book.**

**(*ix*) Payment side of the Cash Book has been undercast by ₹ 12,000.** **[8 Marks]**

**Ans.**

**Bank Reconciliation Statement as on 31st December, 2022**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Dr. Balance (overdraft) as per Pass Book | | 2,48,000 |
| **Add:** | | |
| 1. Cheques issued but not presented | 70,000 | |
| 2. Cheque for ₹ 19,200 for payment of telephone bill wrongly entered as ₹ 29,200 in the cash book | 10,000 | |
| 3. Cheque for ₹ 45,000 credited in Pass Book but not recorded in Cash Book | 45,000 | 1,25,000 |
| | | 3,73,000 |
| **Less:** | | |
| 1. Cheque of ₹ 37,520 wrongly entered twice in the Cash Book. | 37,520 | |
| 2. Cheque for ₹ 1,17,000 issued but omitted from being recorded in the Cash Book. | 1,17,000 | |
| 3. Interest on overdraft and bank charges amounting to ₹ 3500 omitted from being entered in the Cash Book. | 3,500 | |
| 4. A bill discounted with the Bank was returned dishonoured but not entered in the Cash Book. | 26,200 | |
| 5. Payment side of Cash Book undercast | 12,000 | 1,96,220 |
| **Cr. Balance as per Cash Book** | | **1,76,780** |

**Q.2(*b*): ABC Sports Club had the following income and expenditure account for the year ended 31st Dec. 2022.**

**Income and Expenditure Account for the year ended 31st Dec. 2022**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| **To Salaries** | **2,35,000** | **By Subscriptions** | **2,50,000** |
| **To Stationary Expenses** | **30,000** | **By Interest** | **90,000** |
| **To Rent and Taxes** | **5,000** | **By Donations** | **40,000** |
| **To Insurance** | **2,000** | **By Misc. Receipts** | **3,000** |
| **To Office Expenses** | **8,000** | | |
| **To Depreciation** | | | |
| **Building** | **37,500** | | |
| **Furniture** | **1,200** | | |
| **Sports Equipment** | **1,000** | | |
| **To Excess of Income over Expenditure** | **63,300** | | |
| | **3,83,000** | | **3,83,000** |



**Additional information:**

| | 31-12-2021 ₹ | 31-12-2022 ₹ |
|---|---|---|
| **Govt. securities** | **18,00,000** | **18,00,000** |
| **Subscription outstanding** | **70,000** | **1,00,000** |
| **Subscription received in advance** | **2,000** | **6,000** |
| **Salaries unpaid** | **10,000** | **15,000** |
| **Furniture** | **20,000** | **19,800** |
| **Land and Building** | **20,00,000** | **19,62,500** |
| **Sports Equipment** | **35,000** | **39,000** |
| **Stock of stationary** | **3,000** | **5,500** |

**Cash in hand and Cash at bank as on 31-12-2021 is ₹ 1,08,000.**

***You are required to prepare Receipts and Payments Account for the period ending 31-12-2022 and Balance Sheet as on 31-12-2022.*** **[12 Marks]**

**Ans.**

**Receipts and Payments Account of ABC Sports Club for the period ending 31-12-2022**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Balance b/d | | 1,08,000 | By Salaries (235000-15000 +10000) | 2,30,000 |
| To Subscriptions | 2,50,000 | | By Stationery Expenses **(1)** | 32,500 |
| + out. at beg. | 70,000 | | By Rent & Taxes | 5,000 |
| - out. at end. | (1,00,000) | | By Insurance | 2,000 |
| - adv. at beg. | (2,000) | | By Office Expenses | 8,000 |
| + adv. at end. | 6,000 | 2,24,000 | By Furniture **(2)** | 1,000 |
| To Interest | | 90,000 | By Sports equipment **(3)** | 5,000 |
| To Donations | | 40,000 | By Bal. c/d (bal. fig.) | 1,81,500 |
| To Misc. Receipts | | 3,000 | | |
| | **Total** | **4,65,000** | **Total** | **4,65,000** |

**Balance sheet as on 31-12-2022**

| Liabilities | | ₹ | Asset | ₹ |
|---|---|---|---|---|
| Capital Fund | 40,24,000 | | Govt. securities | 18,00,000 |
| + Surplus | 63,300 | 40,87,300 | Subscription outstanding | 1,00,000 |
| Subscription received in advance | | 6,000 | Furniture | 19,800 |
| Salaries unpaid | | 15,000 | Land and Building | 19,62,500 |

| Liabilities | ₹ | Asset | ₹ |
|---|---|---|---|
| | | Sports Equipment | 39,000 |
| | | Stock of stationery | 5,500 |
| | | Cash & Bank | 1,81,500 |
| Total | 41,08,300 | Total | 41,08,300 |

**Working Note:-**

**1. Calculation of Stationary Purchased during the year:**

| | ₹ |
|---|---|
| Stationary expenses | 30,000 |
| **Add:** Stock at end | 5,500 |
| **Less:** Stock at beginning | (3,000) |
| | **32,500** |

**2. Furniture Purchased during the year:**

| | ₹ |
|---|---|
| Furniture at the end | 19,800 |
| **Add:** Depreciation | 1,200 |
| **Less:** Furniture at the end | (20,000) |
| | **1,000** |

**3. Sports Equipment Purchased during the year:**

| | ₹ |
|---|---|
| Sports Equipment at the end | 39,000 |
| **Add:** Depreciation | 1,000 |
| **Less:** Sports & Equipment at the end | (35,000) |
| | **5,000** |

**Balance sheet as on 31-12-2021**

| Liabilities | ₹ | Asset | ₹ |
|---|---|---|---|
| Capital Fund (bal. fig.) | 40,24,000 | Govt. securities | 18,00,000 |
| Subscription received in advance | 2,000 | Subscription outstanding | 70,000 |
| Salaries unpaid | 10,000 | Furniture | 20,000 |
| | | Land and Building | 20,00,000 |
| | | Sports Equipment | 35,000 |
| | | Stock of stationery | 3,000 |
| | | Cash & Bank | 1,08,000 |
| **Total** | **40,36,000** | **Total** | **40,36,000** |



**Q.3(*a*): R draws a bill of exchange on P for ₹ 2,00,000 on 1st July, 2022 for 4 months. P accepted the bill and sent it to R. R discounts the bill from his bankers for ₹ 1,88,000. R immediately remits ₹ 75,200 to P. On the due date, R, being unable to remit the amount due, accepts a bill for ₹ 2,50,000 for 4 months which is discounted by P for ₹ 2,36,250. P sends ₹ 56,700 to R. Before the bill is due for payment R becomes insolvent, his estate is paying fifty paise in the rupee.**

**Give the journal entries in the books of P. Also show R's account in P's books. [10 Marks]**

**Ans.**

**In the books of P**

**Journal Entries**

| Date | Particulars | L.F. | ₹ | ₹ |
|---|---|---|---|---|
| 2022-23 | | | | |
| 1 July | R A/c Dr. | | 2,00,000 | |
| | To Bills payable A/c | | | 2,00,000 |
| | (Being bill of 4 months accepted and sent to Mr. R) | | | |
| " " | Bank A/c Dr. | | 75,200 | |
| | Discounting charges A/c Dr. | | 4,800[1] | |
| | To R A/c | | | 80,000 |
| | (Being the amount received from R) | | | |
| 4 Nov. | Bills receivable A/c Dr. | | 2,50,000 | |
| | To R A/c | | | 2,50,000 |
| | (Being the bill accepted by R) | | | |
| " " | Bank A/c Dr. | | 2,36,250 | |
| | Discounting charges A/c Dr. | | 13,750 | |
| | To Bills receivable A/c | | | 2,50,000 |
| | (Being bill discounted with the bank) | | | |
| " " | Bills payable A/c Dr. | | 2,00,000 | |
| | To Bank A/c | | | 2,00,000 |
| | (Being bills payable paid) | | | |
| " " | R A/c Dr. | | 66,984 | |
| | To Bank A/c | | | 56,700 |
| | To Discounting charges A/c | | | 10,284[2] |
| | (Being amount remitted to R & along with his share of discounting charges) | | | |

| Date | Particulars | L.F. | ₹ | ₹ |
|---|---|---|---|---|
| 7 March | R A/c Dr. | | 2,50,000 | |
| | To Bank A/c | | | 2,50,000 |
| | (Being R's acceptance dishonored due to his insolvency) | | | |
| " | Bank A/c Dr. | | 93,492 | |
| | Bad debts A/c Dr. | | 93,492 | |
| | To R A/c | | | 1,86,984 |
| | (The amount received from R and the balance being written off as bad debts) | | | |

**Working Note:-**

**1. Share of P in discounting charges of first bill** $= \frac{\text{Amount remitted}}{\text{Discounted amount of Bill}} \times 100$

$$= \frac{75{,}200}{1{,}88{,}000} \times 100 \quad = 40\%$$

means 40% of ₹ 12000 *i.e.* ₹ 4800

**2. Share of R in discounting charges of second bill** $= 13{,}750 \times \frac{(1{,}20{,}000 + 56{,}700)}{2{,}36{,}250}$

$$= ₹\ 10{,}284$$

**R's A/c**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Bills Payable A/c | 2,00,000 | By Bank A/c | 75,200 |
| To Bank A/c | 56,700 | By Discounting Charges A/c | 4,800 |
| To Discounting charges | 10,284 | By Bills receivable A/c | 2,50,000 |
| To Bank A/c | 2,50,000 | By Bank A/c | 93,492 |
| | | By Bad debts A/c | 93,492 |
| Total | 5,16,984 | Total | 5,16,984 |

**Q.3(*b*): Mr. B and Mr. G had the following mutual dealings and allow each other one month's credit. At the end of three months the accounts rendered are as follow :**

| Date | Goods sold by Mr. B to Mr. G (₹) | Date | Goods sold by Mr. G to Mr. B (₹) |
|---|---|---|---|
| **July 20** | **35,000** | **July 25** | **24,000** |
| **Aug. 17** | **30,000** | **Aug. 16** | **22,000** |
| **Sept. 13** | **32,000** | **Sept. 05** | **25,000** |



**You are required to calculate the date upon which the balance should be paid so that no interest is due either to Mr. B or Mr. G (consider 20 Aug. as base date). [5 Marks]**

**Ans.** Excluded from new syllabus

**Q.3(*c*): Attempt any ONE of the following two sub-parts *i.e.* either (*i*) or (*ii*).**

**(*i*) From the following particulars prepare account current, as sent by Rose to Lily as on 31st March, 2023 by means of product method charging interest @ 6% p. a.**

| | | ₹ |
|---|---|---|
| **01-01-2023** | **Balance due from Lily** | **8,500** |
| **10-01-2023** | **Sold goods to Lily** | **14,700** |
| **15-01-2023** | **Purchased goods from Lily** | **10,200** |
| **20-01-2023** | **Goods returned by Lily** | **2,500** |
| **25-02-2023** | **Lily paid by cheque** | **9,500** |

**[5 Marks]**

**OR**

**(*ii*) Mr. X consigned goods costing ₹ 1,50,000 to Mr. Y and spent ₹ 1,800 on insurance. Mr. Y received the goods and spent ₹ 2,000 on freight. He also spent ₹ 1,500 on godown rent. Mr. Y sent bank draft of ₹ 50,000 to Mr. X as advance payment and sent his Account sales showing that 4/5 of the goods had been sold for ₹ 1,40,000. Mr. Y is entitled to a commission of 8%. One of customers turned insolvent and could not pay ₹ 5,000 due from him. (Commission does not include del credere).**

**Show the necessary journal entries in the consignee's book. [5 Marks]**

**Ans.** Excluded from new syllabus

**Q.4(*a*): The following is the schedule of balances as on 31-03-23 extracted from the books of M/s. RM & Co.**

| Particulars | Dr. ₹ | Cr ₹ |
|---|---|---|
| **Bank charges** | **24,000** | |
| **Buildings** | **9,00,000** | |
| **Capital A/c** | | **19,48,000** |
| **Carriage Outwards** | **30,000** | |
| **Cash at bank** | **39,000** | |
| **Cash in hand** | **21,000** | |
| **Discount allowed** | **36,000** | |
| **Discount received** | | **24,000** |

| Particulars | Dr. ₹ | Cr ₹ |
|---|---|---|
| Drawings | 1,80,000 | |
| Electricity Charges | 33,000 | |
| Freight on purchases | 18,000 | |
| Furniture & fixtures | 3,21,000 | |
| General office expenses | 45,000 | |
| Insurance Premium | 82,500 | |
| Interest on loan | 35,000 | |
| Loan | | 6,00,000 |
| Printing and Stationery | 27,000 | |
| Purchase Returns | | 39,000 |
| Purchases | 21,30,000 | |
| Rent for Godown | 82,500 | |
| Salaries | 1,65,000 | |
| Sales | | 35,50,000 |
| Sales Returns | 63,000 | |
| Stock on 1-4-2022 | 9,30,000 | |
| Sundry Creditors | | 6,45,000 |
| Sundry Debtors | 12,90,000 | |
| Vehicles | 3,00,000 | |
| Vehicles running expenses | 54,000 | |
| TOTAL | 68,06,000 | 68,06,000 |

**Prepare Trading and Profit & Loss Account for the year ended 31st March 2023 and the Balance Sheet as at that date after making provision for the following:**

**(i)** Value of stock as on 31-03-2023 is ₹ 4,10,000. This includes goods returned by customers on 31st March, 2023 to the value of ₹ 22,000 for which no entry has been passed in the books.

**(ii)** Purchases include furniture purchased on 01-10-2022 for ₹ 30,000.

**(iii)** Depreciate :

(1) Building by 5%

(2) Furniture and Fixtures by 10%

(3) Vehicles by 20%

**(iv)** Sundry debtors include ₹ 35,000 due from Goku and Sundry creditors include ₹ 25,000 due to him.

**(v)** Provision for bad debts is to be maintained at 4% of Sundry Debtors.



**(vi)** Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1-05-2022 to 30-4-2023. **[15 Marks]**

**Ans.**

**Trading & Profit & Loss A/c for the year ended 31st March, 2023**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening stock | | 9,30,000 | By Sales | 35,50,000 | |
| To Purchases | 21,30,000 | | **Less:** Sales returns | (63,000) | |
| **Less:** Returns | (39,000) | | **Less:** Not recorded | (22,000) | 34,65,000 |
| **Less:** Purchase of Furniture | (30,000) | 20,61,000 | By Closing Stock | | 4,10,000 |
| To Freight on Purchases | | 18,000 | | | |
| To Gross Profit c/d | | 8,66,000 | | | |
| **Total** | | **38,75,000** | **Total** | | **38,75,000** |
| To Bank Charges | | 24,000 | | | |
| To Carriage outwards | | 30,000 | | | |
| To Discount allowed | | 36,000 | By Gross profit b/d | | 8,66,000 |
| To Electric charges | | 33,000 | By Discount Received | | 24,000 |
| To General office expenses | | 45,000 | | | |
| To Insurance premium | 82,500 | | | | |
| **Less:** Drawings LIC | (42,000) | | | | |
| **Less:** Prepaid | (3,375) | 37,125 | | | |
| To Interest on Loan | | 35,000 | | | |
| To Printing | | 27,000 | | | |
| To Rent of Godown | | 82,500 | | | |
| To Salaries | | 1,65,000 | | | |
| To Vehicle Running Expenses | | 54,000 | | | |
| To Depreciation:- | | | | | |
| On building | 45,000 | | | | |
| On Furniture & Fix. | 33,600 | | | | |
| On Vehicles | 60,000 | 1,38,600 | | | |
| To Provision for bad debts | | 49,720 | | | |
| To Net profit | | 1,33,055 | | | |
| Total | | **8,90,000** | Total | | **8,90,000** |

### Balance Sheet as on 31st March, 2023

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|---|---|---|---|---|---|
| Capital | 19,48,000 | | Building | 9,00,000 | |
| **Less:** Drawings | (1,80,000) | | **Less:** Depreciation | (45,000) | 8,55,000 |
| **Less:** LIC payment | (42,000) | | Cash at Bank | | 39,000 |
| **Add:** Net Profit | 1,33,055 | 18,59,055 | Cash in hand | | 21,000 |
| | | | Furniture & Fixtures | 3,21,000 | |
| Loan | | 6,00,000 | **Add:** Purchase of Furniture | 30,000 | |
| Creditors | 6,45,000 | | **Less:** Depreciation[1] | (33,600) | 3,17,400 |
| **Less:** Due from Goku | (25,000) | 6,20,000 | | | |
| | | | Debtors | 12,90,000 | |
| | | | **Less:** Returns not recorded | (22,000) | |
| | | | **Less:** Due to Goku | (25,000) | |
| | | | | 12,43,000 | |
| | | | **Less:** Prov. for bad debts | (49,720) | 11,93,280 |
| | | | Vehicles | 3,00,000 | |
| | | | **Less:** Depreciation | (60,000) | 2,40,000 |
| | | | Closing Stock | | 4,10,000 |
| | | | Prepaid insurance | | 3,375 |
| | **Total** | **30,79,055** | | **Total** | **30,79,055** |

**Working Note 1:**

**Depreciation on Furniture & Fixtures:**

$3{,}21{,}000 \times 10\% = 32{,}100$

$30{,}000 \times 10\% \times \frac{1}{2} = \underline{1{,}500}$

$\underline{33{,}600}$

**Q.4(*b*): P, Q and R are the 3 partners in partnership firm. Partnership deed includes the following :**

(*i*) **R is entitled to get salary of ₹ 10,000 p.a.**

(*ii*) **P, Q and R are to get interest @ 6% on their respective capital of ₹ 2,50,000 ; ₹ 1,50,000 and ₹ 1,00,000.**



(*iii*) **R is to get extra benefit of 10% of profit in excess of ₹ 50,000 after providing for (*i*) and (*ii*) mentioned above.**

(*iv*) **Q is entitled to 10% of profits after providing all the amounts in paras (*i*), (*ii*) and (*iii*) mentioned above.**

(*v*) **The balance of profits will be shared by P, Q and R is ratio of 5 : 3 : 2.**

**The profits for the year before providing above items are ₹ 3,50,000.**

**You are required to prepare Profit and Loss Appropriation Account.**

**[5 Marks]**

**Ans.**

### Profit & Loss Appropriation Account

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To R: | | | By Net Profit | 3,50,000 |
| Salary | | 10,000 | | |
| To Interest on Capital: | | | | |
| P | | 15,000 | | |
| Q | | 9,000 | | |
| R | | 6,000 | | |
| To R (Extra Benefit) | | | | |
| (10% of 2,60,000 WN[1]) | | 26,000 | | |
| To Q | | 28,400 | | |
| (10% of 2,84,000 WN[2]) | | | | |
| To Divisible Profits: | | | | |
| P 5/10 | 1,27,800 | | | |
| Q 3/10 | 76,680 | | | |
| R 2/10 | 51,120 | 2,55,600 | | |
| **Total** | | **3,50,000** | **Total** | **3,50,000** |

**Working Note :**

1. ₹ 3,50,000 – ₹ 10,000 – ₹ 30,000 – ₹ 50,000 = **₹ 2,60,000**
2. ₹ 3,50,000 – ₹ 10,000 – ₹ 30,000 – ₹ 26,000 = **₹ 2,84,000**

**Q.5(*a*): X, Y and Z were partners sharing profit and losses in the ratio of 5: 3 : 2. Their Balance Sheet as on 31st March 2023 is as follows:**

**Balance Sheet as on 31st March 2023**

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|
| **Capital Accounts** | | **Building** | **2,00,000** |
| **X** | **4,25,000** | **Machinery** | **3,50,000** |
| **Y** | **2,55,000** | **Debtors** | **1,95,000** |
| **Z** | **1,40,000** | **Stock** | **1,05,000** |
| **General Reserve** | **25,000** | **Bank** | **25,000** |
| **Trade Creditors** | **30,000** | | |
| | **8,75,000** | | **8,75,000** |

**Y retired from the business on 1st April 2023 on the following terms:**

**(i) To appreciate building by 20% and to depreciate machinery by 5%.**

**(ii) Provision for doubtful debts is to create at 10%.**

**(iii) Goodwill of the firm is valued at 1,60,000 and Goodwill is not to be raised in the books of account. New profit sharing ratio will be 5 : 3.**

**(iv) Entire sum payable to Y should be brought by X and Z in such a way to make their capital ratios according to new profit ratio. Balance of Y to be paid immediately.**

**You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet after retirement.** **[10 Marks]**

**Ans.**

**Revaluation Account**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Machinery A/c | 17,500 | By Building A/c | 40,000 |
| To Provision for doubtful debts A/c | 19,500 | | |
| To Profit on revaluation: | | | |
| X Cap. A/c (5/10) 1500 | | | |
| Y Cap. A/c (3/10) 900 | | | |
| Z Cap. A/c (2/10) 600 | 3,000 | | |
| **Total** | **40,000** | **Total** | **40,000** |



**Partners' Capital Accounts**

| Particulars | X (₹) | Y (₹) | Z (₹) | Particulars | X (₹) | Y (₹) | Z (₹) |
|---|---|---|---|---|---|---|---|
| To Y's Cap. A/c (WN 2) | 20,000 | - | 28,000 | By Bal. b/d | 4,25,000 | 2,55,000 | 1,40,000 |
| | | | | By Revaluation A/c | 1,500 | 900 | 600 |
| To Bank A/c (Final payment) | - | 3,11,400 | - | By General Reserve | 12,500 | 7,500 | 5,000 |
| | | | | By X's & Z's Cap. A/c (WN 2) | - | 48,000 | - |
| To Balance c/d (WN 3 ) | 5,30,000 | - | 3,18,000 | By Bank (WN 4) | 1,11,000 | - | 2,00,400 |
| **Total** | **5,50,000** | **3,11,400** | **3,46,000** | **Total** | **5,50,000** | **3,11,400** | **3,46,000** |

**Balance Sheet after retirement of Y**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| X's Capital A/c | 5,30,000 | | Building | | 2,40,000 |
| Z's Capital A/c | 3,18,000 | 8,48,000 | Machinery | | 3,32,500 |
| Trade Creditors | | 30,000 | Debtors | 1,95,000 | |
| | | | Less: Provision | 19,500 | 1,75,500 |
| | | | Stock | | 1,05,000 |
| | | | Bank | | 25,000 |
| | **Total** | **8,78,000** | | **Total** | **8,78,000** |

**Bank A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 25,000 | By Y's Capital A/c | 3,11,400 |
| To X's Capital A/c | 1,11,000 | By Balance c/d | 25,000 |
| To Z's Capital A/c | 2,00,400 | | |
| **Total** | **3,36,400** | **Total** | **3,36,400** |

**Working note:**

**1. Calculation of gaining ratio:**

**New** **Old**

**X** = 5/8- 5/10 = $\frac{25-20}{40}$ = 5/40 (Gain)

**Y** = Nil- 3/10 = -3/10 (Sacrifice)

**Z** = 3/8- 2/10 = $\frac{15-8}{40}$ = 7/40 (Gain)

**Gaining ratio = 5:7**

**2. Goodwill Treatment :-**

| | | |
|---|---|---|
| X' Capital a/c [1,60,000 × 5/40] | Dr. | 20,000 |
| Z' Capital a/c [1,60,000 × 7/40] | Dr. | 28,000 |
| To Y's Capital a/c [1,60,000 × 3/10] | | 48,000 |

**3. Calculation of New firm's Capital:**

| | (₹) |
|---|---|
| Balance of X and Z's Capital after all adjustment (4,19,000 + 1,17,600) | 5,36,600 |
| **Add:** Amount required to pay to Y | 3,11,400 |
| **New Firm's Capital** | 8,48,000 |
| X' Capital's new capital balance = ₹ 8,48,000 × 5/8 | 5,30,000 |
| Z' Capital's new capital balance = ₹ 8,23,000 × 3/8 | 3,18,000 |

**4. Cash to be brought in by continuing partners:**

| | |
|---|---|
| Cash brought by X = ₹ 5,30,000 – ₹ 4,19,000 = | ₹ 1,11,000 |
| Cash brought by Z = ₹ 3,18,000 – ₹ 1,17,600 = | ₹ 2,00,400 |

**Q.5(b): From the following transactions of a concern, prepare the Machinery Account for the year ending 31st Dec. 2022 :**

| | |
|---|---|
| 01-01-21 | Purchased a second-hand Machinery for ₹ 2,00,000 |
| 01-01-21 | Spent ₹ 50,000 on repairs for making it serviceable |
| 30-06-21 | Purchased additional new Machinery for ₹ 3,50,000 |
| 30-06-21 | Installation charge of new Machine ₹ 15,000 |
| 01-04-22 | Repairs and maintenance of Machinery ₹ 30,000 |
| 30-06-22 | Sold second hand Machinery purchased on 01-01-21 for ₹ 1,55,000 |
| 31-12-22 | Depreciate the Machinery at 10% per annum by WDV method |

**[5 Marks]**

**Ans.**

**Machinery Account**

| Date | Particulars | J.F. | Amount (₹) | Date | Particulars | J.F. | Amount (₹) |
|---|---|---|---|---|---|---|---|
| 2021 1 Jan | To Bank A/c (Purchase of I Machinery) | | 2,00,000 | 2021 31 Dec | By Depreciation on I: 25,000 | | |
| | To Bank A/c (Repair on I Machinery) | | 50,000 | | II: 18,250 | | 43,250 |
| | | | | | By Balance c/d | | |



| Date | Particulars | J.F. | Amount (₹) | Date | Particulars | J.F. | Amount (₹) |
|---|---|---|---|---|---|---|---|
| 30 June | To Bank A/c (Purchase of II Machinery)[₹ 3,50,000 + ₹ 15,000] | | 3,65,000 | | I: 2,25,000<br>II: 3,46,750 | | 5,71,750 |
| | **Total** | | **6,15,000** | | **Total** | | **6,15,000** |
| 2022 1 Jan | To Balance b/d<br>I: 2,25,000<br>II: 3,46,750 | | 5,71,750 | 2022 30 Jan | By Depreciation on I Machinery | | 11,250 |
| | | | | | By Bank A/c | | 1,55,000 |
| | | | | | By Profit & Loss A/c (Loss) | | 58,750 |
| | | | | 31 Dec | By Depreciation on II Machinery | | 34,675 |
| | | | | | By Balance c/d | | 3,12,075 |
| | **Total** | | **5,71,750** | | **Total** | | **5,71,750** |

**Working Note:-**

| **I Machine** | ₹ | **II Machine** | ₹ |
|---|---|---|---|
| 1 Jan., 2021 | 2,50,000 | 30 June, 2021 | 3,65,000 |
| 31 Dec. | -25,000 | 31 Dec. | –18,250 |
| 1 Jan., 2022 | 2,25,000 | 1 Jan., 2022 | 3,46,750 |
| 30 June | -11,250 | 31 Dec. | -34,675 |
| | 2,13,750 | **Balance** | **3,12,075** |
| Selling price | –1,55,000 | | |
| **Loss on sale** | **58,750** | | |

**Q.5(c): Prepare a Triple Column Cash Book from the following transactions of G. Enterprises for the month of Jan. 2023.**

| Date | Particulars | Amount ₹ |
|---|---|---|
| 01-01-2023 | Cash in hand | 14,500 |
| | Cash at Bank | 1,95,000 |
| 03-01-2023 | Received from K | |
| | — Cash | 7,300 |
| | — Cheque | 15,000 |
| | Discount allowed to him | 400 |
| 06-01-2023 | Goods sold for cash | 9,100 |
| 07-01-2013 | Withdrew from bank by self-cheque | 3,000 |
| 12-01-2023 | Issued a cheque to B | 10,590 |
| | Discount received | 410 |

| Date | Particulars | Amount ₹ |
|---|---|---|
| 14-01-2023 | Received a cheque from R (in full settlement of her account ₹ 6,500) by cheque | 6,350 |
| 17-01-2023 | Withdrew from bank for personal use | 15,000 |
| 18-01-2023 | Paid electricity bill by cheque | 5,000 |
| 20-01-2023 | Cash purchases of stationary | 1,200 |
| 31-01-2023 | Deposit the entire cash in bank in excess of ₹ 10,000 | |

**[5 Marks]**

**Ans.**

### Triple Column Cash Book

| Date | Particulars | Dis. | Cash | Bank | Date | Particulars | Dis. | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|
| 2023 | | ₹ | ₹ | ₹ | 2023 | | ₹ | ₹ | ₹ |
| Jan. 1 | To Balance b/d | | 14,500 | 1,95,000 | Jan. 7 | By Cash (C) | | | 3,000 |
| " 3 | To K's A/c | 400 | 7,300 | 15,000 | " 12 | By B's A/c | 410 | | 10,590 |
| " 6 | To Sales A/c | | 9,100 | | " 17 | By Drawings A/c | | | 15,000 |
| " 7 | To Bank A/c (C) | | 3,000 | | " 18 | By Electricity A/c | | | 5,000 |
| " 14 | To R's A/c | 150 | | 6,350 | " 20 | By Stationery A/c | | 1,200 | |
| " 31 | To Cash © | | | 22,700 | " 31 | By Bank (WN) | | 22,700 | |
| | | | | | | By Bal. c/d | | 10,000 | 2,05,460 |
| | Total | 550 | 33,900 | 2,39,050 | | Total | 410 | 33,900 | 2,39,050 |

**Working Note:**

Cash deposited in the bank in excess of ₹ 10,000

= [₹ 33,900 Debit Total - ₹ 12,000 Credit Total – ₹ 10,000 balance required]

**Q.6(*a*): A Ltd. issued 25000 equity shares of ₹ 100 each at a premium of ₹ 25 per share payable as follows:**

**On Application ₹ 50**

**On Allotment ₹ 50 including premium, and**

**On Final Call ₹ 25**

**Applications were received for 29,000 shares. Letter of regret were issued to applicants for 4000 shares and shares were allotted to all other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited.**

**Show the journal entries and cash book in the books of A Limited.**

**[15 Marks]**



**Ans.**

### In the Books of A Ltd. Journal Entries

| Date | Particulars | L.F | Amount (Dr.) | Amount (Cr.) |
|---|---|---|---|---|
| | Equity Share Application A/c [25000 eq. sh × Rs. 50] Dr. | | 12,50,000 | |
| | To Equity Share Capital A/c | | | 12,50,000 |
| | (Being application money transferred to share capital) | | | |
| | Equity Allotment A/c [25000 eq. sh × 50] Dr. | | 12,50,000 | |
| | To Equity Share Capital A/c [25000 eq. sh × 25] | | | 6,25,000 |
| | To Securities Premium A/c [25000 eq. sh × 25] | | | 6,25,000 |
| | (Being allotment made due on 25,000 shares @ ₹ 50 including premium of ₹ 25 per share) | | | |
| | Calls in arrears A/c [150 eq. sh × 50] Dr. | | 7,500 | |
| | To Equity Share Allotment A/c [150 eq. sh × 50] | | | 7,500 |
| | (Being adjustment of calls in arrears of Mr. A, holder of 150 shares @ ₹ 50 in respect of Share allotment) | | | |
| | Equity Share First & Final Call A/c [25000 eq. sh × 25] Dr. | | 6,25,000 | |
| | To Equity Share Capital A/c | | | 6,25,000 |
| | (Being First & Final Call money made due @ 25 per share) | | | |
| | Calls in Arrears A/c [150 eq. sh × 25] Dr. | | 3,750 | |
| | To Equity Shares Capital A/c [150 eq. sh × 25] | | | 3,750 |
| | (Being adjustment of calls in arrears of Mr. A, holder of 150 shares @ ₹ 25 in respect of Share First & Final Call) | | | |
| | Equity Share Capital A/c [150 Eq. Sh. × 100] Dr. | | 15,000 | |
| | Security Premium A/c [150 Eq. Sh. × 25] Dr. | | 3,750 | |
| | To Equity Share Forfeiture A/c [150 Eq. Sh. × 50] | | | 7,500 |
| | To Calls in arrears A/c [150 Eq. Sh. × 75] | | | 11,250 |
| | (Being 150 shares of Mr. A, forfeited on non-payment of allotment & call money) | | | |

**Cash book (Bank column only)**

| Date | Particulars | L.F. | Amount (₹) | Date | Particulars | L.F. | Amount (₹) |
|---|---|---|---|---|---|---|---|
| | To Equity Shares Application A/c (Being application money received on 29,000 shares @ ₹ 50 per share) | | 14,50,000 | | By Equity Shares application A/c (Being application money returned on 4000 equity shares @ ₹ 50 per share) | | 2,00,000 |
| | To Equity Shares Allotment A/c (Being allotment money received on 24,850 shares @ ₹ 50 per share) | | 12,42,500 | | By Balance c/d | | 31,13,750 |
| | To Equity shares First & Final Call A/c (Being call money received on 24,850 shares @ ₹ 25 per share) | | 6,21,250 | | | | |
| | **Total** | | **33,13,750** | | **Total** | | **33,13,750** |

**Q.6(*b*): What are the sub-fields of Accounting?** **[5 Marks]**

**Ans.** ***Refer to Chapter No. 1 Q. No. 2. Page Nos. 1.1 & 1.2***