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Q1. Dec 2022 Exam, 2 marks | May 2022 Exam, 2 marks

State with reasons, whether the following statement is True or False:
If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

Answer

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, compensating errors, errors of complete omission which can be rectified without opening a suspense account.

Q2. Dec 2022 Exam, 10 marks

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 building amounting to ₹ 1,850 were debited to 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 into 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.

Answer

In the books of Hare Rama &Sons
Journal

	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	RepairsA/c Dr.		1,850	
	To Building A/c			1,850
	(Correction of wrong debit to building A/c for repairs made)			
(ii)	Shyam LalA/c Dr.		3,000	
	To Bad Debts Recovered A/c			3,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(iii)	Furniture A/c Dr.		20,000	
	To Purchases A/c			20,000
	(Correction of wrong debit to Purchases A/c for furniture purchased)			
(iv)	Purchases A/c Dr.		8,000	
	To Ram Singh A/c			8,000
	(Purchases of goods from Ram Singh remained unrecorded)			
(v)	Drawings A/c Dr.		15,000	
	To Audit Fees A/c			15,000

Q3. Dec 2021 Exam, 5 marks

Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

i. Wages paid for construction of office building debited to wages account ₹ 20,000.
ii. A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.
iii. An amount of ₹2,000 due from Mahesh Chand which had been written off as a bad debit in
iv. the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.
v. Goods (Cost being ₹5,000 and Sales price being₹6,000) distributed as free samples amount prospective customers were not recorded anywhere.
vi. Goods worth ₹1,500 returned by Green have not been recorded anywhere.

Answer

Journal

	Particulars		**L.F.**	**Dr. (₹)**	**Cr. (₹)**
(i)	Building A/c To Wages A/c (Correction of wrong debit in the wages A/c of the construction of office building)	Dr.		20,000	 20,000
(ii)	Ramesh To Purchases A/c To Sales A/c (Correction of wrong entry in the Purchases Bookof a credit sale of goods to Ramesh)	Dr.		2,400	 1,200 1,200
(iii)	Mahesh Chand To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)	Dr.		2,000	 2,000
(iv)	Advertisement expenses or Sales Promotion or Free samples A/c To Purchases A/c (Entry of the goods distributed as free samples omitted from records)	Dr.		 5,000	 5,000
(v)	Returns Inwards /Sales Return A/c To Green (Entry of goods returned by Green omitted from records)	Dr.		1500	 1500

Q4. July 2021 Exam, 10 marks

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.

Answer

S.no	Particulars		Dr. (₹)	Cr. (₹)
(1)	Scooter Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)	Dr.	27,000	27,000
(2)	Suspense Account To Profit and Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,000	1,00,000
(3)	Profit & Loss Adjustment A/c To X's Account (Credit purchase from X₹20,000, entered as sales last year, now rectified)	Dr.	40,000	40,000
(4)	Bhaskar's Account To Anand's Account (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	10,000
(5)	Suspense Account To Chandu's Account (₹5,000 received from Chandu wrongly debited to his account; now rectified)	Dr.	10,000	10,000
(6)	Trade receivables (Ramesh) / Ramesh To Suspense Account (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
(7)	Ram's Account To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense Account To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)	Dr.	1,980	1,980
(9)	Profit & Loss Adjustment A/c To Ratan's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980
(10)	Ratan's Capital Account To Suspense Account (Balance of Suspense Account transferred to Capital Account	Dr.	1,06,980	1,06,980

Q5. Jan 2021 Exam, 10 marks

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.

Answer

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)	Dr.		936	 936
(ii)	Profit & Loss Adjustment A/c Customer's Account To Suspense Account (Correction of the entry by which (a) Sales A/c was over credited by ₹540 (b) customer was credited by ₹821 instead of being debited by ₹281)	Dr.		500 1102	 1,602
(iii)	Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)	Dr.		295	 295
(iv)	Suspense Account To Senu To Sethu (Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)	Dr.		1,790	 895 895
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non preparation of invoice for goods delivered)	Dr.		1,400	 1,400
(vi)	Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)	Dr.		1,600	 1,600

(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1,280	1,280
(viii)	Trade receivable/ Q's Account To Suspense Account (₹600 due by Q not taken into trial balance, now rectified)	Dr.		600	600
(ix)	R's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3,000	3,000
(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		5,066	5,066

Q6. Nov 2020 Exam, 2 marks

State with reasons, whether the following statements are True or False:
Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.

Answer

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

Q7. Nov 2020 Exam, 5 marks

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.

Answer

Rectification entries in the books of M/s Applied Laboratories

	Particulars		**L.F.**	**Dr.(₹)**	**Cr.(₹)**
1	Profit and Loss Adjustment Account To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)	Dr.		12,500	12,500
2	Profit and Loss Adjustment Account To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)	Dr.		1,500	1,500

3	Suspense Account To Rani & Co. (Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)	Dr.		2,100	2,100
4	Profit and Loss Adjustment Account To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)	Dr.		30,000	30,000
5	Raja & Co. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)	Dr.		20,000	20,000

Q8. Nov 2019 Exam, 10 marks

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.

Answer

(i) If a Suspense Account is not opened.

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

Dr **Sales A/c** Cr

Date	Particulars	₹	Date	Particulars	₹
				By Wrong Totaling of Sales Book	2,100

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

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

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

Dr **Sen Brother's A/c** Cr

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

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

Furniture Account Dr. ₹ 15,000

To Purchases Account ₹15,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)

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

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

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

Dr **Discount A/c** Cr

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

(ii) If a Suspense Account is opened:

S.no	Particulars	Debit (₹)	Credit (₹)
(a)	Suspense Account Dr. To Sales Account (Being the correction arising from under-casting of Sales Day Book)	2,100	2,100
(b)	Return Inward Account Dr. To Gaurav & Co (Being the recording of unrecorded returns)	1,800	1,800
(c)	Suspense Account Dr. To Sen Brothers (Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250)	4,500	4,500
(d)	Furniture Account Dr. To Purchases Account (Being the correction of recording purchase of furniture as ordinary purchases)	15,000	15,000
(e)	Black & White Dr. To Discount Account (Being the recording of discount omitted to be recorded)	1,200	1,200
(f)	Discount Account Dr. To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly)	180	180

Q9. May 2019 Exam, 2 marks

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

Answer

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

Q10. May 2019 Exam, 4 marks | Nov 2022 RTP

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

i. An amount of ₹4,500 received on account of Interest was credited to Commission account.
ii. A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹2,670
iii. ₹35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
iv. Goods returned by customer for ₹ 5,000. The same have been taken into stock but no Entry passed in the books of accounts.

Answer

S.no	Particulars	Debit (₹)	Credit (₹)
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	4,500	4,500
2	M/s Sobhag Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)	90	90
3	Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	35,000	35,000
4	Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)	5,000	5,000

Q11. Nov 2018 Exam, 10 marks | May 2020 RTP

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

(i) Sales Day Book was overcast by ₹1,000.
(ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
(iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
(iv) A Bill Receivable for ₹1,550 was passed through Bills Payable Book. The Bill was given by P.
(v) Legal Expenses ₹1,190 paid to Mrs. Neetu was debited to her personal account.
(vi) Cash received from Ram was debited to Shyam ₹1,500.
(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹1,325.

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

Answer:

	Particulars		L.F.	Dr.(₹)	Cr.(₹)
1	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.		1,000	1,000

2	X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.		5,000	5,000
3	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹180 was wrongly posted as ₹810	Dr.		630	630
4	Bills Receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of ₹1,550 was wrongly passed through BP book)	Dr. Dr.		1,550 1,550	3,100
5	P & L Adjustment A/c To Mrs. Neetu (Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)	Dr.		1,190	1,190
6	Suspense A/c To Ram To Shyam (Removal of wrong debit to Shyam and giving creditto Ram from whom cash was received)	Dr.		3,000	1,500 1,500
7	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)	Dr.		90	90

Suspense A/c

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

Q12. May 2018 Exam, 2 marks

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

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

Answer

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

Q13. May 2018 Exam, 4 marks

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

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

ii. A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
iii. Investments were sold for ₹75,000 at a profit of ₹ 15,000 and passed through Sales account.
iv. An amount of ₹10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Answer

	Particulars		**L.F.**	**Dr.(₹)**	**Cr.(₹)**
(i)	Subham A/c Furniture A/c To Nigam A/c	Dr. Dr.		300 2,700	 3,000
(ii)	Sales Returns A/c To Jyothy A/c	Dr.		5,000	 5,000
(iii)	Sales A/c Dr. 75,000 To P & L A/c (Gain on sale of investments) To Investments A/c	Dr.		75,000	 15,000 60,000
(iv)	Drawings A/c To Trade Expenses A/c	Dr.		10,000	 10,000

Q14. May 2023 RTP

Mr. Anirudh was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found:

i. Purchase account was undercast by ₹ 16,000.
ii. Sale of goods to Mr. Rahim for ₹ 5,000 was omitted to be recorded.
iii. Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.
iv. Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.
v. Repairs to Machinery was debited to Machinery Account ₹ 6,100.
vi. A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

Answer

Journal Entries in the books of Mr. Anirudh

	Particulars		**L.F.**	**Dr. (₹)**	**Cr. (₹)**
(i)	Profit & Loss Adjustment A/c To Suspense A/c (Purchase Account under cast in the previous year; error now rectified)		Dr.	16,000	 16,000
(ii)	Rahim's Account To Profit & Loss Adjustment A/c 5,000 (Sales to Rahim omitted last year; now adjusted)		Dr.	5,000	 5,000
(iii)	Anubhav's Account To Ashok's Account (Amount received from Ashok wrongly posted to the account of Anubhav now rectified)		Dr.	1,200	 1,200
(iv)	Profit & Loss Adjustment A/c To Suspense* A/c (Excess posting to sales account last year, ₹4,617, instead of ₹4,167 now adjusted)		Dr.	450	 450

(v)	Profit & Loss Adjustment A/c To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)		Dr.	6,100	6,100
(vi)	Profit & Loss Adjustment A/c To Mr. Paul Account (Credit purchase of goods from Mr. Paul sale last year, now rectified)		Dr.	6,000	6,000
(vii)	Anirudh's Capital A/c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Anirudh's Capital A/c – Refer W.N. 1)		Dr.	23,550	23,550
(viii)	Suspense A/c To Anirudh's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)		Dr.	16,450	16,450

*Considering that the difference was posted to Suspense account.

Working Notes

1. **Profit and Loss Adjustment Account**

	₹		₹
To Suspense A/c To Suspense A/c To Machinery A/c To Mr. Paul's A/c	16,000 450 6,100 6,000	By Rahim's A/c By Anirudh's Capital A/c (Bal. Transfer)	5,000 23,550
	28,550		28,550

2. **Suspense Account**

	₹		₹
To Anirudh's Capital A/c (Balance Transfer)	16,450	By P & L Adj. A/c By P & L Adj. A/c	16,000 450
	16,450		16,450

Q15. May 2022 RTP

The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

i. Return outward book was under cast by ₹ 100.
ii. ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.
iii. ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.
iv. A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.
v. The Sales of ₹ 10,000 was omitted to be recorded.

Pass rectification entries in the next year.

Answer

In the Books of Dime Ltd.

2021	Particulars		L.F.	Dr.(₹)	Cr.(₹)
(i)	Suspense A/c To Profit & Loss Adjustment A/c 100 (Returns outward book was under cast now rectified).		Dr.	100	 100
(ii)	Suspense A/c To Profit & Loss Adjustment A/c (Discount received was not recorded, now rectified)		Dr.	1,500	 1,500
(iii)	Office Furniture A/c To Profit & Loss Adjustment A/c (Office furniture purchased wrongly debited to Purchase A/c. now rectified.)		Dr.	6000	 6000
(iv)	Debtors A/c Dr. To Suspense A/c (Debtors account was posted ₹ 670 in place of 760 now rectified.)		Dr.	90	 90
(v)	Debtors A/c To Profit & Loss Adjustment A/c (Sales of ₹10,000 omitted to be recorded, now rectified)		Dr.	10,000	 10,000

Q16. Nov 2021 RTP | Nov 2018 RTP

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

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

Answer

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

Q17. May 2021 RTP | May 2019 RTP

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

1) Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted there from to the credit of his account;
2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;
3) A sale of ₹20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 2,000;
4) Bad Debts aggregating ₹15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹12,500 was not posted.

Answer

	Particulars			**Dr.(₹)**	**Cr.(₹)**
(i)	Sales Account Dr. Sales Returns Account Dr. To Suspense Account (The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)		Dr. Dr.	5,000 5,000	 10,000
(ii)	Suspense Account To Mr. Hari (Wrong debit to Mr. Hari for goods returned by him, now rectified)		Dr.	15,000	 15,000
(iii)	Mr. Amit To Mr. Sumit To Suspense Account (Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹20,000, now rectified)		Dr.	20,000	 2,000 18,000
(iv)	Bad Debts Account To Suspense Account (The amount of Bad Debts written off not adjusted in General Ledger, now rectified)		Dr.	15,000	 15,000
(v)	Discount Account To Suspense Account (The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified		Dr.	12,500	 12,500

Q18. Nov 2020 RTP | Nov 2019 RTP | May 2018 RTP

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

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

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

How would you rectify the errors assuming that :

a. they were detected before preparation of Trial Balance.

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

c. they were detected after preparing Final Accounts.

Answer

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

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

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

Correct Entry	**Entry made wrongly**

Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

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

Chapter 3: Accounting Process
Bank Reconciliation System
Past Exams and RTP Questions Compiler

Q1. Dec 2022 Exam, 10 marks

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 overcast by ₹ 10,000.
ii. A Cheque for ₹ 1,18,000 issued on 6th December 2021 was not taken in the bank Column.
iii. On 20th December 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.
iv. Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2021, cheques aggregating ₹ 9,360 were 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.

Answer

Bank Reconciliation Statement of Mr. Karan as on 31st Dec., 2021

Particulars		**Details (₹)**	**Amount(₹)**
Balance as per the Cash Book			2,60,400
Add: Wrong Casting in Cash book as on 15th December2021		10,000	
Mistake in bringing forward ₹ 8,460debit balance as credit balance on 20th Dec 2021		16,920	
Cheques issued but not presented:			
Issued	12,370		
Encashed	9,360	3,010	
Dividends directly collected by bank but not yet entered in the Cash Book		35,000	
Cheque recorded twice in the Cash Book		1,75,000	
Bill for Collection credited in Bank not entered in Cash Book		53,000	2,92,930
			5,53,330
Less: Cheques issued but not entered in the Bank column		1,18,000	
Fire Insurance Premium paid by the bank directly not yet recorded in the Cash Book		7,900	
Discount allowed wrongly entered in Cash Book		1,800	(1,27,700)
Balance as per the Pass-book			**4,25,630**

Note: The above answer has been given considering that the books are not closed on 31st December 2021. Alternatively, **If the books are to be closed on 31st December then adjusted cash book will be prepared as given below:**

Adjusted Cash Book

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	2,60,400	By cheques not entered	1,18,000
To wrong casting	10,000	By Fire Insurance Premium	7,900
To error for wrong posting	16,920	By discount wrongly entered	1,800
To dividends collected by bank	35,000	By balance c/d	3,69,920

To cheques recorded twice	1,75,000		
	4,97,320		**4,97,320**

Bank Reconciliation Statement

Particulars	**Amount (₹)**
Balance as per the Cash Book (corrected)	3,69,920
Add: Cheques issued but not yet presented	3,010
Bill for collection credited by Bank	53,000
Balance as per the Pass-book	**4,25,630**

Q2. May 2022 Exam, 5 marks

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

Particulars	**Amount (₹)**
Bank balance as per Pass-book	25,00,000
Bills discounted 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

Answer

Bank Reconciliation Statement as on 31st March,2021

Particulars	**Amount (₹)**	**Amount (₹)**
Bank balance as per Pass-book		25,00,000
Add: Bills dishonoured not recorded in the cash book	12,50,000	
Cheque received entered twice in the cash book	25,000	
Insurance premium paid directly not recorded in cash book	1,50,000	
Cheque received but not sent to the bank	28,00,000	
Credit side of the bank column cast short	5,000	42,30,000
		67,30,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	12,50,000	
Bank charges recorded twice in the cash book	5,000	
Cheque issued but not presented to the bank	12,50,000	(25,05,000)
Bank balance as per Cash book		**42,25,000**

Q3. Dec 2021 Exam, 10 marks

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

i. Cheques amounting to 60,000 issued to creditors have not been presented for payment till the date
ii. Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to₹ 55,000 only collected by bank up to 30th June 2021
iii. A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.
iv. Insurance premium (up to 31st December 2020) paid by the bank ₹ 2,700 not entered in the cash book.
v. The payment side of the cash book had been under cast by ₹500
vi. Bank charges ₹ 150 shown in the pass-book had not been entered in the cash book.
vii. A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

1. To make the appropriate adjustments in the cash book, and
2. To prepare a statement reconciling it with the bank pass-book.

Answer

In the Books of G

Cash Book (Bank Column)

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

Bank Reconciliation Statement as on 30th June, 2021

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2021	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55,500)
Balance as per pass-book	**4,96,050**

Q4. July 2021 Exam, 5 marks

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. (5 Marks)

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

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

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

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

Answer

Bank Reconciliation Statement as on 31st March, 2021

Particular	**Amount (₹)**
Balance as per Pass-book (Dr.)	(3,500)
Add: Cheques deposited but returned on 24th March,2021	2,500
Discounted bill from Mr. Balaji dishonoured	5,000
Wrong debit in passbook	1,500
	5,500
Less: Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)	**2,500**

Q5. Jan 2021 Exam, 4 marks

Prepare a Bank Reconciliation Statement from the following particulars as on 31st December 2020 :

Particular	**Amount (₹)**
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	5,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000

Instruction for payment given to the bank on 31st December 2020 but the same effected by the Bank on 01st January, 2021	4,000

Answer

Adjusted Cash Book as on 31st December 2020

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

Bank Reconciliation Statement as on 31st December2020

Particular	Amount (₹)	Amount (₹)
Balance as per adjusted cash book		2,59,000
Add: Cheque issued but not presented	45,000	
Payment not effected by bank	4,000	49,000
		3,08,000
Less: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass-book		**2,83,000**

Q6. Nov 2020 Exam, 10 marks

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

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

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

Answer

i. Adjusted Cash Book as on 31-03-2020

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

ii. Bank Reconciliation Statement as on 31st March ,2020

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

Q7. Nov 2019 Exam, 10 marks

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.

Answer

Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2018		**₹**	**2018**		**₹**
Sept. 30	To Party A/c	18,000	Sept. 30	By Balance b/d	8,062
	To Customer A/c (Direct deposit)	1,15,400		By Bank charges	280
	To B/R collected 59,000 (B/R dishonoured)	59,000		By Customer A/c	1,60,000
	To Balance c/d	1,75,942		By Bills payable	2,00,000
		3,68,342			**3,68,342**

Bank Reconciliation Statement as on 30th September, 2018

Particular	Amount (₹)
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30thSept.,2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	

	(30,000)
Balance as per bank statement	**86,058**

Q8. May 2019 Exam, 10 marks

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

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

Answer

Bank Reconciliation Statement as on 30th June 2018

Particular	**Amount (₹)**	**Amount (₹)**
Overdraft as per Pass-book (Dr. Balance)		25,000
Add: Cheques issued but not presented ₹ (34,000- 20,000)	14,000	
Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
Bank charges written twice in Cash Book	80	14,480
		39,480
Less: Cheques received, recorded in cash Book but not sent to the Bank	4,000	
Cheques sent to the Bank but not collected	6,000	
Direct payment made by the bank not recorded in the Cash book	600	
Interest on Overdraft charged by Bank	1,600	
Insurance charges not entered in Cash Book	70	
Credit side of bank column of Cash Book was undercast	2,000	14,270
Overdraft as per Cash Book		**25,210**

Q9. Nov 2018 Exam, 10 marks

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

Particular	**Amount (₹)**
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 form bank in this connection	1,75,000

Answer

Bank Reconciliation Statement of Mr. Karan as on 31st March., 2018

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

Q10. May 2018 Exam, 10 marks

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 Rs,1,080 credited in the pass-book on 28th March 2018 being dishonored 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 dishonored (Discount ₹ 200) with the Bank had been dishounoured 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.

Answer

Bank Reconciliation Statement as on 31st March 2018.

Particular	Amount (₹)
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 ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) Less: Discounted dishonored 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.

Q11. May 2023 RTP

On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of ₹ 13,440 although his Bank Statement showed only ₹ 9,600 overdrawn. An examination of the two records showed the following errors:

i. The debit side of the Cash Book was undercast by ₹ 1,200.
ii. A cheque for ₹ 4,800 in favour of Hari suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.
iii. A cheque for ₹ 561 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 516 but was shown correctly in the Bank Statement.
iv. A cheque for ₹ 1,275 from Mr. Satpal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.
v. The Bank had debited a cheque for ₹ 450 to Mr. Shankar Account by mistake, it should have been debited by them to Mr. Kar's Account.
vi. A dividend of ₹ 300 was collected by the bank but not entered in the Cash Book.
vii. Cheques totaling ₹ 3,900 drawn on October was not presented for payment.
viii. Cheque for ₹ 3,600deposited on 30th October was not credited by the Bank.
ix. Interest amounting to ₹ 900 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 31st October, 2022.

Answer

Bank Reconciliation Statement as on 31st October, 2022

Particulars	**₹**	**₹**
Bank Overdraft as per Bank Statement		9,600
Add: (i) Debit side of the Cash Book was undercast	1,200	
(ii) Cheque issued but debited by the Bank to another customer's account by mistake	4,800	
(vi) Dividend directly collected by the Bank but not entered in the Cash Book	300	
(vii) Cheque issued but yet to be presented for payment	3,900	10,200
		19,800
Less: (iii) Cheque issued for ₹ 561 posted in the Cash Book as ₹ 516	45	
(iv) Cheque dishonoured but not recorded in the Cash Book	1,275	
(v) Wrong debit by the Bank to Shankar's A/c	450	
(viii) Cheque deposited but yet to be credited	3,600	
(ix) Interest debited by the Bank and yet to be entered in the Cash Book	900	6,270
Bank overdraft as per the Cash Book (Cr.)		**13,530**

Q12. Nov 2022 RTP

The Cash-book of M/s Rajat shows ₹ 1,10,280 as the balance at Bank as on 31st March, 2022. But this does not
agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

i. Subsidy ₹ 41,000 received from the government directly by the bank, but not advised to the company.
ii. On 15th March,2022 the payments side of the Cash-book was under cast by ₹ 1400.
iii. On 20th March,2022 the debit balance of ₹ 8624 as on the previous day, was brought forward as credit balance in Cash-book.
iv. A customer of the M/s Rajat, who received a cash discount of 5% on his account of ₹ 80,000, paid to M/s Rajat a cheque on 24th March,2022. The cashier erroneously entered the gross amount in the Cash-Book.
v. On 10th March,2022 a bill for ₹ 22,800 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 22,000 only.
vi. A cheque issued amounting to ₹ 6,900 returned marked 'out of date'. No entry made in Cash-book.

vii. Insurance premium ₹ 3,024 paid directly by bank under a standing order. No entry made in cash-book.

viii. A bill receivable for ₹6,120 discounted for ₹ 6,000 with the bank had been dishonoured on 30th March,2022, but advice was received on 1st April,2022.

ix. Bank recorded a Cash deposit of ₹ 6,550 as ₹ 6,505.

Prepare Bank Reconciliation Statement on 31st March,2022.

Answer

Bank Reconciliation Statement on 31st March,2022.

Particulars	₹	₹
Bank Balance as per Cash Book		1,10,280
Add: (i) Subsidy from government received directly by the bank not recorded in the Cash Book	41,000	
(iii)Debit balance of ₹8624 brought forward as credit balance on 20th March, 2022 in the Cash Book	17,248	
(vi) Cheque issued returned marked 'out of date'	6,900	65,148
		1,75,428
Less: (ii) Cash Book under cast on 15th March, 2022	1,400	
(iv) Discount allowed to a customer, however entry made at gross amount in the Cash Book	400	
(v) Commission charged by bank on discounting of bill, not considered in Cash Book	800	
(vii) Insurance Premium paid directly by bank under standing instructions	3,024	
(viii) Discounted B/R dishonoured; not entered in Cash Book	6,120	
(ix) Bank recorded short cash deposit	45	11,789
Balance as per Bank Statement		**1,63,639**

Q13. May 2022 RTP

From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

1) Bank overdraft as per Pass-book as on 31st March, 2021 was ₹ 8,800
2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.
3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.
4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.
5) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass-book
6) Interest on overdraft ₹ 930 was debited by Bank in Pass-book and the information was received only on 3rd April 2021.
7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.
8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass-book only.

Answer

Bank Reconciliation Statement as on 31st March, 2021

Particular		**Amount (₹)**
Overdraft as per Pass-book		8,800
Add: (i) Cheques issued but not presented till 31st March	5,800	
(ii) Transfer from fixed deposit	2,000	
(iii) Direct deposit by M/s Rajesh Trader	400	8,200
		17,000
Less: (i) Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii)Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii)Interest on overdraft debited in Pass-book only	930	
(iv)Corporation tax paid appeared in Pass-book only	1200	6,200
Overdraft as per Cash Book		**10,800**

Q14. Nov 2021 RTP

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

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

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

Answer

Bank Reconciliation Statement as on 31st March, 2021

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

Q15. May 2021 RTP

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

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

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

Answer

Cash Book as on 31.3.2020
(After making necessary adjustments)

Dr. Cr.

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

Bank Reconciliation Statement as on 31.3.2020

Particulars	**Details (₹)**	**Amount (₹)**

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

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

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

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

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

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

Q16. Nov 2020 RTP | Nov 2018 RTP

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

i. Balance as per Pass-book is ₹ 10,000.
ii. Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).
iii. Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.
iv. Withdrawal column of the Pass-book undercast by ₹ 100.
v. The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.
vi. The payment of a cheque of ₹ 350 was recorded twice in the Pass-book.
vii. The Pass-book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank).

Answer

Bank Reconciliation Statement as at 31.03.2020

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

Q17. May 2020 RTP

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

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

Answer

Bank Reconciliation Statement as on 31st March, 2018

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

Q18. Nov 2019 RTP

On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totaled ₹ 26,52,000.

You are required:

a. to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and

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

Answer

i. Cash Book (Bank column)

Date 2019	Particulars	Amount(₹)	Date 2019	Particulars	Amount (₹)
Sept. 30	To Party A/c	32,000	Sept.30	By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d (B/R dishonoured)	22,484		By Customer A/c	2,80,000
		2,89,284			**2,89,284**

ii. Bank Reconciliation Statement as on 30th September, 2019

Particular	Amount (₹)
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	**41,516**

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

Q19. May 2019 RTP

On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

i. The debit side of the Cash Book was undercast by ₹ 400.
ii. A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.
iii. A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.
iv. A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.
v. The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.
vi. A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.
vii. Cheques totalling ₹ 1,300 drawn on November was not presented for payment.
viii. Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.
ix. Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 30th November 2018.

Answer

Bank Reconciliation Statement on 30th November 2018.

Particulars	**₹**	**₹**
Bank Overdraft as per Bank Statement		3,200
Add: (i) Debit side of the Cash Book was undercast	400	
(ii) Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
(vi) Dividend directly collected by the Bank but not entered in the Cash Book	100	
(vii) Cheque issued but yet to be presented for payment	1,300	3,400
		6,600
Less: (iii) Cheque issued for ₹ 561 posted in the Cash Book as ₹ 516	45	
(iv) Cheque dishonoured but not recorded in the Cash Book	425	
(v) Wrong debit by the Bank to Shankar's A/c	150	
(viii) Cheque deposited but yet to be credited	1,200	
(ix) Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
Bank overdraft as per the Cash Book (Cr.)		**4,480**

Q20. May 2018 RTP

The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

i. Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.
ii. On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.
iii. On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.
iv. A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.
v. On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.
vi. A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.
vii. Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.
viii. A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

ix. Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Answer

Bank Reconciliation Statement on 31st March, 2017.

Particulars	₹	₹
Bank Balance as per Cash Book		27,570
Add: (i) Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
(iii)Debit balance of ₹8624 brought forward as credit balance on 20th March, 2022 in the Cash Book	4,312	
(vi) Cheque issued returned marked 'out of date'	1,725	16,287
		1,75,428
Less: (ii) Cash Book under cast on 15th March, 2022	350	
(iv) Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
(v) Commission charged by bank on discounting of bill, not considered in Cash Book	200	
(vii) Insurance Premium paid directly by bank under standing instructions	756	
(viii) Discounted B/R dishonoured; not entered in Cash Book	1,530	
(ix) Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement		**40,876**

Q1. Dec 2022 Exam, 2 marks

State with reasons, whether the following statements are True or False:
Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

Answer

True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

Q2. May 2022 Exam, 5 marks

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.

Answer

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

Particulars		**Amount(₹)**
Value of stock as on 1st April, 2020		28,00,000
Add: Purchases during the year		1,38,40,000
Add: Manufacturing expenses during the above period		28,00,000
		1,94,40,000
Less: Cost of sales during the period:	2,08,80,000	
Sales	51,40,000	1,57,40,000
Less: Gross profit		**37,00,000**
Value of stock as on 31.3.2021		

Working Note:

Particulars	**Amount (₹)**
Calculation of gross profit:	
Gross profit on normal sales 25/100 x (2,08,80,000 -6,40,000)	50,60,000
Gross profit on the particular (abnormal) item 6,40,000 - (8,00,000 – 2,40,000)	80,000
	51,40,000

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

Alternatively the solution can be presented in the following manner:

Dr Trading account for the year ended 31st March, 2021 Cr

	Normal	**Ab normal**	**Total**		**Normal**	**Ab normal**	**Total**
To Opening Stock To Purchases	22,40,000 13,8,40,000	5,60,000 0	28,00,000 1,38,40,000	By Sales By Closing	2,02,40,000	6,40,000	2,08,80,000

To Manufacturing Expenses To Gross Profit (Working Note)*	28,00,000 50,60,000	0 80,000	28,00,000 51,40,000	Stock	37,00,000	0	37,00,000
Total	2,39,40,000	6,40,000	2,45,80,000		2,39,40,000	6,40,000	2,45,80,000

Q3. Dec 2021 Exam, 4 marks

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

Answer

Oil Mill

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

	Receipts			**Issues**			**Balance**		
Date	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**
		₹	**₹**		**₹**	**₹**		**₹**	**₹**
1-1-2021	Balance							Nil	
1-1-2021	10	300	3,000				10	300	3,000
15-1-2021				5	300	1,500	5	300	1,500
1-2-2021	20	400	8,000				25	380	9,500
15-2-2021				10	380	3,800	15	380	5,700
20-2-2021				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹ 380 = ₹ 1,900

Q4. July 2021 Exam, 5 marks

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

Answer

	Amount (₹)
Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross margin	3,50,000

Rate of gross margin = $\frac{3,50,000}{8,50,000} \times 100 = 41.18\%$

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830

Q5. Jan 2021 Exam, 5 marks

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

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

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

Except the above mentioned transaction, gross profit earned during the year was 20 on sales.

Answer

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

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

Q6. Nov 2020 Exam, 10 marks

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.

Answer

Statement of Valuation of Stock on 29thFebruary, 2020

		₹
Value of stock as on 23rd February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
	1,80,000	

Purchases during the period from 23rd February, 2020 to 29th February, 2020 Goods in transit on 29th February, 2020 Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,20,000 1,28,000	6,58,000 34,58,000
Less: Cost of sales during the period from 23rdFebruary, 2020 to 29th February, 2020 Sales (₹ 13,60,000-₹ 1,60,000) Less: Gross profit Value of stock as on 29th February, 2020	12,00,000 1,20,000	10,80,000 **23,78,000**

Working Notes:

1.	**Calculation of normal sales:**		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	1,60,000	3,10,000
			10,50,000
2.	**Calculation of gross profit:**		
	Gross profit on normal sales 20/100 x 10,50,000		2,10,000
	Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹1,50,000)		90,000
	Gross profit		1,20,000

Q7. Nov 2019 Exam, 2 marks

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

Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

Answer

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

Q8. Nov 2019 Exam, 5 marks | May 2018 RTP

Distinguish between Periodic Inventory System and Perpetual Inventory System.

Answer

	Periodic Inventory System	**Perpetual Inventory System**
1	This system is based on physical verification.	It is based on book records.
2	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3	This system determines inventory and takes cost of goods sold as residual Figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6	This system is simple and less expensive.	It is costlier method.
7	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

Q9. May 2019 Exam, 5 marks | Nov 2020 RTP

Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at ₹ 1,25,000. It has been found that;

i. Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.
ii. Purchases are entered in the Purchase Book on the day the Invoices are received.
iii. Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.
iv. Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.
v. Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.
vi. Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2019 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost.

Ascertain the value of Stock as on 31st March 2019.

Answer

Statement of Valuation of Physical Stock as on 31st March,2019

	₹	₹
Value of stock as on 10th April, 2019		1,25,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2019 and 9.4.2019	20,000	
Less: Gross profit @20% on sales	(4,000)	16,000
Free sample		4,000
		1,45,000
Less: Purchases actually received during the intervening period:	10,000	
Purchases from 1.4.2019 to 9.4.2019	(2,000)	(8,000)
Less: Goods not received upto 9.4.2019		1,37,000
		20,000
Add: Purchases during March, 2019 but not recorded in stock		**1,57,000**
Value of physical stock as on 31.3.2019		

Q10. May 2023 RTP

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

i. Sales are entered in the Sales Book on the day of dispatch and return inwards 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 2022 to 9th April 2022 amounting to ₹ 80,000 as per Sales Day Book.
iv. Free samples for business promotion issued during 1st April 2022 to 9th April 2022amounting to ₹ 16,000 at cost.
v. Purchases during 1st April 2022 to 9th April 2022 amounting to ₹ 40,000 but goods amounts to ₹ 8,000 not received till the date of stock taking.
vi. Invoices for goods purchased amounting to ₹ 80,000 were entered on 28th March 2022 but the goods were not included in stock.

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

Answer

Statement of Valuation of Physical Stock as on 31st March,2022

	₹	₹
Value of stock as on 10th April, 2022		5,00,000

Add: Cost of sales during the intervening period		
Sales made between 1.4.2022 and 9.4.2022	80,000	
Less: Gross profit @20% on sales	(16,000)	64,000
Free sample		16,000
		5,80,000
Less: Purchases actually received during the intervening period:	40,000	
Purchases from 1.4.2022 to 9.4.2022	(8,000)	(32,000)
Less: Goods not received upto 9.4.2022		5,48,000
		80,000
Add: Purchases during March, 2019 but not recorded in stock		**6,28,000**
Value of physical stock as on 31.3.2022		

Q11. Nov 2022 RTP

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

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

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

iii. Sales Return ₹ 5,000

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

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

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

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

Answer

Statement of Valuation of Stock on 31st March, 2022

	₹	₹
Value of stock as on 15th April, 2022		2,50,000
Add:Cost of sales during the period from 31st March,2022 to 15th April, 2022	2,00,000	
Sales (₹ 2,05,000-5,000)	40,000	1,60,000
Less: Gross Profit (20% of ₹ 2,00,000)		24,000
Cost of goods sent on approval basis (80% of ₹ 30,000)		4,34,000
	25,170	
Less: Purchases during the period from 31st March,2022 to 15th April, 2022	12,000	37,170
		3,96,830
Unsold stock out of goods received on consignment basis (30% of ₹ 40,000)		

Q12. May 2022 RTP

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

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

ii. Purchases ₹ 15,102 (including cash purchases ₹ 5970)

iii. Sales Return ₹ 3,000.

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

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

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

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

Answer

Statement of Valuation of Stock on 31st March, 2021

	₹	₹
Value of stock as on 15^{th} April, 2021		1,50,000
Add:Cost of sales during the period from 31st March,2021 to 15th April, 2021	1,20,000	
Sales (₹ 1,23,000 – ₹ 3,000)	24,000	96,000
Less: Gross Profit (20% of ₹ 1,20,000)		14,400
Cost of goods sent on approval basis (80% of ₹ 18,000)		2,60,400
	15,102	
Less: Purchases during the period from 31^{st} March,2021 to 15^{th} April, 2021	7,200	22,302
		2,38,098
Unsold stock out of goods received on consignment basis (30% of ₹ 24,000)		

Q13. Nov 2021 RTP

Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021and their accounts have been prepared to that date. The stock valuation taken on 31^{st} March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

i. The cost of stock on 30^{th} September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

ii. On 30^{th} September, stock sheet showed the following discrepancies:

a. A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

b. The total of a page had been undercast by ₹ 600.

iii. Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30^{th} September, 2020. Invoices entered in April,2021relating to goods received in March, 2021 totaled ₹12,000.

iv. Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30^{th} September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021totaled ₹ 12,000.

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

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

Answer

Valuation of Physical Stock as at March 31, 2021

	₹	₹
Stock at cost on 30.09.2020		2,40,000
Add:		
1) Undercasting of a page total	600	
2) Goods purchased and delivered during September March, 2021(2,10,000 – 9,000 + 12,000)	2,13,000	
3) Cost of sales return ₹ (3,000 – 600)		

	2,400	2,16,000
Less:		4,56,000
(1) Overcasting of a page total ₹ (16,000 – 15,000)		
(2) Goods sold and dispatched during January –March, 2021 ₹ (2,70,000 – 15,000 +12,000) 2,67,000	1,000	
Less: Profit margin $\frac{125}{25}$×2,67,000 53,400	2,13,600	
Value of stock as on 31st March, 2021		2,14,600
		2,41,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 1,20,000 goods delivered in March, 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021

Q14. May 2021 RTP

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

When closing inventory is overstated, net income for the accounting period will be understated.

Answer

False: When closing inventory is overstated, net income for the accounting period will be overstated.

Q15. May 2021 RTP

Closing stock is valued by Zebra Stores on generally accepted accounting principles.Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

Answer

Statement showing the valuation of stock as on 31st March, 2020

		₹
A	Value of Stock as on 10th April, 2020	5,02,500
B	Add: Cost of sales after 31^{st} March, till stock taking (₹ 20,625 – ₹ 5,156)	15,469
C	Less: Purchases for the next period (net)	(24,300)
D	Less: Cost of Sales Returns (900-675)	(675)
E	Less: Loss on revaluation of slow moving inventories	(1800)
F	Less: Reduction in value on account of default	(900)
G	Value of Stock on 31^{st} March, 2020	**4,90,294**

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

Q16. Nov 2020 RTP May 2018 RTP

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

Finished goods are normally valued at cost or market price whichever is higher.

Answer

False - Finished goods are normally valued at cost or net realizable value whichever is lower

Q17. Nov 2020 RTP

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.

i. Sales ₹ 41,000 (including cash sales ₹ 10,000)
ii. Purchases ₹ 5,034 (including cash purchases ₹ 1,990)
iii. Sales Return ₹ 1,000.
iv. On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
v. The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

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

You are required to ascertain the value of Inventory as on 31st March, 2020.

Answer

Statement of Valuation of Stock on 31st March, 2020

	₹	₹
Value of stock as on 15th April, 2020		50,000
Add: Cost of sales during the period from 31st March, 2020 to 15th April, 2020	40,000	
Sales (₹ 41,000 – ₹ 1,000)	8,000	32,000
Less: Gross Profit (20% of ₹ 40,000)		4,800
Cost of goods sent on approval basis (80% of ₹ 6,000)		86,800
	5,034	
Less: Purchases during the period from 31st March, 2020 to 15th April, 2020	2,400	7,434
		79,366
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)		

Q18. May 2020 RTP| Nov 2018 RTP

Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017
and some other information is available to you:

i. The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.
ii. On 31st December, stock sheet showed the following discrepancies:
a. A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
b. The total of a page had been undercast by ₹ 200.
iii. Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.
iv. Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

v. During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. Transfer of ownership takes place at the time of delivery of goods.

Answer

Valuation of Physical Stock as at March 31, 2018

	₹	₹
Stock at cost on 31.12.2017		80,000
Add: Undercasting of a page total	200	
Goods purchased and delivered during January –March, 2018₹ (70,000 – 3,000 +4,000)	71,000	
Cost of sales return ₹ (1,000 – 200)	800	72,000
		1,52,000
Less:(1) Overcasting of a page total ₹ (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January –March, 2018 ₹ (90,000 – 5,000 +	71,200	
4,000)		72,200
89,000		**79,800**
Less: Profit margin $\frac{125}{25}$×89,000 17,800		
Value of stock as on 31st March, 2018		

Q19. Nov 2019 RTP

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

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

Answer

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

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

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

Q1. Dec 2022 Exam, 4 marks

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 andsold 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.

Answer

In the books of A
Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.2019	To Bank	1,50,000	31.03.2020	By Depreciation	30,000
	(1,30,000+20,000)		31.03.2020	By Balance c/d	1,20,000
		1,50,000			1,50,000
01.04.2020	To Balance b/d	1,20,000	31.03.2021	By Depreciation	30,000
			31.03.2021	By Balance c/d	90,000
		1,20,000			1,20,000
01.04.2021	To Balance b/d	90,000	01.10.2021	By Bank A/c	1,00,000
01.10.2021	To Bank	50,000	01.10.2021	By Depreciation	6,750
01.10.2021	To Profit on Sale	16,750	31.03.2022	By Depreciation	1,875
			31.03.2022	By Balance c/d	48,125
		1,56,750			1,56,750

Alternative: Calculation of Book Value of Machines

	Machine 1 (in ₹)	Machine 2 (in ₹)
Date of Purchase	01.04.2019	01.10.2021
Original Cost	1,50,000	
Depreciation for (2019-20) (SLM)	(30,000)	
WDV on 31.03.2020	1,20,000	
Depreciation for (2020-21) (SLM)	(30,000)	
WDV on 31.03.2021	90,000	
Depreciation for (2021-22) (WDV)	(6,750)	
WDV (original cost of Machine 2) on 1.10.2021	83,250	50,000
Sale Proceeds	(1,00,000)	
Profit on Sale	16,750	
Depreciation for 2021-22 (WDV @ 15%) (3 months)	-	(1,875)
WDV on 31.03.2022	-	48,125

Q2. May 2022 Exam, 10 marks

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

Answer

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

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)

01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
				By Balance c/d	65,46,159
		1,09,44,600			1,09,44,600

Working Note:

(i) Calculation of loss on sale of machine on 01-09-2020		₹
		21,87,000
Cost on 1-4-2018		(2,18,700)
Less: Depreciation @ 10% on ₹ 21,87,000		19,68,300
W.D.V. on 31-03-2019		(1,98,630)
Less: Depreciation @ 10% on ₹ 19,68,300		17,71,470
W.D.V. on 31-03-2020 17,71,470		(73,811)
Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		16,97,659
		(3,75,000)
Less: Sale proceeds on 01-09-2020		13,22,659
Loss		
(ii) Calculation of loss on scrapped machine		21,85,000
Cost on 1-4-2019		(2,18,500)
Less: Depreciation @ 10% on ₹ 21,85,000		19,66,500
W.D.V. on 31-3-2020		(81,938)
Less: Depreciation @ 10% on ₹19,66,500 for 5 months		18,84,562
Loss		
(iii) Depreciation		95,00,000
Balance of machinery account on 1-4-2020	17,71,470	
Less: W.D.V of machinery sold	19,66,500	(37,37,970)
W.D.V. of machinery scrapped		57,62,030
Balance of other machinery after sale and scrap on 1-4-2020		(5,76,203)
		(84,268)
Depreciation @ 10% on ₹ 57,62,030 for 12 months		6,60,471
Depreciation @ 10% on ₹ 14,44,600 for 7 months		

Note: The figures are rounded off to nearest rupee.

Q3. Dec 2021 Exam, 5 marks

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.

Answer

Calculation of Gain/Loss on Bus damaged by Fire

Particulars	**₹**
Original cost as on 1.1.2019	8,00,000

Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March,2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)
WDV as on 31st March,2020 6,08,000	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

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

	MachineI damaged on 1st July,2020 (8,00,000) ₹	**Machine II Purchased on 1st July,2020 (10,00,000) ₹**
Book value as on 1st April,2020	6,08,000	
Purchased on 1st July,2020		10,00,000
Depreciation @20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)

Total depreciation ₹ **1,80,400**

Q4. July 2021 Exam, 4 marks

The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

Answer

Calculation of depreciation for the year ended 31.3.21

	Machine I (28,54,000 - 2,16,000) ₹	**Machine II Purchased on 1st July ₹**	**Machine III Purchased on 1st Nov ₹**	**Depreciation on sold Machine IV ₹**
Book value as on 1st April, 2020	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) **₹ 4,92,800**

Q5. Jan 2021 Exam, 10 marks

M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completelydestroyed 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.

Answer

Truck A/c

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2019			**2019**		
Jan-01	To balance b/d	35,000,000	Oct-01	By bank A/c	35,00,000
Oct-01	To Profit & Loss A/c Profit on settlement of Truck (W.Note 1)	7,50,000	Oct-01	By Depreciation on lost assets	7,50,000
			Dec-31	By Depreciation A/c	93,00,000

Oct-01	To Bank A/c	60,00,000		(W.Note 3)	
			Dec-31	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
2020 Jan-01	To balance b/d	2,82,00,000	2020 Dec-31	By Depreciation A/c (W. Note 3)	1,02,00,000
			Dec-31	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of truck

Original cost as on 1.7.2017	50,00,000
Less: Depreciation for 2017 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2017	10,00,000
	35,00,000
Less: Depreciation for 2019 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.01.2018

	Amount
WDV of 1 truck as on 31.12.2017 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.01.2018	3,50,00,000

3. Calculation for Depreciation for 2018 and 2019

	Amount
Depreciation for 2018	
On 9 trucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2019	90,00,000
On 9 tucks (₹ 50,00,000 x 9 x 20%)	12,00,000
On new truck (Rs 60,00,000 x 1 x 20%)	1,02,00,000

Q6. Nov 2020 Exam, 5 marks

Discuss the factors taken into consideration for calculation of depreciation.

Answer

Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

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

3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Q7. Nov 2019 Exam, 4 marks

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.

Answer

Machinery Account

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

Working Note:

Book Value of Machines

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

Q8. May 2019 Exam, 10 marks | Nov 2022 RTP

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.

Answer

In the books of Firm
Machinery Account

		₹			₹
1.1.2015	To Bank A/c	37,000	31.12.2015	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2015	By Balance c/d	36,000
		40,000			40,000
1.1.2016		36,000	31.12.2016	By Depreciation A/c	6,150

	To Balance b/d			(₹ 5,400 + ₹ 750)	
1.7.2016		10,000	31.12.2016	By Balance c/d	39,850
	To Bank A/c	46,000		(₹ 30,600 + ₹ 9,250)	46,000
1.1.2017		39,850	1.7.2017	By Bank A/c(sale)	28,000
1.7.2017	To Balance b/d	25,000	1.7.2017	By Profit and Loss A/c	
	To Bank A/c			(Loss on Sale – W.N. 1)	305
				By Depreciation A/c	
			31.12.2017	(₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
				By Balance c/d	
				(₹ 7,862 + ₹ 23,125)	30,987
		64,850			64,850
1.1.2018		30,987	1.7.2018	By Bank A/c (sale)	2,000
	To Balance b/d		1.7.2018	By Profit and Loss A/c(Loss on Sale –W.N.	5,272
			31.12.2018	1)	4,059
				By Depreciation A/c	
			31.12.2018	(₹ 590 + ₹ 3,469)	19,656
		30,987		By Balance c/d	30,987

Working Note:

Book Value of machines

	Machine I (₹)	**Machine II (₹)**	**Machine III (₹)**
Cost of all machinery	40,000	10,000	25,000
(Machinery cost for 2015)			
Depreciation for 2015	4,000		
Written down value as on	36,000		
31.12.2015		10,000	
Purchase 1.7.2016 (6 months)	5,400	750	
Depreciation for 2016	30,600	9,250	
Written down value as on	2,295		
31.12.2016	28,305		
Depreciation for 6 months (2017)	28,000		
Written down value as on 1.7.2017	**305**		
Sale proceeds			25,000
Loss on sale		1,388	1,875
Purchase 1.7.2017		7,862	23,125
Depreciation for 2017 (6 months)		590	
Written down value as on		7,272	
31.12.2017		2,000	
Depreciation for 6 months in 2018		**5,272**	
Written down value as on 1.7.2018			3,469
Sale proceeds			**19,656**
Loss on sale			
Depreciation for 2018			
Written down value as on			
31.12.2018			

Q9. Nov 2018 Exam, 2 marks | Nov 2022 RTP

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

Depreciation is a non-cash expense and does not result in any cash outflow.

Answer

True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

Q10. Nov 2018 Exam, 4 marks | May 2023 RTP | May 2020 RTP

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

Answer

Calculation of depreciation for 5th year

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

Q11. May 2022 RTP

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

Answer

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To Bank A/c	1,60,000	31.03.2018	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.03.2018	By Balance c/d (₹ 1,80,000 + ₹76,000)	2,56,000
1.10.2017	To Bank A/c	80,000			
		2,80,000			2,80,000
1.4.2018	To Balance b/d	2,56,000	31.03.2019	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.03.2019	By Balance c/d (₹ 1,60,000 +₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.4.2019	To Balance b/d	2,28,000	1.10.2019	By Bank A/c	1,00,000
31.12.2019	To Bank A/c	30,000	1.10.2019	By Profit and Loss A/c (Loss on Sale –W.N. 1)	50,000
			31.03.2020	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
			31.03.2020	By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.4.2020	To Balance b/d	89,250	31.3.2021	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
			31.3.2021	By Balance c/d (₹ 51,000 + ₹24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I (₹)	Machine II (₹)	Machine III (₹)
Cost	2,00,000	80,000	30,000
Depreciation for 2017-18	20,000	4,000	

Written down value as on 31.03.2018	1,80,000	76,000	
Depreciation for 2018-19	20,000	8,000	
Written down value as on 31.03.2019	1,60,000	68,000	
Depreciation for 2019-20 (Mach I- 6 months)	10,000	8,000	750
	1,50,000		
Written down value as on 01.10.2019		60,000	29,250
Written down value as on 31.03.2020	1,00,000		
Sale proceeds	50,000		
Loss on sale			

Q12. Nov 2021 RTP | Nov 2020 RTP | May 2019 RTP | May 2018 RTP

State with reasons, whether the following statements are true or false:
Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

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

Q13. Nov 2021 RTP

The M/s Nishant Transport purchased 10 Buses at ₹ 15,00,000 each on 1st April 2017. On October 1st, 2019, one of the Buses is involved in an accident and is completely destroyed and ₹ 7,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 18,00,000. Thecompany write off 10% on the original cost per annum. The company observe the calendar year as its financial year.
You are required to prepare the buses account for two year ending 31 Dec, 2020.

Answer

Buses A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			**2019**		
Jan-01	To balance b/d	1,23,75,000	Oct-01	By bank A/c	7,00,000
Oct-01	To Bank A/c	18,00,000	Oct-01	By Depreciation on lost assets	1,12,500
			Oct-01	By Profit & Loss A/c (Loss on settlement of Bus)	4,25,000
			Dec-31	By Depreciation A/c	13,95,000
			Dec-31	By balance c/d	1,15,42,500
		1,41,75,000			1,41,75,000
2020			2020		
Jan-01	To balance b/d	1,15,42,500	Dec-31	By Depreciation A/c	15,30,000
			Dec-31	By balance c/d	1,00,12,500
		1,15,42,500			1,15,42,500

Working note:

1. To find out loss/Profit on settlement of Bus	₹
Original cost as on 1.4.2017	15,00,000
Less: Depreciation for 2017	1,12,500
	13,87,500
Less: Depreciation for 2018	1,50,000
	12,37,500
Less: Depreciation for 2019 (9 months)	1,12,500
	11,25,000
Less: Amount received from Insurance company	7,00,000
Loss on Settlement of Bus	4,25,000

Q14. May 2021 RTP

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

Answer

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

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.2019	To Balance b/d	4,56,000	01.07.2019	By Bank A/c	2,50,000
30.09.2019	To Bank A/c	60,000		By P&L A/c –	
				Loss on Sale	50,000
			31.12.2019	By Depreciation	37,500
				By Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.2020	To Balance b/d	1,78,500	31.12.2020	By Depreciation	26,775
			31.12.2020	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	**Machine 2**	**Machine 3**
	(in ₹)	**(in ₹)**	**(in ₹)**
Date of Purchase	01.01.2017	01.07.2017	30.09.2019
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2017 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2017	3,60,000	1,52,000	
Depreciation for 2018 (SLM)	(40,000)	(16,000)	(1,500)
WDV on 31.12.2018	3,20,000	1,36,000	58,500
Depreciation for 2019 (SLM)	(20,000)	(16,000)	
WDV on 31.12.2019 (30th June for	3,00,000	1,20,000	
Machine1)	(2,50,000)		
Sale Proceeds	50,000		
Loss on Sale	-	(18,000)	(8,775)
Depreciation for 2020 (WDV @ 15%)	-	**1,02,000**	**49,725**
WDV on 31.12.2020			

Q15. Nov 2020 RTP | Nov 2019 RTP | Nov 2018 RTP

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

Answer

Machinery Account in the books of M/s. Green Channel Co.

Date	**Particulars**	**Amount ₹**	**Date**	**Particulars**	**Amount ₹**
1.1.2017	To Bank A/c	1,60,000	31.12.2017	By Depreciation A/c	24,000
	To Bank A/c			(₹ 20,000 + ₹ 4,000)	
	(Erection	40,000	31.12.2017	By Balance c/d	2,56,000
1.7.2017	charges)	80,000		(₹ 1,80,000 +	
	To Bank A/c	2,80,000		₹76,000)	2,80,000

1.8.2018	To Balance b/d	2,56,000	31.12.2018	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2018	By Balance c/d (₹ 1,60,000 +₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.1.2019	To Balance b/d	2,28,000	1.7.2019	By Bank A/c	1,00,000
30.9.2019	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale –W.N. 1)	50,000
			31.12.2019	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
			31.12.2019	By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.1.2020	To Balance b/d	89,250	31.12.2020	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I (₹)	Machine II (₹)	Machine III (₹)
Cost	2,00,000	80,000	30,000
Depreciation for 2017	20,000	4,000	
Written down value as on 31.12.2017	1,80,000	76,000	
Depreciation for 2018	20,000	8,000	
Written down value as on 31.12.2018	1,60,000	68,000	
Depreciation for 2018	10,000	8,000	750
Written down value as on 31.12.2019	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

Q16. May 2021 RTP

A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [To write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000].

You are required to show the Lease Account for four years (2014-15 to 2017-18) and also the relevant entries posted to the profit and loss account.

Answer

Lease Account

Dr. 2014-15		₹	2014-15		**Cr.** ₹
April. 1	To Bank A/c	2,00,000.00	Mar. 31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c (5% on ₹ 2,00,000)	10,000.00		By Balance c/d	1,53,597.60
		2,10,000.00			2,10,000.00
2015-16			2015-16		
April. 1	To Balance b/d	1,53,597.60	Mar.31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c (5% on ₹1,53,597.60)	7,679.88		By Balance c/d	1,04,875.08
		1,61,277.48			1,61,277.48
2016-17			2016-17		
April 1		1,04,875.08	Mar 31		56,402.40

Mar. 31	To Balance b/d	5,243.75	Mar 31		53,716.43
	To Interest A/c	1,10,118.83		By Depreciation	1,10,118.83
2017-18			2017-18	A/c	
April. 1		53,716.43	Mar. 31	By Balance c/d	56,402.25
Mar. 31	To Balance b/d	2,685.82			
	To Interest A/c	56,402.25			56,402.25
				By Depreciation A/c	

Profit and Loss Account

2014-15		₹	2014-15		₹
Mar. 31	To Depreciation	56,402.40	Mar. 31	By Interest A/c	10,000.00
2015-16	A/c		2015-16		
Mar. 31		56,402.40	Mar. 31	By Interest A/c	7.679.88
2016-17	To Depreciation		2016-17		
Mar. 31	A/c	56,402.40	Mar. 31	By Interest A/c	5,243.75
2017-18			2017-18		
Mar. 31	To Depreciation	56,402.25	Mar. 31	By Interest A/c	2,685.82
	A/c				
	To Depreciation				
	A/c				

Q17. May 2018 RTP

The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The
company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.
You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

Answer

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c	4,50,000	Oct-01	By Depreciation	6,75,000
Oct-01	To Bank A/c	50,00,000		(Profit on settlement on lost	
			Dec-31	assets of Truck)	83,50,000
			Dec-31	By Depreciation A/c	2,29,75,000
		3,47,00,000		By balance c/d	3,47,00,000
2017			2017		
Jan-01	To balance b/d	2,29,75,000	Dec-31		91,00,000
			Dec-31	By Depreciation A/c	1,38,75,000
		2,29,75,000		By balance c/d	2,29,75,000

Working Note:

1. To find out loss on Profit on settlement of truck

	₹
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

Q1. Dec 2022 Exam, 15 marks

T draws on J a bill of exchange for Rs.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 Rs.1,72,800. T immediately remits Rs. 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for Rs.2,52,000 for three months, which is discounted by J from his banker for Rs.2,40,660. J sends Rs.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.

Solution:

Journal Entries in the books of T

Date 2022	Particulars		Debit Amount	Credit Amount
1-Apr	Bills receivable A/c	Dr.	1,80,000	
	To J's A/c			1,80,000
	(Being acceptance received from J for mutual accommodation)			
1-Apr	Bank A/c	Dr.	1,72,800	
	Discount A/c	Dr.	7,200	
	To Bills receivable A/c			1,80,000
	(Being bill discounted with bank)			
1-Apr	J's A/c	Dr.	60,000	
	To Bank A/c			57,600
	To Discount A/c			2,400
	(Being Rs.57,600 sent to J)			
4-Jul	J's A/c	Dr.	2,52,000	
	To Bills payable A/c			2,52,000
	(Being Acceptance given)			
4-Jul	Bank A/c	Dr.	40,440	
	Discount A/c $\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right]$	Dr.	7,560	
	To J's A/c			48,000
	(Being proceeds of second bill received from J)			
7-Oct	Bills payable A/c	Dr.	2,52,000	
	To J's A/c			2,52,000
	(Being bill dishonoured due to insolvency)			
7-Oct	J's A/c (1,20,000+48,000)	Dr.	1,68,000	
	To Bank A/c			84,000
	To Deficiency A/c *			84,000
	(Being insolvent, only 50% amount paid to J)			

In the books of J

Journal Entries

Date 2022	Particulars		Debit Amount	Credit Amount
1-Apr	T A/c	Dr.	1,80,000	
	To Bills Payable A/c			1,80,000
	(Being bill of exchange accepted and send to Mr. T)			

s1-Apr	Bank A/c	Dr.	57,600	
	Discount Charges A/c	Dr.	2,400	
	To T A/c			60,000
	(Being the amount received from T on account of the bill receivable)			
4-Jul	Bills Receivable A/c	Dr.	2,52,000	
	To T A/c (Being the bills accepted by T)			2,52,000
4-Jul	Bank A/c	Dr.	2,40,660	
	Discount Charges A/c	Dr.	11,340	
	To Bills Receivable A/c (Being T's acceptance discounted with bank)			2,52,000
4-Jul	Bills Payable A/c	Dr.	1,80,000	
	Bank A/c			1,80,000
	(Being the amount met on the due date)			
4-Jul	T A/c To Bank A/c	Dr.	48,000	40,440
	To Discount A/c			7,560
	(Being the amount received and discount debited to T account) $\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right] = 7,560$			
7-Oct	T A/c	Dr.	2,52,000	
	To Bank A/c			2,52,000
	(Being T's acceptance dishonoured due to T's bankruptcy)			
7-Octl	Bank A/c Bad Debts A/c* To T A/c (Being the amount received from T and the balance being written off as bad debts)	Dr. Dr.	84,000 84,000	1,68,000

Q2. Dec 2021 Exam , 10 Marks

On 12th May, 2020 A sold goods to B for Rs.36,470 and drew upon the later two bills one for Rs. 16,470 at one month and the other for Rs. 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 Rs.20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay Rs. 8,020 in cash and accept a new bill at 3 months for Rs. 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 Rs.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.

Solution:

2020			(Rs)	(Rs)
May,12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May,12	Bills receivable (No. 1) A/c	Dr.	16,470	
	Bills receivable (No. 2) A/c	Dr.	20,000	

	To B's A/c			36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)			
	OR Bills receivable A/c	Dr.	36,470	
	To B's A/c			36,470
	(Being acceptances received from B, one for ` 16,470 at one month and other for ` 20,000 at3 months)			
June,5	Bills for Collection A/c	Dr.	36,470	
	To Bills receivable (No.1) A/c To Bills receivable (No.2) A/c			16,470 20,000
	(Being both the bills sent to bank for collection)			
	OR			
	Bills for Collection A/c To Bills receivables A/c	Dr.	36,470	36,470
	(Being B's acceptances sent for collection ondue dates)			
June,15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470
	(Being amount received on retirement of Billsreceivable No. 1)			
Aug 14	B's A/c	Dr.	20,020	
	To Bills for Collection a/c			20,000
	To Noting Charges or Bank Charges			20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the duedate)			
Aug 16	B's A/c	Dr.	480	
	To Interest a/c			480
	(Being interest due)			
Aug 16	Bank/Cash A/c	Dr.	8,020	
	To B's A/c			8,020
	(Being cash received)			
Aug 16	Bills receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			12,480
	(Being Bills receivable (No. 3) drawn acceptedby B)			
	OR			
	Alternatively combined entry may be given forthe above two entries:			
	Bank/Cash a/c	Dr	8,020	
	Bills receivable a/c	Dr.	12,480	
	To B's A/c			20,500
	(Being cash and new acceptance at 3 monthsreceived from B)			

Aug 16	Bills for Collection A/c Dr.	12,480	
	To Bills receivable (No.3) A/c		12,480
	(Being Bills receivable (No.3) sent to bank forcollection)		
	OR		
	Bills for collection A/c Dr	12,480	
	To Bills receivable A/c		12,480
	(Being new acceptance sent to bank forcollection on due date)		
Oct 1	Bank A/c Dr	12,240	
	Rebate A/c Dr	240	
	To Bills for Collection		12,480
	(Being amount received on retirement of Billsreceivable (No.3))		

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c Bills Receivable (No. 3) A/c	Dr. Dr.	8,020 12,480	
	To B's A/c			20,020
	To interest A/c			480
	(Being the Rs.8,020 paid in cash and new bill(Bills receivable No. 3) accepted for 3 months)			

Q3. Nov 2020 Exam , 10 Marks

Suresh draws a bill for Rs.15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for Rs.14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of Rs.17,500 for 3 months, which Anup discounts for Rs.17,100 and remits
Rs.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.

Solution:

In the books of Suresh
Journal Entries

Date	Particulars		Debit Amount	Credit Amount
2020			`	`
April 15	Bills receivable account	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup for mutual accommodation)			
April 18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100

	(Being one-third proceeds of the bill sent toAnup)			
July 18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received fromAnup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50
	To Deficiency account			6,562.50
	(Being insolvent, only 50% amount paid toAnup)			

Q4. Nov 2022 , RTP

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

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

Prepare Journal Entries in the books of Mr. Manu.

Solution:

Journal Entries in the Books of Mr. Manu

Date		Particulars L.F.	Dr. Amount `	Cr. Amount `
2021				
Aug.	1	Bills Receivable A/c Dr.	1,00,000	
		To Tanu		1,00,000
		(Being the acceptance received from Tanu to settle his account)		
Aug.	1	Bank A/c Dr.	98,000	
		Discount A/c Dr.	2000	
		To Bills Receivable		1,00,000
		(Being the bill discounted for ` 98,000 from bank)		
Nov.	4	Tanu Dr.	1,00,000	
		To Bank A/c		1,00,000
		(Being the Tanu's acceptance is to be renewed)		
Nov.	4	Tanu's A/c Dr.	2400	
		To Interest A/c		2400
		(Being the interest due from Tanu for 3 months i.e., 80,000x3/12x 12%=240)		
Nov.	4	Bank A/c Dr.	22,400	
		Bills Receivable A/c Dr.	80,000	

		To Tanu A/c		1,02,400
		(Being amount and acceptance of new bill received from Tanu)		
Dec.	31	Tanu A/c Dr.	80,000	
		To Bills Receivable A/c		80,000
		(Being Tanu became insolvent)		
Dec.	31	Bank A/c Dr.	32,000	
		Bad debts A/c Dr.	48,000	
		To Tanu		80,000
		(Being the amount received and written off on Tanu's insolvency)		

Q5. Nov 2021 , RTP

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

1) David's acceptance to Samuel for Rs.5,000 discharged by a cash payment of Rs.1,000 and a new bill for the balance plus Rs.100 for interest.
2) Samantha's acceptance for Rs.8,000 which was endorsed by David to Flex was dishonoured. Flex paid Rs.50 noting charges. Bill withdrawn against cheque.
3) Simon retires a bill for Rs.2,000 drawn on him by David for Rs.20 discount.
4) David's acceptance to Ralph for Rs.20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

Solution:

Books of David
Journal Entries

			Dr. Rs.	***Cr.*** Rs.
(i)	Bills Payable Account	Dr.	5,000	
	Interest Account	Dr.	100	
	To Cash A/c			1,000
	To Bills Payable Account			4,100
	(Bills Payable to Samuel discharged by cash payment of Rs.1,000 and a new bill for Rs.4,100 including Rs.100 as interest)			
(ii)	(a) Samantha	Dr.	8,050	
	To Flex			8,050
	(Samantha's acceptance for Rs. 8050 endorsed to Flex dishonoured, Rs.20 paid by Flex as noting charges)			
	(b) Flex	Dr.	8,050	
	To Bank Account			8,050
	(Payment to Flex on withdrawal of bill earlier received from Mr. Samantha)			
(iii)	Bank Account	Dr.	1,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			2,000
	(Payment received from Simon against his acceptance for Rs.2,000. Allowed him a discount of Rs. 20)			
(iv)	Bills Payable Account	Dr.	20,000	
	To Bills Receivable Account			20,000
	(Bills Receivable from Kent endorsed to Ralph in settlement of bills payable issued to him earlier)			

Q6. Nov 2020 , RTP

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

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

Solution:

In the books of Siriman

Journal Entries

Particulars	***L.F.***		***Dr.*** Rs	***Cr.*** Rs
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on Rs.50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

Q7. Nov 2019, RTP

Mr. B accepted a bill for Rs.10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs.9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs.2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

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

Solution:

Journal Entries in the Books of Mr. A

Date		*Particulars*	*L.F.*	*Dr. Amount* `	*Cr. Amount* `
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for Rs.9,800 frombank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To B			10,240
		(Being amount and acceptance of new billreceived from B)			
December 31		B A/c Dr.		8,000	
		To Bills Receivable A/c (Being B became insolvent)			8,000
December 31		Cash A/c Dr.		3,200	
		Bad debts A/c Dr.		4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

Q8. Nov 2018 , RTP

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

1. Katrak's acceptance to Basu for Rs.2,500 discharged by a cash payment of Rs.1,000 and a new bill for the balance plus Rs.50 for interest.
2. G. Gupta's acceptance for Rs.4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs.20 noting charges. Bill withdrawn against cheque.
3. D. Dalal retires a bill for Rs.2,000 drawn on him by Katrak for Rs.10 discount.

4. Katrak's acceptance to Patel for Rs.5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

Solution:

Books of K. Katrak
Journal Entries

			Dr. `	***Cr.*** `
(i)	Bills Payable AccountInterest Account	Dr.	2,500	
	To Cash A/c	Dr.	50	
	To Bills Payable Account			1,000
	(Bills Payable to Basu discharged by cash payment of ` 1,000 and a new bill for Rs.1,550 including Rs.50 asinterest)			1,550
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs.4,000 endorsed to M. Mehta dishonoured, Rs.20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlierreceived from Mr. G. Gupta)			
(iii)	Bank Account Discount Account	Dr.	1,990	
	To Bills Receivable Account	Dr.	10	
	(Payment received from D. Dalal against his acceptance for Rs.2,000. Allowed him a discount of Rs.10)			2,000
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel insettlement of bills payable issued to him earlier)			

Q9. May 2023, RTP

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

Solution:

	Particulars		***Dr.*** Rs.	***Cr.*** Rs.
01-10-2022	Bills Receivable A/c	Dr.	5,00,000	
	To Priya A/c			5,00,000
	(Being a 3 month's bill drawn on Priya for the amount due)			
03-10-2022	Bank A/c	Dr.	4,95000	
	Discount A/c	Dr.	5,000	
	To Bills Receivable A/c			5,00,000
	(Being the bill discounted)			

04-01-2023	Priya A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the bill cancelled up due to Priya's inability to pay it)			
04-01-2023	Priya A/c	Dr.	6,250	
	To Interest A/c			6,250
	(Being the interest due on Rs.2,50,000 @ 10% for 3 months)			
04-01-2023	Bank A/c	Dr.	2,56,250	
	To Priya A/c			2,56,250
	(Being the receipt of a portion of the amount due on the bill together with interest)			
04-01-2023	Bills Receivable A/c	Dr.	2,50,000	
	To Priya A/c			2,50,000
	(Being the new bill drawn for the balance)			
07-03-2023	Priya A/c	Dr.	2,50,000	
	To Bills Receivable A/c			2,50,000
	(Being the dishonour of the bill due to Priya's insolvency)			
07-03-2023	Bank A/c	Dr.	1,50,000	
	Bad Debts A/c	Dr.	1,00,000	
	To Priya A/c			2,50,000
	(Being the receipt of 60% of the amount due on the bill from Priya's estate)			

Q10. May 2022, RTP

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

Solution:

Journal Entries in the books of Swapnil

2021			Dr. (Rs.)	Cr. (Rs.)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	
	To Vishal A/c			82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)			
March 4	Vishal's A/c	Dr.	32,000	
	To Bills receivable (No.1) A/c			32,000
	(Being the reversal entry for bill No.1 on renewal)			
	Bills receivable (No. 3) A/c	Dr.	32,800	

March 4	To Interest A/c			800
	To Vishal 's A/c			32,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	49,500	
	Discount A/c	Dr.	500	
	To Bills receivable (No. 2) A/c			50,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	32,800	
	To Bills receivable (No. 3) A/c			32,800
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

Q11. May 2020, RTP

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

Solution:

Journal Entries in the books of Akshay

2018			*Dr. (Rs.)*	*Cr. (Rs)*
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and billsreceivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 onrenewal)			
March 4		Dr.	16,400	

	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			400 16,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c	Dr. Dr.	24,750 250	
	(Being the amount received on retirementof bills No.2 before the due date)			25,000
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c (Being the amount due from Vishal ondishonour of his acceptance on presentation on the due date)			16,400
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c (Being the amount received from officialassignee of Vishal at 50 paise per rupee against dishonoured bill)			8,200
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured billwritten off as bad debts)			8,200

Q12. May 2018, RTP

Mr. B accepted a bill for Rs.10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs.9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs.2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

Solution:

Journal Entries in the Books of Mr. A

Date		*Particulars* *L.F.*	*Dr. Amount `*	*Cr. Amount `*
2017				
August	1	Bills Receivable A/c Dr.	10,000	
		To B		10,000
		(Being the acceptance received from B to settle his account)		
August	1	Bank A/c Dr.	9,800	
		Discount A/c Dr.	200	
		To Bills Receivable		10,000
		(Being the bill discounted for ` 9,800 from bank)		
November	4		10,000	

		B Dr.		10,000
		To Bank Account		
November	4	(Being the B's acceptance is to be renewed)	240	
		B Dr.		240
		To Interest Account		
November	4	(Being the interest due from B for 3 months i.e., 8000x3/12□ 12%=240)	2,240	
			8,000	
		Cash A/c Dr.		10,240
		Bills Receivable A/c Dr.		
		To B		
December	31	(Being amount and acceptance of new bill received from B)	8,000	
		B A/c Dr.		8,000
		To Bills Receivable A/c (Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c To B Dr.	4,800	
		(Being the amount received and written off on B's insolvency)		8,000

Q1. Dec 2022 Exam, 10 marks

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	5,000	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. TradeReceivables 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.

Answer

Balance Sheet of S as on 31st March, 2022

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables(WN. 2)	12,61,000
	28,50,000		Vehicles (WN. 3)	2,70,000
Add: Introduction of capital		31,50,000	Furniture & Fixtures(WN. 4)	5,85,000
3,00,000		35,000	Inventories	6,50,000
Outstanding commission		1,46,000	Prepaid expenses	15,000
Trade payables		33,31,000		33,31,000

Working Note 1

Profit and Loss Account (Revised)

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

Working Note 2

Trade Receivables

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
			12,61,000
	13,00,000	By Balance c/d (b/f)	13,00,000

Working Note 3

Vehicles A/c

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

Working Note 4

Furniture & Fixtures A/c

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

Q2. Dec 2021 Exam, 2 marks

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

The provision for bad debts is debited to sundry debtors account.

Answers

False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

Q3. July 2021 Exam, 10 marks

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020.

She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount

from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to

make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020 - ₹ 15,000 principal+ ₹ 9,000 interest

30th September, 2020 - ₹ 15,000 principal+ ₹ 8,550 interest

31st December, 2020 - ₹ 15,000 principal+ ₹ 8,100 interest

31st March, 2021 - ₹ 15,000 principal+ ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank

account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was

purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

i. She withdrew ₹ 5,000 by cheque each month for her personal expenses.

ii. Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

iii. Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

Answer

In the books of M/s Designer wear
Trading and Profit & Loss Account (for the year ending 31.3.2021)

	₹		₹
To Purchases	17,00,000	By Sales	20,00,000
To Gross profit	8,50,000	By Closing stock	5,50,000
	25,50,000		25,50,000
To Interest (9,000+8,550+8,100+7,650)	33,300	By Gross profit	8,50,000
To Telephone charges	50,000		
To Travelling expenses	45,000		
To Maintenance expenses	25,000		
To Entertainment expenses	5,000		
To Electricity exp 40,000 Add: outstanding 20,000	60,000		
To Carriage outward	60,000		
To Depreciation Building 5% 30,000 Furniture 10% 1,000	31,000		
To Misc. exp	15,000		
To Net profit	5,25,700		
	8,50,000		8,50,000

Balance Sheet as on 31st March, 2021

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit		9,65,700	Less: dep	1,000	9,000
Bank Loan	5,25,700		Security deposit-		7,000
Less: repayment		2,40,000	Telephone		
	3,00,000		Bank		89,700
Outstanding electricity exp	60,000	20,000	Closing stock		5,50,000
		12,25,700			12,25,700

Working note:

Bank Account

PARTICULARS	RS.	PARTICULARS	RS.
To Capital	3,00,000	By Building	6,00,000
To Further capital	2,00,000	By Furniture	10,000
To Bank loan	3,00,000	By Bank loan repaid	60,000
To Sales	20,00,000	By Interest	33,300
		By Security deposit	7,000
		By Drawings	60,000
		By Purchase	17,00,000
		By Telephone charges	50,000
		By Travelling expenses	45,000
		By expenses	25,000
		By Entertainment	5,000
		expenses	40,000
		By Electricity	60,000
		By Carriage outward	15,000

		By Misc. expenses	89,700
	28,00,000	By Balance c/d	28,00,000

Q4. Jan 2021 Exam, 5 marks

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for

subscribing his magazines. Information related to year ended 31st March, 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.

Answer

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

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

(ii) Advance from Customers A/c

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

So, total money received during the year is:

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

Q5. Nov 2020 Exam, 5 marks

Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in theyear ending 31st December, 2018. At the start of 2019, the company raised salaries by10% to ₹ 44,000 per month each.

On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

i. Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2019.

ii. Amount actually paid as salaries during 2019.

iii. Outstanding salaries as on 31st December, 2019.

Answer

(i) Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2019

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

(ii) Amount actually paid as salaries during 2019

Employees = 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000 = ₹ 47,16,000

Trainees = 2 x ₹21,000 x 5 = ₹ 2,10,000

Amount paid as salaries ₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees = 9 x ₹ 44,000 = ₹ 3,96,000

Trainees = 2 x ₹ 21,000 = ₹ 42,000

Outstanding salaries ₹ 4,38,000

Q6. Nov 2019 Exam, 10 marks

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% p.a. and on Furniture and Fixtures @5% p.a..

iii. A provision for Doubtful debts @ 5% of the trade receivables as at 31st December2018.

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 to draw up revised Profit and Loss account and Balance Sheet at the end of the year.

Answer

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
	13,50,000	By Prepaid insurance	25,000
To Net profit	15,35,000		15,35,000

Balance Sheet of Mittal as on 31st December, 2018

Liabilities	₹	₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000
Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		Less: Provision for doubtful debts		19,95,000
Less: Drawings	(6,20,000)				
	58,30,000		Plant and Machinery	(1,05,000)	
Add: Interest on capital	3,06,000	61,36,000	Less: Depreciation		
Outstanding expenses		1,85,000	Furniture & Fixtures		27,90,000
		13,84,000	Less: Depreciation	31,00,000	
			Inventories		3,80,000
Trade payables			Prepaid insurance		
		77,05,000		(3,10,000)	19,95,000
					25,000
				4,00,000	77,05,000
				(20,000)	

Q7. May 2019 Exam, 10 marks

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

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	**Credit Balances:**	₹
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

Other information :

i. Closing stock was valued at ₹ 4,500
ii. Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.
iii. Commission received in advance is ₹ 100.
iv. Interest accrued on investment is ₹ 210
v. Interest on overdraft is unpaid ₹ 300
vi. Reserve for bad debts is to be kept at ₹ 1,000
vii. Depreciation on furniture is to be charged @ 10%

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

Answer

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

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		Less: Sales return	(1,000)	8,000
Less: Purchase return	(2,000)	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
To Tax & Insurance	500		Less: Advance	(100)	400
Add: Outstanding	200		By Accrued interest		210
Prepaid insurance	(50)	650	By Net Loss		2,500
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			4,210

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	Less: Provision on bad debts	(1,000)	
Outstanding expenses:					4,500
Salary	100		Closing stock		1,500
Tax	200	300	Cash in hand		50
Commission received in advance		100	Prepaid insurance		
		18,700			18,700

Q8. Nov 2018 Exam, 2 marks | Nov 2018 RTP

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

If Closing Stock appears in the Trial Balance:

The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.

Answer

True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

Q9. Nov 2018 Exam, 5 marks

Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit C/d	?		45,00,000
To Salaries paid	12,00,000	By Gross Profit B/d	?
To General Expenses	6,00,000		45,000
To Selling Expenses	?	By Other Income	
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 figures.

Answer

Trading and P&L A/c for the year ended 31st March, 2018

Dr **Cr**

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit C/d	23,00,000		
	45,00,000		45,00,000
To Salaries paid	12,00,000	By Gross Profit B/d	23,00,000
To General Expenses	6,00,000		45,000
To Selling Expenses (1% of 45,00,000)	45,000	By Other Income	

To Commission to Manager (On net profit before charging such commission)	1,00,000		
	4,00,000		
To Net Profit	23,45,000		23,45,000

Q10. May 2018 Exam, 20 marks | May 2020 RTP

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	
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	72,000	
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.

Answer

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

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

M/s Raghuram & Associates

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

Particulars	**Details**	**Amount**	**Particulars**	**Details**	**Amount**
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000		By Discount received		12,000
Add: Outstanding	5,000	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			
		80,000			
To Depreciation (W.N. 2)		11,000			
To General expenses		3,800			
To Bank Charges	4,400				
To Interest on loan	100	4,500			
Add: Outstanding (W.N. 3)		13,000			
To Motor car expenses (Repairs)		8,700			
To Net Profit transferred to CapitalA/c		3,34,000			3,34,000

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

Liabilities	**Details**	**Amount**	**Assets**	**Details**	**Amount**
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit			Less: Depreciation	(25,000)	4,75,000
Less: Drawings	8,700		Motor Vehicles	1,00,000	
Less: proprietor's	(20,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Insurance Premium	(42,000)		Office equipment	2,00,000	
Loan from Rajan			Less: Depreciation	(30,000)	1,70,000
Add: Outstanding Interest	60,000		Furniture & Fixture	50,000	
Sundry Creditors	100	60,100	Less: Depreciation	(5,000)	45,000

Outstanding rent		62,000	Stock in Trade		4,10,000
		5,000	Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
					16,000
					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 ($\frac{60,000}{15}$ × 3)	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

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

(4) Provision for bad debts A/c

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To bad debts a/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

Q11. May 2023 RTP

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

	Dr.	**Cr.**
	₹	**₹**
Prakash's capital account	-	3,83,450
Stock 1st January, 2022	2,34,000	-
Sales	-	19,48,000
Returns inward	43,000	-
Purchases	16,08,500	-
Returns outward	-	29,000
Carriage inwards	98,000	-
Rent & taxes	23,500	-
Salaries & wages	46,500	-
Sundry debtors	1,20,000	-
Sundry creditors	-	74,000

Bank loan @ 14% p.a.	-	1,00,000
Bank interest	5,500	-
Printing and stationary expenses	72,000	-
Bank balance	40,000	-
Discount earned	-	22,200
Furniture & fittings	25,000	-
Discount allowed	9,000	-
General expenses	57,250	-
Insurance	6,500	-
Postage & telegram expenses	11,650	-
Cash balance	1,900	-
Travelling expenses	4,350	-
Drawings	1,50,000	-
	25,56,650	25,56,650

The following adjustments are to be made:

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

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

Answer

Trading and Profit and Loss Account of Mr. Prakesh for the year ended 31st December, 2022

	₹	₹		₹	₹
To Opening stock		2,34,000	By Sales	19,48,000	
To Purchases	16,08,500		Less: Returns	43,000	19,05,000
Add: Omitted invoice	2000		By Closing stock		3,93,000
Less: Returns	16,10,500				
Less: Drawings	29,000	15,78,500			
To Carriage	15,81,500	98,000			
To Gross profit c/d	3000	3,87,500			
		22,98,000			22,98,000
To Rent and taxes			By Gross profit b/d		3,87,500
To Salaries and wages			By Discount		22,200
To Bank interest		23,500			
Add: Due		46,500			
To Printing and stationary	5,500	14,000			
Less: Prepaid (1/4)	8,500				

To Discount allowed		54,000			
To General expenses	72,000	9,000			
To Insurance	18,000	57,250			
To Postage & telegram expenses		6,500			
		11,650			
To Travelling expenses					
To Provision for bad debts [W.N.(ii)]		4,350			
		5,750			
To Provision for discount on debtors [W.N.(iii)]		2,185			
To Depreciation on furniture & fittings		2,500			4,09,700
To Net profit		1,72,515			
		4,09,700			

Balance Sheet of Prakash as at 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital	3,83,450		Furniture & fittings	25,000	
Add: Net profit	1,72,515		Less: Depreciation	2,500	22,500
Less: Drawings:	5,55,965		Sundry debtors (W.N.1)	115,000	
Cash 1,50,000				5,750	
Goods 3000		4,02,965	Less: Provision for bad & doubtful debts (W.N.2)		
Bank loan		1,00,000		1,09,250	
Bank interest due	1,53,000	8,500		2,185	
Sundry creditors (W.N.3)		71,000			1,07,065
			Less: Provision for Discount (W.N.2)		3,93,000
			Stock		18,000
			Prepaid expenses: Printing & stationary		40,000
			Bank balance		1900
		5,82,465	Cash balance		5,82,465

Working Notes:

(1) Sundry debtors

Balance as per trial balance	1,20,000
Less: Due to Ravi	5,000
	1,15,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 1,15,000	5,750

Provision for discount:

2% on ₹ 1,09,250 (1,15,000 -5,750)	2,185

(3) Sundry creditors

Balance as per trial balance	74,000
Less: Set off in respect of Ravi	5,000
	69,000
Add: Purchase invoice omitted	2,000
	71,000

Q12. Nov 2022 RTP | Nov 2020 RTP

State with reasons, whether the following statements are true or false:
A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

Answer

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

Q13. Nov 2022 RTP

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

	Dr. ₹	Cr. ₹
Capital	-	18,00,000
Drawings	2,10,000	-
Fixed Assets (Opening)	4,20,000	-
Fixed Assets (Additions	6,00,000	-
01.10.2022)	1,80,000	-
Opening Stock	48,00,000	-
Purchases	-	2,07,000
Purchases Returns	-	66,00,000
Sales	2,97,000	-
Sales Returns	7,50,000	-
Debtors	-	6,60,000
Creditors	1,50,000	-
Expenses	6,00,000	-
Fixed Deposit with Bank	-	60,000
Interest on Fixed Deposit	-	24,000
Cash	-	6,000
Suspense A/c	42,000	-
Depreciation	51,000	-
Rent (17 months upto 31.8.2022)	7,50,000	-
Investments 12% (01.8.2021)	5,07,000	-
Bank Balance	93,57,000	93,57,000

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

i. ₹ 60,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 36,000 was used in the business for day-to-day expenses.
ii. Purchase of goods worth ₹ 48,000 was not recorded in the books of account upto 31.03.2022, but the goods were included in stock.
iii. Purchase returns of ₹ 3,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.
iv. Expenses include ₹ 18,000 in respect of the period after 31st March,2022.

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

Answer

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
i.	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	36,000	 36,000

ii.	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	48,000	48,000
iii.	Suspense A/c To Purchase Returns A/c To Sales Returns A/c (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	6,000	3,000 3,000
iv.	Prepaid Expenses A/c To Expenses A/c 18,000 (Prepaid expenses adjusted)	Dr.	18,000	18,000

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

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

Balance Sheet as on 31st March, 2022

Liabilities		₹	**Assets**		₹
Capital	18,00,000		Fixed Assets	4,20,000	
Add: Net Profit	16,32,000		Additions	6,00,000	
Less: Drawings				10,20,000	
(2,10,000–36,000)	1,74,000		Less:	30,000	9,90,000
		32,58,000	Depreciation		
Creditors	6,60,000				3,00,000
Add: Purchases not recorded	48,000		Stock		7,50,000
		7,08,000	Debtors		7,50,000
Overdraft		24,000	Investments		60,000
			Interest accrued		6,00,000
			Bank fixed deposit		33,000
			Prepaid Expenses		5,07,000
					39,90,000

		39,90,000	(18,000+15,000) Bank		

Q14. May 2022 RTP

State with reasons, whether the following statements are true or false:
Sale of office furniture should be credited to Profit and Loss Account.

Answer

False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

Q15. May 2022 RTP

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

Particulars	**Dr. ₹**	**Cr. ₹**
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	46,505	68,665

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.
3. Depreciation to be provided on furniture at 10% per annum.

Answer

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

Particulars	**Dr. ₹**	**Cr. ₹**
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-
Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840
Carriage outward	725	-
Rent paid	800	-

Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	48,190

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

Dr. Cr.

Particulars	Amount₹		Amount₹
To Opening stock	17,500	By Sales 29,000	
To Purchases 13,000		Less: Returns inward	28,450
Less: Returns outward	12,160	(550)	2,000
(840)	850	By Stock destroyed by fire	18,790
To Wages	1,240	By Closing stock	
To Carriage inward	17,490		
To Gross profit	49,240		49,240
	725		17,490
To Carriage outward	800	By Gross profit	
To Rent	950		
To Advertisement	600		
To Bad debts 600	220		
To Provision for			
doubtful debts (5% of ₹ 4,400)	500		
To Loss of stock by fire	150		
To Depreciation on furniture			
(10% of ₹1,500)	13,545		
To Net profit	17,490		

Balance Sheet of Mr. Bansalas at 31st March,2021

Liabilities	₹	Assets	₹
Capital 16,000		Furniture 1,500	
Add: Net profit 13,545		Less: Depreciation 150	1,350
29,545		Deposit with X	1,400
3,305	26,240	Closing Stock	18,790
Sundry creditors	2,200	Sundry debtors 5,000	
Outstanding rent	150	Less: Bad debts 600	
		4,400	
		Less: Provision for Doubtful Debts	4,180
		220	1,500
		Insurance claim receivable	1,370
	28,590	Cash	28,,590

Q16. Nov 2021 RTP | May 2021 RTP

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

Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

Answer

False: It shall be disclosed as a current liability in the opening balance sheet.

Q17. Nov 2021 RTP

The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200
Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200
Provision for doubtful debts	12,800	Advertisement	13,400
Provision for Discount on	5,500	Expenses	5,000
debtors	4,80,000	Printing and	5,800
Sundry Debtors	1,90,000	Stationery	12,,500
Sundry Creditors	4,400	Cash in hand	40,640
Bad debts		Cash at bank	12,000
		Office Expenses	
		Interest paid on loan	

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Answer

Rectification Entries

	Particulars	**Dr. Amount ₹**	**Cr. Amount ₹**
i.	Returns inward account Dr.	10,300	
	Sales account Dr.	6,900	
	To Purchases account		10,300
	To Returns outward account		6,900
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
ii.	Drawings account Dr.	14,000	
	To Purchases account		14,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
iii.	Plant and machinery account Dr.	1,800	
	To Wages account		1,800
	(Being wages paid for installation of plant and machinery		

	wrongly debited to wages, now rectified		
iv.	Advertisement expenses account Dr. To Purchases account (Being free samples distributed for publicity out of purchases, now rectified)	3,300	3,300

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

Dr.

Cr.

₹	Amount ₹	₹	Amount ₹
To Opening stock	1,29,000	By Sales 8,54,300	
To Purchases 6,12,400		Less: Sales return	8,44,000
Less: Purchases return	6,05,500	10,300	
6,900	4,500	By Closing stock	5,00,000
To Carriage inward	46,860	₹ $3,20,000\times\frac{100}{80}\times\frac{100}{80}$	
To Wages	5,58,140		
To Gross profit c/d	13,44,000		13,44,000
	90,200	By Gross profit b/d	5,58,140
To Salaries	17,200	By Bad debts recovered	1,800
To Rent	16,700		
To Advertisement expenses	5,000		
To Printing and stationery	4,400		
To Bad debts	5,400		
To Carriage outward			
To Provision for doubtful debts			
5% of ₹ 4,80,000 24,000	11,200		
Less: Existing provision			
12,800			
To Provision for discount on debtors	5,900		
2.5% of ₹ 4,56,000 11,400			
Less: Existing provision	20,100		
5,500	40,640		
To Depreciation:	12,000		
Plant and machinery 16,000	3,31,200		
Furniture and fittings 4,100	5,59,940		5,59,940
To Office expenses			
To Interest on loan			
To Net profit(Transferred to capital account)			

Balance Sheet of Mr. Satendra as on 31st March, 2021

Liabilities ₹	Amount ₹	Assets	Amount ₹
Capital account 2,60,000		Plant and machinery 80,000	
Add: Net profit 3,31,200	5,45,200	Less: Depreciation 16,000	64,000
	3,20,000		36,900
5,91,200	1,90,000	Furniture and fittings 41,000	5,00,000
Less: Drawings 46,000	9,800		
Bank overdraft		Less: Depreciation	

Sundry creditors Payable salaries	10,65,000	4,100 Closing stock Sundry debtors 4,80,000 Less: Provision for doubtful debts 35,400 Prepaid rent Cash in hand Cash at bank	4,44,600 1,200 5,800 12,500 10,65,000

Q18. May 2021 RTP

The following is the trial balance of Manan as at 31st March, 2020:

	Dr.	Cr.
	₹	₹
Manan's capital account	-	1,53,380
Stock 1st April, 2019	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-
Discount earned	-	8,880
Furniture & fittings	10,000	-
Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1,740	-
Drawings	60,000	-
	10,22,660	10,22,660

The following adjustments are to be made:

1) Included amongst the debtors is ₹ 6,000 due from Ravi and included among the creditors ₹ 2,000 due to him.
2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
3) Depreciation on furniture & fittings @ 10% shall be written off.
4) Personal purchases of Manan amounting to ₹ 1,200 had been recorded in the purchases day book.
5) Interest on bank loan shall be provided for the whole year.
6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
7) Credit purchase invoice amounting to ₹ 800 had been omitted from the books.

8) Stock on 31.03.2020 was ₹ 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.03.2020 and (ii)Balance sheet as on 31st March, 2020

Answer

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

	₹	₹		₹	₹
To Opening stock		93,600	By Sales	7,79,200	
To Purchases	6,43,400		Less: Returns	17, 200	7,62,000
Add: Omitted invoice	800		By Closing stock		1,57,200
	6,44,200				
Less: Returns	11,600				
	6,32,600				
Less: Drawings	1,200	6,31,400			
To Carriage		39,200			
To Gross profit c/d		1,55,000			
		9,19,200			9,19,200
To Rent and taxes		9,400	By Gross profit b/d		1,55,000
To Salaries and wages		18,600	By Discount		8,880
To Bank interest	2,200				
Add: Due	3,400	5,600			
To Printing and stationary	28,800				
Less: Prepaid (1/4)	7,200	21,600			
To Discount allowed		3,600			
To General expenses		22,900			
To Insurance		2,600			
To Postage & telegram expenses		4,660			
To Travelling expenses		1,740			
To Provision for bad debts [W.N.(ii)]		2,300			
To Provision for discount on debtors [W.N.(iii)]		874			
To Depreciation on furniture & fittings		1,000			
To Net profit		69,006			
		4,09,700			4,09,700

Balance Sheet of Manan as at 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	69,006		Less: Depreciation	1,000	9,00
	2,22,386		Sundry debtors (W.N.1)	46,000	
Less: Drawings: Cash 60,000 Goods 1,200	61,200	1,61,186	Less: Provision for bad & doubtful debts (W.N.2)	2,300	
Bank loan		40,000		43,700	
Bank interest due		3,400	Less: Provision for Discount (W.N.2)	874	42,826
Sundry creditors (W.N.3)		28,400			1,57,200

			Stock		
			Prepaid expenses:		7,200
			Printing &		16,000
			stationary		760
		2,32,986	Bank balance		2,32,986
			Cash balance		

Working Notes:

(1) Sundry debtors

Balance as per trial balance	48,000	
Less: Due to Rahul	2,000	
	46,000	

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 1,15,000	2,300

Provision for discount:

2% on ₹ 1,09,250 (1,15,000 -5,750)	874

(3) Sundry creditors

Balance as per trial balance	29,600
Less: Set off in respect of Ravi	2,000
	27,600
Add: Purchase invoice omitted	800
	28,400

Q19. Nov 2020 RTP | May 2019 RTP

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

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

Stock on 31st March,2019 was valued at ₹ 2,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

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

ii. Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.

iii. Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

iv. Expenses include ₹ 6,000 in respect of the period after 31st March,2019.

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

Answer

Journal Entries

	Particulars		**Dr. (₹)**	**Cr. (₹)**
I.	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	12,000	 12,000
II.	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	16,000	 16,000
III.	Suspense A/c To Purchase Returns A/c To Sales Returns A/c (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	2,000	 1,000 1,000
IV.	Prepaid Expenses A/c To Expenses A/c 18,000 (Prepaid expenses adjusted)	Dr.	6,000	 6,000

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

Dr.					Cr.
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return (99,000– 1,000)	98,000	21,02,000
Add: Amount not recorded	16,000		By Closing Stock		1,00,000
	16,16,000				
Less: Purchases Returns (69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 –5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments $(2,50,000\times\frac{12}{100}\times\frac{8}{12})$		20,000
Add: Further Depreciation $(2,00,000\times\frac{10}{100}\times\frac{6}{12})$	10,000	24,000			
To Net Profit		5,44,000			
		6,36,000			19,08,000

Balance Sheet as on 31st March, 2019

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

Add: Net Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000–12,000)	58,000		Less:	10,000	3,30,000
		10,86,000	Depreciation		
Creditors					1,00,000
Add: Purchases not	2,20,000		Stock		2,50,000
recorded	16,000	2,36,000	Debtors		2,50,000
Overdraft		8,000	Investments		20,000
			Interest accrued		2,00,000
			Bank fixed		
			deposit		11,000
			Prepaid		1,69,000
			Expenses		13,30,000
		13,30,000	(18,000+15,000)		
			Bank		

Q20. Nov 2019 RTP | May 2018 RTP

The following are the balances as at 31st March, 2019 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement	3,350
Provision for Discount on	1,375	Expenses	1,250
debtors	1,20,000	Printing and	1,450
Sundry Debtors	47,500	Stationery	3,125
Sundry Creditors	1,100	Cash in hand	10,160
Bad debts		Cash at bank	3,000
		Office Expenses	
		Interest paid on loan	

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

Answer

Rectification Entries

	Particulars	Dr.	Cr.
		Amount ₹	Amount ₹
i.	Returns inward account Dr.	2,575	
	Sales account Dr.	1,725	
	To Purchases account		2,575
	To Returns outward account		1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
ii.	Drawings account Dr.	3,500	
	To Purchases account		3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
iii.	Plant and machinery account Dr.	450	
	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified		
iv.	Advertisement expenses account Dr.	825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

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

Dr.

Cr.

	₹	Amount ₹		₹	Amount ₹
To Opening stock		32,250	By Sales	2,13,575	
To Purchases	1,53,100		Less: Sales return	2,575	2,11,000
Less: Purchases return	1,725	1,51,375	By Closing stock		
		1,125	₹ 80,000$\times\frac{100}{80}\times\frac{100}{80}$		1,25,000
To Carriage inward		11,715			
To Wages		1,39,535			
To Gross profit c/d		3,36,000			3,36,000
			By Gross profit b/d		
		22,550	By Bad debts recovered		1,39,535
To Salaries		4,300			450
To Rent		4,175			
To Advertisement expenses		1,250			
To Printing and stationery		1,100			
To Bad debts		1,350			
To Carriage outward					
To Provision for doubtful debts					
5% of ₹ 1,20,000	6,000	2,800			
Less: Existing provision	3,200				
To Provision for discount on debtors		1,475			
2.5% of ₹ 1,14,000	2,850				
Less: Existing provision	1,375	4,025			
		10,160			
To Depreciation:		3,000			
Plant and machinery					

3,000 Furniture and fittings 1,025 To Office expenses To Interest on loan To Net profit(Transferred to capital account)	83,800 1,39,985		 1,39,985

Balance Sheet of Mr. Satendra as on 31st March, 2019

Liabilities ₹	Amount ₹	Assets	Amount ₹
Capital account 65,000		Plant and machinery 20,000	
Add: Net profit 83,800	1,37,300	Less: Depreciation 3,000	17,000
	80,000		9,225
1,48,800	47,500	Furniture and fittings 10,250	1,25,000
Less: Drawings 11,500	2,450	Less: Depreciation 1025	
Bank overdraft		Closing stock	1,11,150
Sundry creditors		Sundry debtors 1,20,000	300
Payable salaries		Less: Provision for doubtful debts 8,850	1,450
		Prepaid rent	3,125
	2,67,250	Cash in hand	2,67,250
		Cash at bank	

Q21. Nov 2018 RTP

The following is the trial balance of Hari as at 31st March, 2017:

	Dr.	Cr.
	₹	₹
Hari's capital account	-	76,690
Stock 1st April, 2019	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-

Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	-
	5,11,330	5,11,330

The following adjustments are to be made:

1. Included amongst the debtors is ₹ 3,000 due from Ravi and included among the creditors ₹ 1,000 due to him.
2. Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
3. Depreciation on furniture & fittings @ 10% shall be written off.
4. Personal purchases of Manan amounting to ₹ 6,200 had been recorded in the purchases day book.
5. Interest on bank loan shall be provided for the whole year.
6. A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
7. Credit purchase invoice amounting to ₹ 400 had been omitted from the books.
8. Stock on 31.03.2020 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii)Balance sheet as on 31st December, 2017

Answer

Trading and Profit and Loss Account of Mr. Hari for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less: Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			4,59,600
To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
	3,600	10,800			
Less: Prepaid (1/4)		1,800			
To Discount allowed		11,450			
To General expenses		1,300			
To Insurance		2,330			
To Postage & telegram expenses		870			
To Travelling expenses		1,150			
To Provision for bad debts [W.N.(ii)]		437			
To Provision for discount on debtors [W.N.(iii)]		500			

To Depreciation on furniture & fittings To Net profit		34,503 81,940			81,940

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		Less: Depreciation	500	4,500
	1,11,193				
Less: Drawings:			Sundry debtors (W.N.1)	23,000	
Cash 30,000			Less: Provision for bad & doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593			
Bank loan		20,000		21,850	
Bank interest due		1,700	Less: Provision for Discount (W.N.2)	437	
Sundry creditors (W.N.3)		14,200			21,413
			Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600
			Bank balance		8,000
			Cash balance		380
		1,16,493			1,16,493

Working Notes:

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 23,000	2,300

Provision for discount:

2% on ₹ 21,850 (23,000 1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ravi	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

Q1. May 2022 Exam, 20 marks

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	7,000
Plant and Machinery	1,05,000	debts	29,75,000
Investments	87,500	Sales	80,500
Cash in Hand	70,000	Bank Overdraft	
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

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

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

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

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

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

Answer

In the books of Mr. B Manufacturing Account for the year ended 31st March, 2021

Particulars		**₹**	**Particulars**	**₹**
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500			

To Carriage Inwards		17,32,500		
To Direct Wages		52,500		
To Power		2,80,000		
To Coal and fuel		1,05,000		
To Factory Rent and Rates		52,500		
To Depreciation on		70,000		
Machinery		10,500		28,28,000
		28,28,000		

Trading Account for the year ended 31st March, 2021

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

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

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

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

Balance Sheet as on 31st March, 2021

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	10,500	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Provision for Bad	7,000	1,33,000

			& Doubtful Debts		
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500

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

Q2. Dec 2021 Exam, 15 marks

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	16,500
Carriages on Purchase	15,000	debts	10,00,000
Bills Receivables	1,50,000	Capital account	16,72,000
Wages	1,30,000	Sales	85,000
Salaries	1,00,000	Bank overdraft	
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available:

Stocks on 31st March,2021 were:

Raw material	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

Salaries and wages unpaid for the year ended 31st March,2021 were respectively,₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by 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.

Answer

In the books of Mr. Black Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw Materials	2,10,000			
	8,50,000		By Sale of Scrap	25,000
Add: Purchases	1,62,000	8,98,000	By Cost of goods	11,90,00

Less: Closing Stock		95,000	Manufactured	0
To Opening Stock of WIP	1,30,000		(Transferred to	
To Wages	20,000	1,50,000	Trading Account)	
Add: Outstanding Wages		15,000		
To Carriage on Purchases		11,000		
To Repairs to Plant		45,000		
To Rent (3/4)		9,000		
To Lighting (2/3)		70,000		
To Depreciation of Plant		12,93,00		
		0		12,93,00
				0

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		18,53,000

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

Particulars		₹	Particulars	₹
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000		4,500
To Telephone & Postage		10,000	By Commission	
To Repairs to Furniture		3,500		
To Depreciation of 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: Required (1% of ₹1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		5,12,500

Q3. Nov 2020 Exam, 10 marks

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

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 is chargeable at a depreciation rate of 15%.

ii. Wages include the following:

Paid to factory workers - ₹ 3,15,000

Paid to labour at office - ₹ 50,000

iii. Direct expenses included the following :

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

Fuel charges - ₹ 25,000

Freight inwards - ₹ 32,000

Delivery charges to customers - ₹ 22,000

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

Answer

Manufacturing A/c

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

Raw Material A/c

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

Working Notes:

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

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

= ₹ 1,80,000

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

= 3,95,000

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

3) Expenses to be excluded from direct expenses:

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

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

= ₹ 2,07,000

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

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

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

5) **Creditors A/c**

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

Q4. Nov 2019 Exam, 5 marks

Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019. ·

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	

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019

Answer

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

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

Working Notes:

(1) Direct Wages – 5,00,000 units @ ₹0.80 = ₹4,00,000

14,000 units @ ₹0.40 = ₹ 5,600

= ₹ 4,05,600

(2) Hire charges on Machinery – 5,00,000 units @ ₹0.70 = ₹3,50,000

Q5. May 2023 RTP

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

The sale value of by-product is credited to Trading Account.

Answer

False: The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

Q1. Dec 2022 Exam, 2 Marks

State with reasons, whether the following statements are True or False:
Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

Q2. Dec 2022 Exam, 10 Marks

The Income and Expenditure Account of the Young Boys Club for the rear 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 fee	250	By Contribution for Annual	1,000
To Secretary's Honorarium	1,000	Dinner	750
To Stationery and Printing	450	By Annual Sports meet receipts	
To Annual Dinner expenses	1,500		
To Interest and Bank	150		
Charge	400		
To Depreciation	1,500		
To Surplus	10,500		10,500

This Account has been prepared after the following adjustments:

	Amounts (₹)
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 ₹ 150. General Expense 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 1 at January, 2022 valued at ₹ 2600. 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 ₹ 1600.

You are required to prepare:
(i) Receipts and Payments Account for 2022
(ii) Balance Sheet as on 31st December, 2022
(iii) Balance Sheet as on 31st December, 2021.

Answer

The Young Boys Club
Receipts and Payments Account for the year ended 31st December, 2022

Receipts	₹	Payments	₹
To Balance b/d (balancing	1,580	By Salaries (WN-2)	3,900
figure)	8,270	By General Expenses	
To Subscriptions (WN-1)	250	1500 Add: Paid for 2023	1,650
To Entrance Fees	1,000	150	200
To Contribution for annual	750	By Audit fee (2021)	1,000
Dinner		By Secy. Honorarium	450
To Annual sport meet receipt		By Stationery & Printing	1,500
		By Annual Dinner Expenses	150
		By Interest & Bank Charges	1,400
		By Sports Equipment (WN -	1,600
	11,850	3)	11,850
	1,600	By Balance c/d	

To Balance b/d			

Working Note 1

Subscription A/c

To Subscription O/s 2021	700	By Balance b/d (b/f)	8,270
To Subscription in Advance 2022	370	By Subscription O/s 2022	750
To Income & Expenditure a/c	8,500	By Subscription in Advance 2021	550
	9,570		9,570

Working Note 2

Salaries A/c

To Bank (b/f)	3,900	By Income & Expenditure a/c	3,750
To Salaries O/s 2022	450	By Salaries O/s 2021	600
	4,350		4,350

Working Note 3

Sports Equipment A/c

To Balance b/d	2,600	By Depreciation	400
To Cash / Bank (b/f)	1,400	By Balance c/d	3,600
	4,000		4,000

Balance Sheet of Young Boys Club as on December 31, 2022

Liabilities	₹	₹	Assets	₹	₹
Subscription received in		370	Freehold Ground		20,000
advance		250	Sport Equipment:		
Audit Fee Outstanding		450	As per last Balance	2,600	
Salaries Outstanding		5,000	Sheet	1,400	
Bank Loan			Additions	4,000	
Capital Fund:	18,530			(400)	
Balance as per previous			Less: Depreciation		3,600
Balance Sheet	1,500	20,03			750
Add: Surplus for 2022		0	Subscription		150
			Outstanding		1,600
			Insurance Prepaid		26,100
		26,10	Cash in hand		
		0			

Balance Sheet of Young Boys Club as on 31st December, 2021

Liabilities	₹	Assets	₹
Subscriptions received in	550	Freehold Ground	20,000
advance	600	Sports Equipment	2,600
Salaries outstanding	200	Subscriptions	700
Audit fees unpaid	5,000	Outstanding	1,580
Bank Loan	18,530	Cash in hand	
Capital Fund (balancing figure)	24,880		24,880

Q3. May 2022 Exam, 10 Marks

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		Purchase of Equipment's	1,55,000
Book:	1,93,000	Rent of Ground	25,000
Saving Account	60,000	Club night expenses	38,000
Current Account	5,000	Printing and Office Expenses	30,000
Bank Interest	2,50,000	Repairs to Equipment	50,000
Donations and Subscriptions	18,000	Honorarium to Secretary (2019-20)	40,000
Entrance fees	10,000		

Contribution to Club night	8,000	Balance at Bank as per Pass	2,04,000
Sale of Equipment	20,000	Book:	20,000
Bar Room receipts	78,000	Saving Account	25,000
Proceeds from club night	6,62,000	Current Account	6,62,000
		Cash in hand	

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.

Answer

Income and Expenditure Account of Mumbai Club for the year ending 31st March, 2021

Expenditure		**₹**	**Income**	**₹**
To Groundsman's fee		75,000	By Donations and	2,45,000
To Rent of Ground		25,000	Subscription (W.N.2)	
To Club night' Expenses	38,000		By Receipts from bar	20,000
Less: Contribution		28,000*	room	78,000*
To Printing & Office Expenses	(10,000)	28,000	By Proceeds of club night	7,000
(W.N. 3)			By Interest (5,000+2,000)	
To Repairs to Equipment (W.N.4)		45,000		
To Depreciation on Machinery		52,000		
(W.N. 5)				
To Honorarium to Secretary		60,000		
To Bonus to Groundsman		20,000		
To Excess of Income over		17,0000		
Expenditure				
		3,50,000		3,50,000

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

Balance Sheet of Mumbai Club as on 31st March,2021

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

Balance Sheet as on 1st April,2020

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

Calculation of Donations and Subscriptions

Donations and Subscriptions as per Receipt and Payments	2,50,000
A/c	10,000
Add: Outstanding as on 31.03.21	15,000
Less: Outstanding as on 01.04.20	2,45,000

Printing and Office Expenses

Printing and Office Expenses as per Receipt and	30,000
Payments A/c	8,000
Add: Outstanding as on 31.03.21	10,000
Less: Outstanding as on 01.04.20	28,000

Repairs to Equipment

Repairs as per Receipt and Payments A/c	50,000
Add: Outstanding as on 31.03.21	25,000
Less: Outstanding as on 01.04.20	30,000
	45,000

Depreciation on Machinery and equipment

Balance as on 01.04.20	80,000
Add: Purchases during the year	1,55,000
Less: Sale of Equipment	8,000
Less: Balance as on 31.03.21	1,75,000
	52,000

Q4. Dec 2021 Exam, 10 Marks

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	10,000
To Secretary's honorarium	10,000	Dinner	7,500
To Stationary and Printing	4,500	By Annual Sports Meet	
To Annual Dinner	15,000	Receipts	
Expenses	1,500		
To Interest and bank	3,000		
charges	6,000		
To Depreciation	95,000		95,000
To Surplus			

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
	2,700
Subscription received in advance on 31st December, 2021	7,500
Subscription outstanding on 31st December,2021	

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On

31st December, 2021 in hand was ₹ 16,000.

You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date.

Answer

The Women Club

Receipts and Payments Account for the year ended 31st December, 2021

Receipts	₹	Payments	₹	₹
To Balance b/d	13,900	By Salaries (W.N.2)		47,000
(balancing figure)		By General Expenses	5,000	
To Subscriptions (W.N.1)	71,700	Add: Paid for 2022	600	5,600
To Entrance Fees	2,500	By Audit fee (2021)		2,000
To Contribution for annual	10,000	By Secy. Honorarium		10,000
dinner	7,500	By Stationery & Printing		4,500
To Annual sport meet receipt		By Annual Dinner Expenses		15,000
		By Interest & Bank Charges		1,500
		By Sports Equipment's		4,000
		[27,000 -- (26,000 –3,000)] (W.N.3)		
		By Balance c/d		16,000
	1,05,600			1,05,600
	16,000			
To Balance b/d				

Balance Sheet of Women Club as on December 31, 2021

Liabilities	₹	₹	Assets	₹	₹
Subscription		2,700	Freehold Ground		1,00,000
received			Sport Equipment:		
in advance		2,500	As per last Balance	26,000	
Audit Fee		4,500	Sheet	4000	
Outstanding		20,000	Additions	30,000	
Salaries Outstanding				(3,000)	27,000
Bank Loan	1,15,400		Less: Depreciation		7,500
Capital Fund:			Subscription		600
Balance as per	6,000	1,21,400	Outstanding		16,000
previous		1,51,100	Insurance Prepaid		1,51,100
Balance Sheet			Cash in hand		
Add: Surplus for					
2021					

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	Assets	₹
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions	6,000
Bank Loan	20,000	Outstanding	13,900
Capital Fund (balancing figure)	1,15,400	Cash in hand	
	1,45,900		1,45,900

Working Note 1:

Calculation of Subscription received during the year ended 31st December, 2021

Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500

Add: Opening outstanding Less: Closing outstanding Total Salary paid	4,000 (4,500) 47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

Q5. July 2021 Exam, 10 Marks

Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

i. Income and Expenditure Account for the year ended 31st March, 2021.

ii. Balance Sheet as on 31st March, 2021

Answer

In the books of AMA society

Income and Expenditure Account for the year ending 31st March, 2021

Expenditure	₹	Income	₹	₹
To Medicine	2,90,000	By Subscription		5,12,000
To Honorarium	1,00,000	By donation		1,50,000
To Salaries	2,80,000	By Interest on investment		90,000
To Sundry expenses	10,000	By Charity show	1,25,000	
To Depreciation		Less: Charity show expenses	(15,000)	1,10,000
Equipment	60,000			
Building	20,000			
To Surplus	1,02,000			
	8,62,000			8,62,000

Balance Sheet of AMA society as on 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipments	2,10,000	
Opening balance	18,03,000		Add: Purchases.	1,50,000	
Add: Surplus	1,02,000	19,05,000	Less: dep. (bal. fig)	(60,000)	3,00,000
Adv subscription		7,000	Building	5,00,000	
Creditors (medicine)		1,30,000	Less: dep. (bal. fig)	(20,000)	4,80,000
			Investment (₹ 90,000/9%)		10,00,000
			Closing outstanding subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		

		20,42,000			90,000 20,42,00 0

Working Note:

(i) Subscription for the year ended 31st March, 2021

Particulars	**Amount**
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1st April, 2020	(15,000)
Add: Subscription outstanding as on 1st March, 2021	22,000
Add: Subscription received in advance as on 1" April, 2020	12,000
Less: Subscription received in advance as on 31 March, 2021	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2021

Particulars	**Amount**
Opening due for medical supply	90,000
Less: Payment made during the year	(3,00,000)
Less: Closing due for medical supply	(1,30,000)
Medicines purchased during the year	3,40,000

(iii) Medicines consumed during the year ended 31st March, 2021

Particulars	**Amount**
Opening stock	1,00,000
Add: Purchase during the year	3,40,000
Less: Closing Stock	(1,50,000)
Medicines consumed during the year	2,90,000

(iv) Depreciation on Equipment

Particulars	**Amount**
Opening Balance	2,10,000
Add: Purchase during the year	1,50,000
Less: Closing Balance	(3,00,000)
Depreciation for the year	60,000

Q6. Jan 2021 Exam, 2 Marks

State with reasons, whether the following statements are True or False:
Subsidy from the government for working capital by a manufacturing concern is a revenue receipt.

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

Q7. Jan 2021 Exam, 10 Marks

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

	17,34,000	Cash in Hand	19,000 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.

Answer

Income and Expenditure Account for the year ended 31st March, 2020

	₹		₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases 2,45,000		By Visiting fees	2,50,000
Less: Stock on 31.3.20 (95,000)	1,50,000	By Fees from lectures	24,000
To Motor car expense	80,000		
To Wages and salaries (1,05,000 –	75,000		
30,000)	60,000		
To Rent for clinic 60,000	49,000		
To General charges 49,000	36,000		
To Interest on loan 36,000	4,84,000		
To Net Income 4,84,000	9,34,000		9,34,000

Capital Account for the year ended 31st March, 2020

	₹		₹
To Drawings:		By Cash/bank	2,00,000
Motor car expenses (one-third of ₹ 1,20,000)	40,000	By Cash/ bank (pension)	3,00,000
	1,80,000	By Net income from practice	4,84,000
Household expenses	2,15,000	(derived from income and expenditure A/c)	
Daughter's marriage exp.	4,94,000		
Wages of domestic servants	30,000		
Household furniture	25,000		
To Balance c/d	9,84,000		9,84,000

Q8. Nov 2020 Exam, 10 Marks

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%

Answer

AS College

Income and Expenditure Account for the year ending 31st March, 2020

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

AS College Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	**Assets**	₹	₹
Capital Fund			Fixed Assets:		1,50,000
Opening balance	13,08,00		Land		
Add: Excess of Income	0		Building Cost	15,50,00	
over Expenditure		16,22,50	Less: Dep	0	9,82,500
Building Fund	3,14,500	0	Plant & Machinery Cost		

Current Liabilities:		19,10,00	Less: Dep.	(5,67,50	2,60,000
Outstanding Expenses		0	Furniture & Fittings	0)	
Security Deposit			Less: Dep.	8,50,000	1,60,000
		2,35,000	Motor Vehicles Cost:	(5,90,00	
		1,55,000	Less: Dep.	0)	1,92,000
			Library	5,40,000	3,20,000
			Investments	(3,80,00	12,75,00
			Stock (stores)-Material &	0)	0
			Supplies	2,40,000	1,85,000
			Tuition fees receivable	(48,000)	
			Cash in hand & at Bank		82,000
					3,16,000
					39,22,50
		39,22,50			0
		0			

Working Notes:

			₹	₹
(1)	Material & Supplies-Closing Stock			
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation	Building ₹	Plant & Furniture ₹	Equipment & Fitting ₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	77,500	85,000	54,000
	Closing Balance	5,67,500	5,90,0000	3,80,000

Q9. Nov 2019 Exam, 10 Marks

From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 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 31 st March 2019

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
			Prize Fund Investment	22,000
Opening balance	27,500		Cash in Hand	2,530
Add: Interest	1,100		Subscription (outstanding) (2018-2019)	770
	28,600			
Less: Prizes given	2,200	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			

Add: Entrance Fee	59,675 715	 60,390 86,900		 86,900

The following adjustments have been made in the above accounts:

i. Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018- 19.
ii. One fourth of entrance fee has been capitalized by transfer to General Fund.
iii. Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.
iv. Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.
v. Furniture was purchased during the year.

Answer

Receipts and Payments Account for the year ending 31st March, 2019

Receipts	₹	**Payments**	₹
To Balance b/d	16,126	By Upkeep of Ground	11,660
To Subscription	19,052	(Balancing figure)	
To Interest on Prize Fund	1,100	(11,000+660)	1,364
Investments		By Printing (1,100+264)	11,100
To Lecture (fee)	1,650	By Salaries	11,000
To Entrance Fee	2,860	By Furniture (9,900 +1,100)	1,660
To Sale of Newspapers	286	By Rent	2,200
(old)	440	By Prizes	2,530
To Misc. Income	41,514	By Balance c/d	41,514

Note: ₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018 April	To Subscription Outstanding (2017-18)	880	2018 April 1	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052
2019 March	To Income & Expenditure A/c	19,052			
		20,042			20,042

Q10. May 2019 Exam, 10 Marks

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

Answer

Receipts and Payments Account for the year ended 31-03-2019

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on	14,000	₹ (20,000-10,000)	
investment	8,000	By Sports expenses	50,000
To Sale of furniture		By Rent paid₹ (24,000-2,000)	22,000
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for	18,000		By Interest on		
2019	78,000		Investment	14,000	
	(15,000)	63,000	Received	3,500	17,500
Less: Outstanding for		50,000	Accrued (W.N.5)		
2018		24,000			
To Sports expenses		5,000			
To Rent		6,000			
To Miscellaneous exp.					
To Loss on sale of					
furniture (W.N.3)	1,400				
To Depreciation (W.N.4)	1,500				
Furniture	2,250	5,150			
Machinery		1,64,350			
Sports goods		3,17,500			3,17,500
To Surplus					

Working Notes:

1. Calculation of Subscription received during the year 2018-19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

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

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500

Sales price: ₹ 87,500 × 80% = ₹ 70,000

Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000

Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. Depreciation

Furniture -	₹14,000 × 10%	=	1,400
Machinery -	₹10,000 × 15%	=	1,500
Sports goods –	₹15,000 × 15%	=	2,250

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

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

Q11. Nov 2018 Exam, 2 Marks | Nov 2022 RTP

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

Fees received for Life Membership is a revenue receipt as it is of recurring nature.

False: Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

Q12. Nov 2018 Exam, 10 Marks

You are provided with the following: 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	3,800
Outstanding Expenses	14,000	Subscription	2,400
Loan	40,000	Outstanding Locker Rent	20,000
Sundry Creditors	10,000	Cash in hand	
Total	1,76,200		1,76,200

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts		**(₹)**	**Payment**		**(₹)**
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		By Miscellaneous		4,700
To Entrance Fees		24,000	Expenses		18,300
To Locker Rent		38,000	By Balance c/d		
To Sale proceeds of old		7,000	Cash in Hand		
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).

Answer

Income and Expenditure Account for the year ended 31st March, 2018

Expenditure	**₹**	**Income**	**₹**
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old	1,000
To Surplus	12,9006	newspapers	9,000
	41,600	By Misc. income	41,600

Balance Sheet as at 31st March, 2018

Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription	1,800
Add: Entrance fee	38,000		receivable (2017)	
Add: Surplus	12,900	1,57,100	(3,800 – 2,000)	18,300
Loan		40,000	Cash in hand	
Creditors		10,000		
		2,000		

Outstanding expenses (2017) (14,000-12,000) Subscription received in advance		1,000 2,10,100		2,10,100

Note: Entrance fees have been capitalized in the above solution

Q13. May 2023 RTP

A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with ₹ 1,50,000 of his own and ₹ 2,25,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	**Payments**	₹
Own Capital	1,50,000	Medicines Purchased	1,83,750
Loan	2,25,000	Surgical Equipment	1,87,500
Prescription Fees	4,95,000	Motor Car	2,40,000
Visiting Fees	1,87,500	Motor Car Expenses	90,000
Lecture Fees	18,000	Wages and Salaries	78,750
Pension Received	2,25,000	Rent of Clinic	45,000
		General Charges	36,750
		Household Expenses	1,35,000
		Household Furniture	18,750
		Expenses on Daughter's Marriage	1,61,250
		Interest on Loan	27,000
		Balance at Bank	82,500
		Cash in Hand	14,250

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 22,500 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2022 was valued at ₹ 71,250.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

Answer

Income and Expenditure Account for the year ended 31st March, 2022

	₹		₹
To Medicines consumed		By Prescription fees	4,95,000
Purchases 1,83,750		By Visiting fees	1,87,500
Less: Stock on 31.3.22 (71,250)	1,12,500	By Fees from lectures	18,000
To Motor car expense (90,000×2/3)	60,000		
To Wages and salaries (1,05,000 – 30,000)	56,250		
	45,000		
To Rent for clinic	36,750		
To General charges	27,000		
To Interest on loan	3,63,000		
To Excess of Income over Expenditure	7,00,500		7,00,500

Capital Account for the year ended 31st March, 2022

	₹		₹
To Drawings:		By Cash/bank	1,50,000
Motor car expenses	30,000	By Cash/ bank (pension)	2,25,000
Household expenses	1,35,000	By Net income from practice	
Daughter's marriage exp.	1,61,250	(derived from Income and Expenditure	3,63,000
Wages of domestic servants	22,500	A/c)	
	18,750		
Household furniture	7,387,00		7,38,000

Q14. Nov 2022 RTP

From the following information supplied by A.B.C. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2022.

	01.04.2021 ₹	31.03.2022 ₹
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84,000
Machinery	60,000	1,20,000
Sports goods	90,000	1,50,000

Subscription for the year amount to ₹ 18,00,000/-. Salaries paid ₹3,60,000. Face value of the Investment was ₹ 10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 84,000. Furniture was sold for ₹ 48,000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 3,00,000

Rent: ₹ 1,44,000 out of which ₹ 12,000 Outstanding

Misc. Expenses: ₹ 30,000

Answer

Receipts and Payments Account for the year ended 31-03-2022

Receipts	₹	Payments	₹
To balance b/d		By Salaries	3,60,000
Cash and bank	6,60,000	By Purchase of sports goods	60,000
To Subscription received (W.N.1)	14,70,000	₹ (1,50,000-90,000)	
To Sale of investments (W.N.2)	4,20,000	By Purchase of machinery	60,000
To Interest received on	84,000	₹ (1,20,000-60,000)	
investment₹	48,000	By Sports expenses	3,00,000
To Sale of furniture		By Rent paid₹ (1,44,000-12,000)	1,32,000
		By Miscellaneous expenses	30,000
		By Balance c/d	
		Cash and bank	17,40,000
	26,82,000		26,82,000

Income and Expenditure account for the year ended 31-03-2022

Expenditure	₹	₹	Income	₹	₹
To Salaries	3,60,000		By Subscription		18,00,000
Add: Outstanding for	1,08,000		By Interest on		
2022	4,68,000		Investment	84,000	
	(90,000)	3,78,000	Received	21,000	1,05,000
Less: Outstanding for		3,00,000	Accrued (W.N.5)		
2022		1,44,000			
To Sports expenses		30,000			
To Rent		36,000			
To Miscellaneous exp.					
To Loss on sale of					
furniture (W.N.3)	8,400				
To Depreciation (W.N.4)	9,000				
Furniture	13,500	30,900			
Machinery		9,86,100			
Sports goods		19,05,000			19,05,000
To Surplus					

Working Notes:

1. Calculation of Subscription received during the year 2021-22

	₹
Subscription due for 2021-22	18,00,000
Add: Outstanding of 2021	8,40,000
Less: Outstanding of 2022	(12,00,000)
Add: Subscription of 2022 received in advance	1,80,000
Less: Subscription of 2021 received in advance	(1,50,000)
	14,70,000

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

Face value of investment sold: ₹ 10,50,000 × 50% = ₹ 5,25,000

Sales price: ₹ 5,25,000 × 80% = ₹ 4,20,000

Cost price of investment sold: ₹ 8,40,000 × 50% = ₹ 4,20,000

Profit/loss on sale of investment: ₹ 1,20,000 - ₹ 4,20,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2022	1,68,000
Value of furniture as on 31-03-2023	84,000
Value of furniture sold at the beginning of the year	84,000
Less: Sales price of furniture	(48,000)
Loss on sale of furniture	36,000

4. Depreciation

Furniture -	₹84,000 × 10%	=	8,400
Machinery -	₹60,000 × 15%	=	9,000
Sports goods –	₹90,000 × 15%	=	13,500

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2021	10,50,000
Interest @ 10%	1,05,000
Less: Interest received during the year	(84,000)
Interest accrued during the year	21,000

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

Q15. May 2022 RTP

From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	**Payments**	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
Drama expenses	500	Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrears for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

Answer

Income and Expenditure Account of Pune Club for the year ended 31st March,2021

Dr. Cr.					
Expenditure	₹	₹	**Income**	₹	₹
To Salary		2,000	By Donation	5,000	2,500
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium		200	By Interest on investment	200	
To Stationary		150	[8/100x6,000x5/12]		
To Drama expenses		500	Add: Outstanding	40	240
To Surplus-excess of income over expenditure		14,150	By Interest received from bank		500
			By Sale of old newspapers		150
			By Sale of drama tickets		1,050
		17,950			17,950

Balance Sheet of Pune Club as on 31st March,2021

Liabilities	₹	₹	**Assets**	₹
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid Misc. expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		53,040

Working Note:

1. Balance Sheet of Pune Club as on 31st March,2020

Liabilities	₹	**Assets**	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
		Cash at bank	10,000
	44,000		44,000

2. Subscriptions

	₹	
Subscription as per Receipt and Payment A/c	12,000	
Add: Outstanding for year 2020-21		900
	12,900	
Less: Advance for year 2021-22		(350)
	12,550	

Q16. Nov 2021 RTP | May 2021 RTP

State with reasons, whether the following statements are true or false:
Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

False: It shall be disclosed as a current liability in the opening balance sheet.

Q17. Nov 2021 RTP

The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	₹	**Amount₹**	**Payments**	**Amount₹**
To Balance b/d		900	By Expenses (including	12,600

To Annual Income from			Payment for sports	
Subscription	9,180		material ₹ 5,400)	
Add: Outstanding of last year	360		By Loss on Sale of	360
received this year			Furniture (cost price ₹ 900)	
	9,450		By Balance c/d	1,80,900
Less: Prepaid of last year	180	9,360		
To Other fees		3,600		
To Donation for Building		1,80,000		
		1,93,860		1,93,860

Additional information:
Peppapig club had balances as on 1.4.2020 : -
Furniture ₹ 3,600; Investment at 5% ₹ 54,000;
Sports material ₹ 13,320;
Balance as on 31.3.2021 : Subscription Receivable ₹ 540;
Subscription received in advance ₹ 180;
Stock of sports material ₹ 3,600.
Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Answer

Corrected Receipts and Payments Account of Peppapig Club for the year ended 31st March, 2021

Receipts	**₹**	**Amount ₹**	**Payments**	**Amount ₹**
To Balance b/d		900	By Expenses	7,200
To Subscription			(₹ 12,600 –₹ 5,400)	
Annual Income	9,180		By Sports Material	5,400
Less: Receivable as on 31.3.2020	540		By Balance c/d	1,81,440
Add: Advance received for the year 2020–2021	180		(Cash in Hand and at Bank)	
Add: Receivable as on 31.3.2020	360			
Less: Advance received as on	180	9,000		
31.3.2020		3,600		
To Other Fees		1,80,000		
To Donation for Building		540		
To Sale of Furniture		1,90,040		1,90,040

Income and Expenditure Account of Peppapig club for the year ended 31st March, 2021

Expenditure		**Amount ₹**	**Income**	**Amount ₹**
To Sundry Expenses		7,200	By Subscription	9,180
To Sports Material			By Other fees	3,600
Balance as on 1.4.2020	13,320		By Interest on	2,700
Add: Purchases	5,400		investment	
Less: Balance as on	3,600	15,120	(5% on ₹ 54,000)	7,200
31.3.2021		360	By Deficit: Excess of	
To Loss on sale of		22,680	Expenditure over	22,680
Furniture			Income	

Balance Sheet of Peppapig club as on 31st March, 2021

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Capital Fund	72,000		Furniture	3,600	
Less: Excess of			Less: Sold	900	2,700
Expenditure over	7,200	64,800	5% Investment		54,000
Income		1,80,000			2,700

Building Fund		180	Interest Accrued on		
Subscription Received			Investment		3,600
in Advance			Sports Material		540
			Subscription		1,81,440
		2,44,980	Receivable		2,44,980
			Cash in Hand and at Bank		

Working Note:

Balance Sheet of Peppapig Club as on 1st April, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in	180	Furniture	3,600
Advance	72,000	Investment	54,000
Capital Fund		Sports Material	13,320
(Balancing Figure)		Subscription	360
		Receivable	900
	72,180	Cash in Hand and at	72,180
		Bank	

Q18. May 2021 RTP

The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of	18,250
To Sale of refreshments	22,000	refreshment	27,500
To Entrance fees	26,000	By Sports equipment	2,800
To interest on investments @	4,550	By Telephone Charges	15,600
7%		By Electricity charges	6,500
		By Honorarium	1,100
	84,000	charges	84,000
		By balance c/d	

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:

Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture-₹ 12,480

Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance-₹ 6,250

2. Following are the assets and liabilities on 31st March, 2020-

Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture-₹ 11,180

Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance-₹ 4,8503.

3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2019

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club.

Answer

In the books of Rotary Club

Dr Income and expenditure Account for the year ended on 31st March, 2020 Cr

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from	3,750
To Telephone Charges	2,800	refreshments (22,000-18,250)	

To Electricity charges (W.N. 5)	14,000	By Entrance fees (50% x 26,000)	13,000
To Honorarium charges	6,500	By Interest on investments	4,550
		By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund		Sports Equipment	50,500
1,13,880	1,11,330	Furniture	11,180
Less: Deficit (2,550)	13,000	7% Investments	65,000
Entrance fees	3,800	Subscription in arrears	5,200
Outstanding electricity	4,850	Cash	1,100
charges	1,32,980		1,32,980
Subscription in advance			

Working notes

1. Investments made -$\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%}$ = 65,000

2. Balance sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
Subscription Outstanding	7,600	Cash	8,450
	1,25,530		1,25,530

3. Computation of depreciation-

Sports equipment

Particulars	Amt (Rs)
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2020	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt (Rs)
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. **Subscription to be credited to income and expenditure account for the year 2020**

Dr Subscription A/c (year ended on 31st March, 2020) Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
	14,000

Electricity charges to be debited to Income and Expenditure A/c	

Q19. Nov 2020 RTP | May 2018 RTP

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

Receipts and Payments Account highlights total income and expenditure.

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

Q20. Nov 2020 RTP | Nov 2018 RTP

The following information of M/s. TT Club are related for the year ended 31st March, 2020:

1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

2) Subscription received during the year ₹ 3,75,000

3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Answer

Subscription for the year ended 31.3.2020

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2019	11,250	
Less: Subscription received in advance on 31.3.2020	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2020	16,500	
Add: Subscription received in advance on 1.4.2019	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2019	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2020	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2019	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2020	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 20 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

Q21. May 2020 RTP

Dr. Dinesh started private practice on 1st April, 2018 with ₹1,00,000 of his own fund and ₹ 1,50,000 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	1,00,000	Medicines Purchased	1,22,500
Loan	1,50,000	Surgical Equipment	1,25,000
Prescription Fees	3,30,000	Motor Car	1,60,000
Visiting Fees	1,25,000	Motor Car Expenses	60,000
Lecture Fees	12,000	Wages and Salaries	52,500
Pension Received	1,50,000	Rent of Clinic	30,000
		General Charges	24,500
		Household Expenses	90,000
		Household Furniture	12,500
		Expenses on Daughter's Marriage	1,07,500
		Interest on Loan	13,000
		Balance at Bank	55,000
		Cash in Hand	9,500

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2019 was valued at ₹47,500.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2019. Ignore depreciation on fixed assets.

Answer

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

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Stock on 31.3.20 (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000×2/3)	40,000		
To Wages and salaries (52,500 –	37,500		
15,000)	30,000		
To Rent for clinic	24,500		
To General charges	18,000		
To Interest on loan	2,42,000		
To Net Income	4,67,000		4,67,000

Capital Account for the year ended 31st March, 2019

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses (one-third of ₹	20,000	By Cash/ bank (pension)	1,50,000
1,20,000)	90,000	By Net income from	
Household expenses	1,07,500	practice	2,42,000
Marriage exp.	15,000	(derived from income and	
Wages of domestic servants	12,500	expenditure A/c)	
Household furniture	2,47,000		
To Balance c/d	4,92,000		4,92,000

Q22. Nov 2019 RTP

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

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

RECEIPTS	₹	₹	**PAYMENTS**	₹
To Balance b/d			By Salaries	31,200
Cash (₹ 7,200 for 2018)	800		By Hospital Equipment	17,000

Bank	5,20	6,000	By Furniture purchased	6,000
To Subscriptions:	0		By Additions to Building	50,000
For 2018		5,100	By Printing and Stationery	2,400
For 2019		24,500	By Diet expenses	15,600
For 2020		2,400	By Rent and rates (₹ 300 for	2,000
To Government Grant:			2020)	2,400
For building		80,000	By Electricity and water	2,000
For maintenance		20,000	charges	20,000
Fees from sundry Patients		4,800	By office expenses	
To Donations (not to be		8,000	By Investments	
capitalized)			By Balances:	8,200
To Net collections from benefit		6,000	Cash 1,400	
shows		1,56,80	Bank 6,800	1,56,800
		0		
Additional information:				
Value of building under construction as on 31.12.2019				1,40,000
Value of hospital equipment on 31.12.2019				51,000
Building Fund as on 1.1. 2019				80,000
Subscriptions in arrears as on 31.12.2018				6,500
Investments in 8% Govt. securities were made on 1st July, 2019				

Answer

Jeevan Hospital

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

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

Balance Sheet as at 31st Dec., 2019

Liabilities	₹	₹	**Assets**	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in		2,400	8% Govt. Securities		20,000
advance			Subscriptions		1,400
			receivable		800
			Accrued interest		300
			Prepaid expenses		6,800
			(Rent)		1,400
		2,27,700	Cash at Bank		2,27,700
			Cash in hand		

Working Notes:

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

Liabilities	₹	**Assets**	₹
Capital Fund (Balancing Figure)	49,300	Building	90,000
Building Fund	80,000	Equipment	34,000

Creditors for Expenses :		Subscription Receivable	6,500
Salaries payable	7,200	Cash at Bank	5,200
		Cash in hand	8,00
	1,36,500		1,36,500
(2) Value of Building			
Balance on 31st Dec. 2019			1,40,000
Paid during the year			50,000
Balance on 31st Dec. 2018			90,000
(3) Value of Equipment			
Balance on 31st Dec. 2019			51,000
Paid during the year			(17,000)
Balance on 31st Dec. 2018			34,000
(4) Subscription due for 2018			
Receivable on 31st Dec. 2018			6,500
Received in 2019			5,100
Still Receivable for 2018			1,400

Q23. May 2019 RTP

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

Receipts	**₹**	**Amount₹**	**Payments**	**Amount ₹**
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			
	90	4,680	By Balance c/d	90,450
Less: Prepaid of last year		1,800		
To Other fees		90,000		
To Donation for Building		96,930		96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹1,800 ; Investment at 5% ₹27,000 ;

Sports material ₹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 Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

Answer

Corrected Receipts and Payments Account of Trustwell Club for the year ended 31st March, 2018

Receipts	**₹**	**Amount ₹**	**Payments**	**Amount ₹**
To Balance b/d		450	By Expenses (₹ 6,300 –₹ 2,700)	3,600
To Subscription Annual Income	4,590			
Less: Receivable as on 31.3.2020	270		By Sports Material	2,700
Add: Advance received for the year 2020–2021	90		By Balance c/d (Cash in Hand and at Bank)	90,720
Add: Receivable as on 31.3.2020	180			
Less: Advance received as on 31.3.2020	90	4,500		
		1,800		
To Other Fees		90,000		

To Donation for Building		270		
To Sale of Furniture		97,020		97,020

Income and Expenditure Account of Trustwell club for the year ended 31st March, 2018

Expenditure		Amount ₹	Income	Amount ₹
To Sundry Expenses		3,600	By Subscription	4,590
To Sports Material			By Other fees	1,800
Balance as on 1.4.2017	6,660		By Interest on investment	
Add: Purchases	2,700		(5% on ₹ 27,000)	1,350
Less: Balance as on 31.3.2018	1,800	7,560	By Deficit: Excess of Expenditure over Income	3,600
To Loss on sale of Furniture		180		
		11,340		11,340

Balance Sheet of Trustwell club as on 31st March, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure over Income	(3,600)	32,400	Less: Sold	450	1,350
Building Fund		90,000	5% Investment		27,000
Subscription Received in Advance		90	Interest Accrued on Investment		1,350
			Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

Balance Sheet of Trustwell Club as on 1st April, 2017

Liabilities	Amount ₹	Assets	Amount ₹
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 and at Bank	450
	36,090		36,090

Q24. Nov 2018 RTP

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

In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

True: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

Q25. May 2018 RTP

Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund 7,93,000	7,93,000	Electrical fittings	1,50,000
Expenses payable 7,000	7,000	Furniture	50,000
		Books	4,00,000
			1,50,000

		Investment in	25,000
		securities	25,000
	8,00,000	Cash at bank	8,00,000
		Cash in hand	

The receipts and payment account for the year ended on 31st March, 2018 is given below:

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

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000.

Answer

Smith Library Society

Income and Expenditure Account for the year ended 31st March, 2018

Dr. Cr.

Expenditure	₹	₹	**Income**	₹	₹
To Electric charges		7,200	By Entrance fee (25% of ₹		7,500
To Postage and		5,000	30,000)	2,00,000	
stationary		5,000	By Membership subscription	10,000	1,90,000
To Telephone charges	88,000		Less: Received in advance		1,500
To Rent	4,000	92,000	By Sale proceeds of old papers		20,000
Add: Outstanding	66,000		By Hire of lecture hall	8,000	
To Salaries	3,000	69,000	By Interest on securities (W.N.2)	500	8,500
Add: Outstanding			Add: Receivable		16,700
To Depreciation	15,000		By Deficit- excess of		
(W.N.1)	5,000		expenditure over income		
Electrical fittings	46,000	66,000			
Furniture		2,44,200			2,44,200
Books					

Balance Sheet of Smith Library Society as on 31st March, 2018

Liabilities	₹	₹	**Asset**	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		Less:	(15,000)	1,35,000
	8,15,500		Depreciation	50,000	
Less: Excess of			Furniture	(5,000)	45,000
expenditure over income	(16,700)	7,98,800	Less:	4,60,000	
Outstanding expenses:			Depreciation	(46,000)	4,14,000

Rent	4,000		Books		
Salaries	3,000	7,000	Less	1,90,000	
Membership subscription in Advance		10,000	Depreciation	500	1,90,500
			Investment:		20,000
			Securities		11,300
		8,15,800	Accrued interest		8,15,800
			Cash at bank		
			Cash in hand		

Working Notes:

1. Depreciation ₹

Electrical fittings 10% of ₹ 1,50,000	15,000	
Furniture 10% of ₹ 50,000	5,000	
Books 10% of ₹ 4,60,000		46,000

2. Interest on Securities

Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year		1,000
	8,500	
Less: Received	(8,000)	
Receivable	500	

ILLUSTRATIONS

#1. Illustration | Nov 2018, 10 Marks |

Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing date, i.e. on 31st March, 2017 his statement of affairs stood as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		9,40,000

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to Rs.14,00,000, out of which Rs.3,50,000 was received in cash.
3. Business expenses amounted to Rs.2,00,000, of which Rs.50,000 were outstanding on 31st March, 2018 and Rs.60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was Rs.3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

Particulars	Rs.
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

1. Stock level was maintained at Rs.3,00,000 all throughout the year.

2. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer.

Answer

Trading and Profit and Loss Account of Aman for the year ended 31st March, 2018

		Rs.		Rs.
To Opening Stock		2,00,000	By Sales	18,00,000
To Purchases (Bal. fig.)		15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d		3,60,000		
		21,00,000		21,00,000
To Business Expenses		2,00,000	By Gross Profit b/d	3,60,000
To Repairs		10,000		
To Depreciation:				
Building	16,250			
Machinery	2,500			
Motor Car	18,000	36,750		
To Travelling Expenses		15,000		
To Loss by theft (cash defalcated)		20,000		
To Net Profit		78,250		
		3,60,000		3,60,000

Balance Sheet of Aman as at 31st March, 2018

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,80,000		Building	3,25,000	
Add: Net Profit	78,250		*Less*: Depreciation	(16,250)	3,08,750
Drawings	(75,000)	4,83,250	Furniture	50,000	
			Less: Depreciation	(2,500)	47,500
Loan		1,50,000	Motor car	90,000	
			Less: Depreciation	(18,000)	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding business Expenses		50,000	Sundry Debtors		2,10,000
			Bank Balance		2,20,000
		11,58,250			11,58,250

Working Notes:

1. Cash and Bank Account

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Payment to Creditors	-	13,75,000
To Collection from Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
To Sales (18,00,000 x 20%)	3,60,000	–	By Repairs	10,000	
To Cash (C)	–	7,15,000	By Cash (C)		1,20,000
To Bank (C)	1,20,000	-	By Bank (C)	7,15,000	
			By Travelling Expenses	15,000	
			By Private Drawings	-	75,000
			By Balance c/d		2,20,000
			By Cash defalcated (balancing fig.)	20,000	
	850000	1850000		850000	1850000

2. Calculation of sales during 2017-18

Gross profit (last year i.e. for year ended 31.3.2017	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales	15,00,000
Sales for 2016-17 3,00,000/0.2	
Sales for 2017-18 (15,00,000 x 1.2)	18,00,000
Credit sales for 2017-18	14,40,000 (80% of 18,00,000)

3. Debtors Account

To Bal. b/d.	1,70,000	By Cash	3,50,000
To Sales (18,00,000 x 80%)	14,40,000	By Bank	10,50,000
		By Bal. c/d	2,10,000
	16,10,000		16,10,000

4. Creditors Account

To Bank	13,75,000	By Bal. b/d	3,10,000
To Bal. c/d (bal. fig.)	4,75,000	By Purchases	15,40,000

	18,50,000		18,50,000

#2. Illustration | May 2019, 12 Marks |

The following balances appeared in the books of M/s Sunshine Traders:

	31-03-2018 Rs.	31-03-2019 Rs.
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	In (Rs.)
- Collection from Sundry Debtors	4,62,500
- Payments to Creditors for Purchases	2,62,500
- Payment of office Expenses	21,000
- Salary paid	16,000
- Selling Expenses paid	7,500
- Total sales	6,25,000
Credit sales (80% of Total sales)	
- Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
- Gross Profit Margin was 25% on cost	
- Discount Allowed	2,750
- Discount Received	2,250
- Bad debts	2,250

- Depreciation to be provided as follows:
  Land and Building - 5% per annum
  Plant and Machinery – 10% per annum
  Office Equipment - 15% Per annum
- On 01.10.2018 the firm sold machine having book value, Rs.20,000 (as on 31.03.2018) at a loss of Rs.7,500. New machine was purchased on 01.01.2019.
- Office equipment was sold at its book value on 01.04.2018.
- Loan was partly repaid on 31.03.2019 together with interest for the year.
  You are required to prepare:
  (i) Trading and Profit & Loss account for the year ended 31st March, 2019.
  (ii) Balance Sheet as on 31st March 2019.

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2019

Particulars		Rs.	Particulars		Rs.
To Opening stock (balancing figure)		82,500	By Sales - Cash	1,25,000	
			Credit	5,00,000	6,25,000
To Purchases – Cash	1,80,000				
Credit	2,70,000	4,50,000	By Closing stock		32,500
To Gross profit c/d		1,25,000			
		6,57,500			6,57,500
To Loss on sale of Machine		7,500	By Gross profit b/d		1,25,000
To Depreciation		30,750	By Discount Received		2,250
Land & Building	12500				
Plant & Machinery	11875				
Office Equipment	6375				
To Expensed paid		42,000			
Salary	16,000				
Selling expenses	7,500				
Office expenses	18,500				
To Bad debts		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		1,27,250			1,27,250

Balance Sheet as on 31-3-2019

Liabilities		Rs.	Assets		Rs.
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	35,750	5,01,000	*Less:* Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	*Less:* Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			6,11,250

Working Notes:

1.Calculation of Sales and Purchases

Total sales = Rs.6,25,000
Cash sales = 20% of total sales (6,25,000) = Rs.1,25,000
Credit sales = 80% of total sales (6,25,000) = Rs.5,00,000
Gross Profit 25% on cost = $6,25,000 \times \frac{25}{125}$ = Rs.125000

Credit purchases = Rs.2,70,000
Credit purchases = 60% of total purchases

Total purchases = $\frac{2,70,000}{60}$ x 100 = Rs.4,50,000

Cash purchases = 4,50,000 – 2,70,000 = Rs. 1,80,000

2. Plant & Machinery

	Rs.		Rs.
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		1,85,000

3. Depreciation on Plant & Machinery:

@ 10% p.a. on	20,000 for 6 months	=	1,000
@ 10% p.a. on	90,000 (i.e. Rs.1,10,000 – Rs.20,000)	=	9,000
@ 10% p.a. on	75,000 for 3 months (i.e. during the year)	=	1,875
			11,875

4. Creditors Account

	Rs.		Rs.
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000
To Balance c/d (Bal. Fig.)	52,750		
	3,17,500		3,17,500

5. Debtors Account

	Rs.		Rs.
To Balance b/d (Given)	77,750	By Cash	4,62,500
To Sales (Credit)	5,00,000	By Discount allowed	2,750
		By Bad debts	2,250
		By Balance c/d	1,10,250
	5,77,750		5,77,750

6. Provision for Office Expenses Account

	Rs.		Rs.
To Bank	21,000	By balance b/d	10,000
To balance c/d	7,500	By Expenses. (Bal. fig.)	18,500
	28,500		28,500

7. Bank Account

	Rs.		Rs.
To Balance b/d	12,500	By Creditors	2,62,500
To Debtors	4,62,500	By Purchases	1,80,000
To Office Equipment (sales)	10,000	By Expenses Rs.(16,000 + 7,500 + 21,000)	44,500
To Cash sales (W.N.1)	1,25,000	By Bank loan paid	18,750

To Machine sold	11,500	By Machine purchased (W.N.4) By Balance c/d (Bal. Fig.)	75,000 40,750
	6,21,500		6,21,500

8. Office Equipment Account

To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		52,500

#3. Illustration | Nov 2019, 10 Marks |

Archana Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2018 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	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 (Rs.)	Payments	Amount (Rs.)
Cash in hand & at Bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
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 Rs.54,000 and Rs.42,500 respectively (for the year ended 31st March, 2019).

(ii) Annual fire insurance premium of Rs.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	Rs.9,75,000
Trade debtors	Rs.3,43,000
Outstanding expenses	Rs.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.

Answer

Trading and Profit and Loss Account of Archana Enterprises

for the year ended 31st March, 2019

Particulars	Rs.	Particulars		Rs.
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	1,25,97,000	Cash	1,10,70,000	
To Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	
(10% of 139,30,000)				139,30,000
		By Closing stock		9,75,000
	14905000			14905000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% Rs. 1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2019

Liabilities		Amount Rs.	Assets		Amount Rs.
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500
Less: Drawing	(3,60,000)				
	3,15,000		Stock		9,75,000
			Trade Debtors		3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance		3,000
			Cash in hand & at bank		1,90,950
Trade creditors (W.N. 3)		8,29,000			
Outstanding expenses		55,200			
		16,39,450			16,39,450

Working Notes:

Trade Debtors Account

	Rs.		Rs.
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

Memorandum Trading Account

	Rs.		Rs.
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

Trade Creditors Account

	Rs.		Rs.
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

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

	Rs.
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 x 4/12)	(3,000)
	9,18,750

#4. Illustration | Nov 2020, 10 Marks |

M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2019 is as follows:

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

The management estimates the purchase & sales for the year ended 31st March,2020 as under:

Particulars	Upto 31.01.2020 (Rs.)	February 2020 (Rs.)	March 2020 (Rs.)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1, 75,000

All Sales and Purchases are on credit basis. It was decided to invest Rs.1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2019, Rs.60,000 was sold for Rs.56,000 on 31st March, 2020.

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

Prepare Trading & profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current asset and liability apart from stock and cash and bank balances. Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2020.

Answer

Trading and Profit and Loss Account of M/s Rohan & Sons
for the year ended 31st March, 2020

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

Balance Sheet of M/s Rohan Sons as on 31st March, 2020

Liabilities	Rs.	Assets	Rs.
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000	Stock	4,15,000
Trade Creditors	1,25,000	Debtors	3,85,000
		Cash and bank	2,22,000
	16,88,000		16,88,000

Working Notes:

1. Cash and Bank Account

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

2. Fixed Assets Account

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

#5. Illustration | Jan 2021, 10 Marks |

Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2019-20:

Receipts	Amount Rs.	Payments	Amount Rs.
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
		General Expenses	22,500
Cash sales	1,70,800	Rent and Taxes	11,800
Capital brought in the Business during the year	50,000	Drawings	96,000
		Cash Purchases	1,22,750
Interest on Investment Received	9,750	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
	(Rs.)	(Rs.)
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 Rs.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.

Answer

Trading and Profit & Loss Account for the year ended 31-03-2020

Particulars	Rs.	Rs.	Particulars	Rs.
To Opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	55,700
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		

	Rs.	Rs.		Rs.
To Depreciation:	8,500			
Machinery @ 10%	2,450	10,950		
Furniture @ 10%				
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	Rs.	Rs.	Assets	Rs.	Rs.
A.Adamjee's Capital			Machinery	85,000	
on 1st April, 2019	3,32,150		*Less:* Depreciation	(8,500)	76,500
Add: Fresh Capital	50,000		Furniture	24,500	
Add: Profit for the year	1,31,100		*Less:* Depreciation	(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 Doubtful debts		
Outstanding expenses		14,000		(14,200)	3,43,000
			Investment (including accrued interest Rs. 450)		85,450
			Cash at bank		36,600
			Cash in hand		20,150
		6,39,450			6,39,450

Working Notes:

1. Balance sheet as on 1-4-2019

	Rs.		Rs.
Sundry creditors	60,200	Machinery	85,000
Capital (balancing figure)	3,32,150	Furniture	24,500
		Inventory	38,600
Outstanding salaries	12,000	Sundry debtors	1,55,000
		Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		4,04,350

2. Total Debtors Account

		Rs.			Rs.
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit sales (1,70800/20x80)	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

3. Total Creditors Account

		Rs.			Rs.
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 (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

#6. Illustration | July 2021, 10 Marks |

Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows:

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

You are furnished with following information:

(1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total Sales during the year 2019-20 were Rs.6,25,000

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay by cheques only.

(4) Deprecation on furniture is to be charged 10% p.a.

(5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of Rs.2,500 to the clerk, office expenses Rs.1,500 and personal expenses Rs.625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

	Rs.
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021:

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

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer.

Answer

In the books of Mr. Arun
Trading and Profit and Loss Account for the Year Ended 31st March 2021

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	3,50,000	By Sales (W.N. 3)	
To Purchases (W.N.1)	4,55,000	Credit	6,00,000
To Gross Profit (b.f.)	1,45,000	Cash	1,50,000
		By Closing Stock	2,00,000
Total	9,50,000	Total	9,50,000
To Salary (Rs. 2,500 x 12)	30,000	By Gross Profit	1,45,000
To Rent	20000		
To Office Expense	18000		
To Loss of Cash (W.N.6)	29,500		
To Depreciation on furniture	5,000		
To Net Profit (b.f.)	42,500		
Total	1,45,000		1,45,000

Balance Sheet As on 31st March 2021

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Arun's Capital	5,05,000		Furniture	50,000	
Add: Profit	42,500		Less: Depreciation	(5,000)	45,000
Less: Drawings	(7,500)	5,40,000	Stock		2,00,000
(Rs. 625 X12)			Debtors		1,50,000
Creditors		1,82,500	Cash at bank		3,27,500
Total		7,22,500	Total		7,22,500

Working Notes:

(1) Calculation of Purchases

Creditors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c	3,75,000	By Balance b/d	1,02,500
To Balance c/d	1,82,500	By Purchases (Bal Fig)	4,55,000
Total	5,57,500	Total	5,57,500

(2) Calculation of Total Sales

Particulars	Amount (Rs.)
Sales for the year 2019-20	6,25,000
Add: 20% increase	1,25,000
Total sales for the year 2020-21	7,50,000

(3) Calculation of Credit Sales

Particulars	Amount (Rs.)
Total Sales	7,50,000
Less: Cash sales (20% of total sales)	(1,50,000)
Credit sales	6,00,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	1,25,000	By Bank A/c (Bal Fig)	5,75,000
To Sales A/c	6,00,000	By Balance c/d	1,50,000
Total	7,25,000	Total	7,25,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	47,500	By Creditors A/c	3,75,000
To Debtors A/c	5,75,000	By Rent A/c	20,000
To Cash A/c	1,00,000	By Balance c/d (b.f)	3,27,500
Total	7,22,500	Total	7,22,500

(6) Calculation of the amount of cash defalcated by the cashier

Particulars	Amount (Rs.)
Cash Balance as on 1st April 2020	35,000
Add: Cash sales during the year	1,50,000
Less: Salary	(30,000)
Office Expenses	(18,000)
Drawings of Arun	(7,500)
Cash deposited into bank during the year	(1,00,000)
Cash Balance as on 31 March 2021 (defalcated by the cashier)	29,500

#7. Illustration | Dec 2021, 5 Marks |

Mrs. A is showing the consolidated aggregate opening balance of equity, liabilities and assets of Rs.6 lakh, 4 lakh and 10 lakh respectively. During the current year Mrs. A has the following transactions:

1. Received 20% dividend on 10,000 equity shares of Rs.10 each held as investment.
2. The amount of Rs.70,000 is paid to creditors for settlement of Rs.90,000.
3. Salary is pending by Rs.20,000.
4. Mrs. A's drawing Rs.20,000 for her personal use.

You are required to prepare the statement of the effect of aforesaid each transaction on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction.

Answer

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	Assets Rs. lakh	–	Liabilities Rs. lakh	=	Equity Rs. lakh
Opening	10.00	–	4.00	=	6.00
(1) Dividend earned	10.20 [10.00+0.20]	–	4.00	=	6.20 [6.00+0.20]
(2) Settlement of Creditors	9.50 [10.20-0.70]	_	3.10 [4.00-0.90]	=	6.40 [6.20+0.20]
(3) Salary Outstanding	9.50	–	3.30 [3.10+0.20]	=	6.20 [6.40-0.20]
(4) Drawings	9.30 [9.50-0.20]	–	3.30	=	6.00 [6.20-0.20]

#8. Illustration | Dec 2021, 5 Marks |

A company sold 20% of the Goods on Cash Basis and the balance on Credit basis.

1. Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is Rs.1,50,000. Assume that sale is evenly spread throughout the year.
2. Purchases during the year Rs.9,50,000
3. Closing stock is Rs.10,000 less than the Opening Stock.
4. Average stock maintained during the year Rs.60,000
5. Direct Expenses amounted to Rs.35,000

Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2021.

Answer

Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 $= \text{Debtors} \times \frac{12 \text{ months}}{1.5 \text{ months}}$

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

= Rs.12,00,000

Total sales for the year ended 2020 -21 $= \text{Credit sales} \times \frac{100\%}{80\%}$

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

= Rs.15,00,000

Trading Account for the year ended 31st March, 2021

Particulars	Rs.	Particulars	Rs.
To Opening stock	65,000	By Sales	15,00,000
To Direct expenses	35,000	By Closing Stock	55,000
To Purchases	9,50,000		
To Gross profit	5,05,000		
	15,55,000		15,55,000

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x+10,000
Average stock is Rs.60,000
Average stock = Opening stock + Closing stock /2
Thus Opening stock is Rs.65,000 and closing stock is Rs.55,000.

Chapter 10: Partnership Accounts
Unit 1 - Introduction to Partnership Accounts
Past Exams and RTP Questions Compiler

Q1. Dec 2021 Exam, 5 marks

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 provision of partnership deed:
1) C was entitled for a salary of 5,000 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.

Answer

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:			10,000	
C's Salary (2019-20,2020-21)	5,000	2,500	2,500	
Interest on Capital (2019-20,2020-21)	2,500	14,500	14,500	58,000
Share of Profit	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
B's Current A/c	9,000	
To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

Q2. Jan 2021 Exam, 5 marks

Discuss the rules if there is no Partnership Agreement.

Answer

As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,
1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally

Q3. Nov 2019 Exam, 2 marks

State with reasons, whether the following statements are True or False:
A Partnership firm cannot own any Assets.

Answer

True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm

Q4. Nov 2019 Exam, 5 marks

Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	Amount (₹)
14-07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (₹)
29-07-2018	92,000

09-09-2018 11,500

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

Answer

Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	Particulars	Dr. (₹)	Cr. (₹)	Balance S(₹)	Dr. Or Cr.	Days	Dr. Product(₹)	Cr. Product(₹)
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941		45,441	Dr.			
30.09.18	By Bal. c/d		45,441					
			1,89,441	1,89,441			38,90,000	5,70,000

Interest Calculation:

On₹ 38,90,000 x 10% x 1/365 = ₹ 1,066

On ₹ 5,70,000 x 8% x 1/365 = ₹ 125

Net interest to be debited = ₹ 941

Q5. May 2019 Exam, 2 marks | May 2020 RTP

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

Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Answer

False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

Q6. May 2018 Exam, 2 marks

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

When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

Answer

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.

Q7. May 2023 RTP | Nov 2020 RTP | May 2018 RTP

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

Partners can share profits or losses in their capital ratio, when there is no agreement

Answer

False: According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners

Q8. May 2023 RTP | Nov 2022 RTP

P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of the year was Rs. 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.

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

Answer

Calculation of Capital as on 01.04.2021

Particulars	P (₹)	Q (₹)	R (₹)	Total
Closing Capital	1,50,000	1,80,000	2,10,000	5,40,000
Add: Drawings	20,000	20,000	20,000	60,000
Less: Share of Profit	12,000	24,000	24,000	60,000
Capitals as on 01.04.2021	1,58,000	1,76,000	2,06,000	5,40,000

Particulars	P (₹)	Q (₹)	R (₹)	Total
Share of profit already credited (A)	12,000	24,000	24,000	60,000
II. Amount which should have been credited:	15,800	17,600	20,600	54,000
Interest on Capital @ 10%	1,200	2,400	2,400	6,000
Share of Profit (out of the balance amount) (60,000 – 54,000)	17,000	20,000	23,000	60,000
(B)	-5,000	4,000	1,000	-
III. Difference [(A)-(B)]				

Journal entry

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Q's Capital A/c Dr.		4,000	
R's Capital A/c Dr.		1,000	
To P's Capital A/c			5,000
(Being the omission of interest on capital rectified)			

Q9. Nov 2022 RTP

A, B and C entered into partnership on 1.1.2021 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 90,000 in any year. Capitals of A, B and C were ₹ 9,60,000, ₹ 6,00,000 and ₹ 4,80,000 respectively.

Profits for the year ending 31.12.2021 before providing for interest on partners capital was ₹ 4,77,000.

You are required to prepare the Profit and Loss Appropriation Account.

Answer

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

Dr. Cr.

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	4,77,000
	A (5% of ₹ 9,60,000)	48,000				
	B (5% of ₹ 6,00,000)	30,000				
	C (5% of ₹ 4,80,000)	24,000	1,02,000			
To	Partners' capital accounts:					
	[profit transferred (₹4,77,000 - 1,02,000)					
	A ($\frac{5}{10}$ of 3,75,000)	1,87,500				
	Less: Transferred to C	15,000	1,72,500			
	B ($\frac{3}{10}$ of 3,75,000)		1,12,500			
	C ($\frac{2}{10}$ of 3,75,000)	75,000				
	Add: Transferred from A	15,000	90,000			
			4,77,000			4,77,000

Q10. May 2022 RTP | Nov 2021 RTP

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

A partnership firm can acquire fixed assets in the name of the firm.

Answer

False: A partnership firm cannot acquire fixed assets in its name since it is not aseparate legal entity. It can acquire fixed assets in the name of its partners

Q11. May 2022 RTP

A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year.

Answer

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

		₹	₹			₹
To	Salary - B		3,000	By	Net profit	73,000
To	Interest on Capitals:					
	A	2,500				
	B	2,000	4,500			
To	Reserve (10% of 65,500)		6,550			
To	Partners' current accounts:					
	A	29,475	58,950			
	B	29,475	73,000			73,000

Partners' Capital Accounts

Date		A	B	Date		A	B
31.03.21	To Balance c/d	50,000	40,000	01.04.20	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Accounts

Date		A	B	Date		A	B
01.04.20	To Balance b/d	-	3,000	01.04.20	By Balance b/d	10,000	
31.03.21	To Drawings A/c	1,000	2,000	31.03.21	By Interest on Capital	2,500	2,000
31.03.21	To Balance c/d	40,975	29,475	31.03.21	By Salary		3,000
				31.03.21	By Profit and Loss App A/c	29,475	29,475
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to B = 70,000+3,000 =73,000

Q12. Nov 2021 RTP

X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than ₹ 15,000 in any year.Capitals of X, Y and Z were ₹ 1,60,000, ₹ 1,00,000 and ₹ 80,000 respectively.

Profits for the year ending 31.12.2020 before providing for interest on partners capital was ₹ 79,500.

You are required to prepare the Profit and Loss Appropriation Account.

Answer

Profit and Loss Appropriation Account for the year ended 31st December, 2020

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	79,500
	X (6% of ₹ 1,60,000)	9,600				
	Y (6% of ₹ 1,00,000)	6,000				
	Z (6% of ₹ 80,000)	4,800	20,400			
To	Partners' capital accounts: [profit transferred (₹79,500 - 20,400)					
	X ($\frac{5}{10}$ of 59,100)	29,550				
	Less: Transferred to C	3,180	26,370			
	Y ($\frac{3}{10}$ of 59,100)		17,730			
	Z ($\frac{2}{10}$ of 59,100)					
	Add: Transferred from A	11,820 3,180	15,000			
			79,500			79,500

Q13. May 2021 RTP

Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the
partners.

Answer

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars	**₹**	**Particulars**	**₹**
To Salary to Lotus	50,000	By Net Profit b/d 3,34,600	
To Interest on capital		Add: Drawings of Lotus wrongly debited as salaries 10,000	3,44,600
Rose 24,000			
Lilly 36,000			
Lotus 48,000	1,08,000	By Interest on drawings	
To Net Profit transferred to		Rose 2,400	
		Lilly 1,800	5,400
Rose 50,000		Lotus 1,200	
Lilly 64,000	1,92,000		
Lotus 78,000	3,50,000		3,50,000

Partners' Capital Accounts

Particulars	**Rose**	**Lilly**	**Lotus**	**Particulars**	**Rose**	**Lilly**	**Lotus**
To Balance c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	**Rose**	**Lilly**	**Lotus**	**Particulars**	**Rose**	**Lilly**	**Lotus**
To Tuition fees	40,000	30,000	10,000 20,000	By Interest on capital	24,000	36,000	48,000

To Drawings	2,400	1,800	1,200	By Salary			50,000
To Interest on drawings				By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

Q14. May 2020 RTP | May 2018 RTP

A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2019 before providing for interest on partners capital was ₹ 1,59,000.

You required to prepare the Profit and Loss Appropriation Account.

Answer

Profit and Loss Appropriation Account for the year ended 31st December, 2017

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C(5% of ₹1,60,000)	8,000	34,000			
To	Partners' capital accounts: [profit transferred (₹1,59,000 - 34,000)					
	A ($\frac{5}{10}$ of 1,25,000)	62,500				
	Less: Transferred to C	5,000	57,500			
	B ($\frac{3}{10}$ of 1,25,000)		37,500			
	C ($\frac{2}{10}$ of 1,25,000)	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

Q15. Nov 2019 RTP

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

When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

Answer

False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and
losses of the firm are shared equally among partners.

Q1. Dec 2022 Exam, 5 marks

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.

Answer

(i) Capitalization Method:

Total Capitalised Value of the firm

$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}}$ = ₹ 6,50,000 X 100/20 = ₹ 32,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 32,50,000 – ₹ 26,00,000 [i.e., ₹ 14,00,000 (R) + ₹ 12,00,000 (S)]

Goodwill = ₹ 6,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x Normal rate of return i.e. ₹ 26,00,000 x 20/100

= ₹ 5,20,000

Average Profit = ₹ 6,50,000

Super Profit = Average profit – Normal Profit

= ₹ 6,50,000 – ₹ 5,20,000 = ₹ 1,30,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,30,000 x 6 = ₹ 7,80,000

Q2. May 2022 Exam, 5 marks

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.

Answer

Computation of Goodwill of Mr. X

Average maintainable profits:		₹
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(36,000)
Total		7,20,000
Average Profits (₹ 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ₹ 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative: ₹

Total profit (₹ 2,40,000 + ₹ 2,16,000 + ₹ 3,00,000 - ₹ 36,000) = ₹ 7,20,000

Normal Profit (11% on capital employed of ₹ 9,00,000) = (99,000)

Remuneration for the proprietor =		(36,000)
	(1,35,000)	
Average Profits (₹ 7,20,000 / 4)	1,80,000	
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit =		2,70,000

Q3. May 2022 RTP

Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

i. By Capitalization Method; and
ii. By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit.

Answer

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,3{,}00{,}000 \times 100}{20} = ₹\ 15{,}00{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed
= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 + ₹ 4,00,000]
Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000
Average Profit = ₹ 3,00,000
Super Profit = Average profit – Normal Profit
=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000
Goodwill = Super Profit x Number of years purchase
= ₹1,00,000 x 3 = ₹ 3,00,000

Q4. Nov 2021 RTP

Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		13,10,000

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Answer

	Valuation of Goodwill:	₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50,000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
		12,00,000
(2)	Super Profit :	
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on ₹ 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	

	3 Years' Purchase of Super profit (₹ 40,000 × 3) = ₹ 1,20,000	

Q5. May 2021 RTP

The profits and losses for the previous years are: 2017 Profit ₹ 5,000, 2018 Loss ₹ 8,500, 2019 Profit ₹ 25,000, 2020 Profit ₹ 37,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Answer

Total Profit for 4 years = ₹ 5000+ ₹ (8,500) +₹ 25,000+₹ 37,500= ₹ 59,000.

Average profits = $\frac{\text{Total Profit}}{\text{No of Years}} = \frac{₹\,59{,}000}{4}$ = ₹14,750

Average Profits for Goodwill s = ₹ 14,750 – Proprietor Remuneration
= ₹ 14,750 – ₹ 3,000 = ₹ 11,750

Normal Profit = Interest on Capital employed
= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100) = ₹ 10,000

Super Profit = Average Profit-Normal Profit = ₹ 11,750 – ₹ 10,000 = ₹ 1,750

Goodwill = Super Profit x No of years purchases = ₹ 1,750 x 3 =₹ 5,250

Q6. Nov 2020 RTP | May 2020 RTP | Nov 2019 RTP | May 2018 RTP

J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%,

calculate the value of goodwill on the firm:

i. By Capitalization Method; and

ii. By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Answer

(i) Capitalisation Method:

Total Capitalised Value of the firm

= $\frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20}$ = 7,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed
= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]
Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000
Average Profit = ₹ 1,50,000
Super Profit = Average profit – Normal Profit
=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000
Goodwill = Super Profit x Number of years' purchase
= ₹ 50,000 x 2 = ₹ 1,00,000

Q7. Nov 2019 RTP | Nov 2018 RTP

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan, Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2020 and the partners withdrew ₹1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Answer

	Valuation of Goodwill:	₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	Super Profit :	
	Profit of M/s Vasudevan, Sunderarajan ,Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

Q8. May 2019 RTP

The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Answer

Total Profit for 3 years = (₹ 17,000)+₹ 50,000+₹ 75,000= ₹ 1,08,000.

Average profits = $\frac{\text{Total Profit}}{\text{No.of years}}$ = $\frac{₹\ 1,08,000}{3}$ = ₹ 36,000

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration
= ₹ 36,000 – ₹ 6,000 = ₹ 30,000
Normal Profit=Interest on Capital employed
= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000
Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000
Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 = ₹ 20,000

Q1. Dec 2022, 10 marks

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	2000	Bank		78,000
	3,00,000		6	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, ₹ 2400 is bad and 5% provision is to be provided for bad and Doubtful debts.

iii. Building is to be appreciated by 75%.

iv. Actual liability towards salary payable is ₹ 1200 only.

You are required to show the following 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.

Answer

In the books of X, Y and Z
Revaluation Account

Particulars	**₹**	**Particulars**	**₹**
To Plant	5,000	By Building	45,000
To Bad debts	2,400	By Salary payable	800
To Provision for Bad	1,800		
Debts	600		
To Stock	3,500		
To Furniture	500		
To Bills receivable			
To Profit on revaluation			
X	12,800		
Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	**X**	**Y**	**Z**	**Particular**	**X**	**Y**	**Z**
To X and Y	-	-	24,000	By Balance b/d	60,00	1,40,00	-
(Goodwill				By Bank	0	0	1,00,00
adjustment)				By Z	-	-	0
To Balance c/d	98,400	1,	76,000	By General	9,600	14,400	-
		97,600		Reserve			
				By Revaluation	16,00	24,000	-
	98,400		1,00,00		0	19,200	-
		1,97,60	0		12,80	1,97,60	1,00,00
		0			0	0	0

					98,40 0		

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	**₹**	**Assets**	**₹**
Capital Accounts:		Building	1,05,000
X	98,000	Plant	40,000
Y	1,97,600	Furniture	20,000
Z	76,000	Debtors*	34,200
Creditors	42,600	Bills receivable	12,000
Bills payable	15,400	Stock	42,000
Salary payable	1,200	Bank	1,78,000

*Debtors: (38,400 – 2,400 – 1,800) = ₹ 34,200

Q2. Dec 2021, 10 marks

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 to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to be appreciated by 20%.

(vi) Capital Accounts of the partners be readjusted on the basis of their profit sharing Arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

Answer

Revaluation Account

Particulars		**Amount ₹**	**Particulars**	**Amount ₹**
To Furniture		1,000	By Land and Building	50,000
To Stock		20,000		
To Provision for doubtful debts		8,000		
To Revaluation Profit				
A (21,000 x ¾)	15,750	21,000		
B (21,000 x ¼)	5,250	50,000		50,000

Partners' Capital Accounts

Particulars	**A ₹**	**B ₹**	**C ₹**	**Particulars**	**A ₹**	**B ₹**	**C ₹**
To 'B's	-	45,250	-	By Balance b/d	2,85,00	1,55,00	-
Current A/c				By General	0	0	-
(bal fig)				Reserve	45,000	15,000	1,40,00
				By revaluation	15,750	5,250	0
To Balance	4,20,00	1,40,00	1,40,00	profit	-	-	-
c/d	0	0	0	By Bank A/c	30,000	10,000	-

				By C's Current A/c (Goodwill) By As Current A/c (bal fig)	44,250	-	
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. **Calculation of total Capital**

   C's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.
   Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000
   Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1 i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. **Calculation of New Profit Sharing ratio**

   A = ¾ x 4/5 = 12/20 = 3/5
   B = 1 /4 X 4/ 5 = 4/20 = 1/5
   C = 1/5= 4/20 = 1/5 or 3 : 1 : 1 **OR**
   Calculation of sacrificing ratio

Partner	New share	Old share	Sacrifice	Gain
A	3/5	3/4	-3/20	-
B	1/5	1/4	-1/20	-
C	1/5	-	-	1/5

3. **Goodwill**

   C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current Account because capitals of old partners are also adjusted on the basis of C's Capital.
   Therefore, Journal entry for goodwill will be

C's Current A/c	Dr.	40,000	
To A's Capital A/c			30,000
To B's Capital A/c			10,000

Q3. Dec 2021, 2 marks

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

Answer

False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

Q4. Nov 2018, 15 marks

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing stock	12,600
Capital Accounts:		Trade Receivables	10,700
Dinesh 15,000		Cash in hand	2,800
Ramesh 15,000		Cash at Bank	2,200
Naresh 10,000	40,000		
	72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

i. Suresh shall bring ₹ 8,000 towards his capital.
ii. The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.
iii. 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.
vi. 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.

Answer

Revaluation Account

2018		₹	2018	₹
April 1			**April 1**	
To Provision for bad And doubtful debts		535	By Inventory In trade	1,400
To Furniture and Fittings		720	By Land and Building	5,600
To Capital A/cs: (Profit on Revaluation Transferred)				
Dinesh	2,872.50			
Ramesh	1,915.00			
Naresh	957.50			
		7,000		7,000

Partners' Capital Accounts

Particular	Dinesh	Ramesh	Naresh	Suresh	Particular	Dinesh	Ramesh	Naresh	Suresh
To Dinesh & Ramesh	-	-	1,500	4,500	By Balance b/d	15,000	15,000	10,000	-
To Balance C/d	26,972.5	21,015	10,757.50	3,500	By General Reserve	3,900	2,600	1,300	
					By Cash	-	-	-	8,000
					By Naresh & Suresh	4,500	1,500	-	-
					By Outstanding liabilities	700	-	-	
					By Revaluation A/c	2,872.5	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.5	21,015	12,257.5	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	1/4	3/6	6/24	
Ramesh	1/4	2/6	2/24	
Naresh	1/4	1/6		2/24
Suresh	1/4			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.	1,500	
Suresh (6/24 of ₹18,000)	Dr.	4,500	
To Dinesh (6/24 od ₹18,000)			4,500
To Ramesh (2/24 of ₹18,000)			1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	Assets	₹	₹

Trade payables		22,500	Land and		42,600
Outstanding Liabilities(2,200-		1,500	Buildings		6,480
700)			Furniture		14,000
Capital Accounts of Partners :	26,972.5		Inventory of	10,000	
Mr. Dinesh	0		goods	(535)	
Mr. Ramesh	21,015.0		Trade receivables		10,165
Mr. Naresh	0	62,245	Less: (Provisions)		2,800
Mr. Suresh	10,757.5		Cash in hand		10,200
	0		Cash at bank		
	3,500.00		(2,200+8,000)		
		86,245			
					86,245

Q5. May 2023, RTP

Shyam, Sunder and Girdhar are partners in a firm sharing profits and losses in the ratio Of 3:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	56,250	Land & Building	92,500
Outstanding	5,500	Furniture & Fixtures	18,000
Liabilities	19,500	Closing stock	31,500
General Reserve		Trade Receivables	26,750
Capital Accounts:		Cash in hand	7,000
Dinesh		Cash at bank	5,500
37,500	1,00,000		
Ramesh	1,81,250		1,81,250
37,500			
Naresh			
25,000			

The partners have agreed to take Hari as a partner with effect from 1st April, 2022 on the following items:

i. Hari shall bring ₹ 20,000 towards his capital.
ii. The value of stock to be increased to ₹ 35,000 and Furniture & Fixtures to be depreciated by 10%.
iii. Provision for bad and doubtful debts should be provided at 2% of the trade Receivables.
iv. The value of Land & Buildings to be increased by ₹ 14,000 and the value of the Goodwill be fixed at ₹45,000.
v. The new profit sharing ratio shall be divided equally among the partners.
vi. The outstanding liabilities include ₹ 1,750 due to Aman which has been paid by Shyam.

Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet Of the firm after admission of Hari.

Answer

Revaluation Account

2022 April 1		₹	2022 April 1	₹
To Provision for bad And doubtful debts		535	By Inventory in Trade	3,500
To Furniture and Fittings		1,800	By Land and Building	14,000
To Capital A/cs:				
(Profit on Revaluation Transferred)				
Shyam	7582.5			
Sundar	5055.00	15,165		
Girdhar	2527.5	17,500		17,500

Partners' Capital Accounts

Particulars	Shyam ₹	Sundar ₹	Giridhar ₹	Hari ₹	Particulars	Shyam ₹	Sundar ₹	Giridhar ₹	Hari ₹
To Shyam & Sundar			3,750	11,250	By Balance b/d	37,500	37,500	25,000	-
To Balance c/d	67,832.5	52,805	27,027.5	8,750	By General Reserve	9,750	6,500	3,250	
					By Cash	-	-	-	20,000
					By Giridhar & Hari	11,250	3,750	-	-
					By Outstanding liabilities (Aman)	1,750	-	-	
					By Revaluation A/c	7,582.5			
	67,832.5	52,805	30,775.5	20,000		67,832.5	52,805	30,775.5	20,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Shyam	1/4	3/6	6/24	
Sundar	1/4	2/6	2/24	
Girdhar	1/4	1/6		2/24
Hari	1/4			6/24

Entry for goodwill adjustment

Shyam(2/24 of ₹45,000)	Dr.	3,750	
Sundar (6/24 of ₹45,000)	Dr.	11,250	
To Girdhar (6/24 od ₹45,000)			11,250
To Hari (2/24 of ₹45,000)			3,750

Balance Sheet of M/s. Shyam, Sundar, Girdhar and Hari as on 1-4-2022

Liabilities	₹	₹	Assets	₹	₹
Trade payables		56,250	Land and Buildings		1,06,500
Outstanding Liabilities (5,500-1,750)		3,750	Furniture		16,200
Capital Accounts of Partners :			Inventory of goods		35,000
Mr. Shyam	67,832.50		Trade receivables	26,750	
Mr. Sundar	52,805.00		Less: (Provisions)	(535)	26,215
Mr. Girdhar	27,027.50		Cash in hand		7,000
Mr. Hari	8,750.00	1,56,415	Cash at bank (5,500+20,000)		25,500
		2,16,415			2,16,415

Q6. May 2021, RTP

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000

Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5 th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1) Revaluation account
2) Partners' capital accounts.
3) Cash and bank account.
4) Balance Sheet after admission

Answer

In the books of Ramu, Mamu and Damu

Revaluation A/c

Particulars	**₹**	**Particulars**	**₹**
To machinery	36,000	By Building	75,000
To Bad debts	2,800		
To Reserve for Bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit on revaluation			
Ramu			
15,000	25,000		
Mamu	75,000		75,000
10,000			

Partner's Capital A/cs

Particulars	**Ramu**	**Mamu**	**Damu**	**Particulars**	**Ramu**	**Mamu**	**Damu**
To Ramu,			50,000	By Balance		1,90,000	
Mamu	36,000	99,000		b/d	2,10,000		
To Bank (b/f)	2,50,000		1,00,000	By bank		25,000	1,50,000
To balance c/d		1,50,000		By Damu		24,000	
(working note)				By General	25,000		
				reserve	36,000	10,000	
				By			
				revaluation	15,000	2,49,000	
	2,86,000		1,50,000				
		2,49,000			2,86,000		1,50,000

Bank A/c

Particulars	**₹**	**Particulars**	**₹**
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	2,25,000
Ramu	2,50,000	Machinery	1,44,000
Mamu	1,50,000	Furniture	40,000
Damu	1,00,000	Trade Receivables	
Loan from HDFC	25,000	40000	38,000
bank	21,000	Reserve for Bad debts	60,000
Trade Payables		2,000	39,000
	5,46,000	Inventory	5,46,000
		Bank	

Working Note:

Partner	Old Share	Sacrificed Share		New Share
Ramu	3/5	- 1/10	=	5/10
Mamu	2/5	– 1/10	=	3/10
Damu	–	2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share-
The closing balances will be fixed first as follows

Capital and goodwill brought in by Damu - ₹ 1,50,000
His share of goodwill- 2,50,000 x 1/5 ₹ (50,000)
Amount brought in as capital ₹1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = ₹ 5,00,000
Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio
Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000
Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000
Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

Q7. May 2019, RTP

A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	12,900	Building	26,000
Bill Payable	4,100	Furniture	5,800
Bank Overdraft	9,000	Stock-in-Trade	21,400
Capital Account:		Debtors	
A 44,000		35,000	34,800
B 36,000	80,000	Less: Provision	2,500
		200	15,500
	1,06,000	Investment	1,06,000
		Cash	

'C' was admitted to the firm on the above date on the following terms:

i. He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.
ii. The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
iii. 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.
iv. Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.
v. It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

1. Revaluation Account.
2. Partners' Capital Accounts.
3. Balance Sheet of New Partnership firm after admission of 'C'.

Answer

(i) Revaluation Account

	₹		₹
To Furniture	870	By Building	3,200
To Stock	1,070	By Sundry creditors	1,400
To Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		5,050

(ii) Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	–
				By Cash A/c	–	–	25,000
				By Goodwill A/c (Working Note)	27,000	18,000	
	71,000	54,000	25,000		71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm (after admission of C) as on 1.1.18

Liabilities	₹	**Assets**	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 – 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 – 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000)

Q1. May 2022 Exam, 10 marks

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April,2021 on the following terms:

i. Building to be appreciated by 25%.
ii. X and Y to bring in additional capital of ₹ 5,00,000 each.
iii. Machinery to be depreciated by 10%.
iv. Stock is revalued at ₹ 3,72,250.
v. Provision for Doubtful Debts to be created at 4%.
vi. Goodwill was to be valued at 3 years' purchase of average profits of past 3 years.The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
vii. Goodwill was not to be raised in the Books of Accounts.
viii. Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Answer

In The Books of X, Y and Z

Revaluation A/c

Particulars	**₹**	**Particulars**	**₹**
To Provision for Doubtful Debts	13,000	By Building	62,500
To Machinery	33,750	By Loss on revaluation	
To Stock	27,750	X 2,000	
		Y 4,000	
		Z 6,000	12,000
	74,500		74,500

Partners' Capital A/c

Particulars	**X**	**Y**	**Z**	**Particulars**	**X**	**Y**	**Z**
To Loss on Revaluation	2,000	4,000	6,000	By Balance b/d	1,75,000	2,50,000	4,00,000
To Bank	--	--	9,04,000	By General Reserve	50,000	1,00,000	1,50,000
To Z's Capital	1,20,000	2,40,000	--	By X and Y's Capital	--	--	3,60,000
To Balance c/d	6,03,000	6,06,000	--	By Bank	5,00,000	5,00,000	--
	7,25,000	8,50,000	9,10,000		7,25,000	8,50,000	9,10,000

Bank A/c

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	62,500	By Z's Capital	9,04,000
To X's Capital	5,00,000	By Balance c/d	1,58,500

To Y's Capital	5,00,000		
	10,62,500		10,62,500

Valuation of Goodwill:

Total Profit of past 3 years = ₹ 2,75,000 + ₹ 2,50,000 + ₹ 1,95,000 = ₹ 7,20,000
Average profit = ₹ 7,20,000 / 3 = ₹ 2,40,000
Goodwill (3 years purchase) = ₹ 2,40,000 x 3 = ₹ 7,20,000
Z's share = (3/6)th = ₹ 7,20,000 X 1/2 = ₹ 3,60,000

Journal entry for adjustment of goodwill

X's capital A/c Dr. 1,20,000
Y's capital A/c Dr. 2,40,000
To Z's capital A/c 3,60,000
(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

Q2. July 2021 Exam, 10 marks

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of
a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.
Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600,
Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share
of profit to that date, however showed a debit balance of ₹ 1,920.
Firm profits were for the year ended

- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160
- 31st March, 2020· ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

Answer

Ram's Capital Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

Ram's executor Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹

31.3.2021	To Bank A/c (25,200.50+2,520) To Balance c/d (1,00,802 x 2.5%)	27,720.50 75,601.50 1,03,322	1.10.2020 31.3.2021	By Capital A/c By Interest	1,00,802.00 2,520.00 1,03,322
30.9.2021 31.3.2022 31.3.2022	To bank A/c To bank A/c (25,200.50+1,260) To balance c/d (25,200.50 x 2)x2.5%	27,090.50 26,460.50 25,200.50 78,751.50	1.4.2021 30.9.2021 30.3.2022	By Balance b/d (25,200.50+1,890) By Interest (75,601.50 x 2.5%) By Interest	75,601.50 1,890.00 1,260.00 78,751.50
30.9.2022	To bank A/c	25,830.50 25,830.50	1.4.2022 30.9.22	By balance b/d (25,200.50+630) By Interest (25,200.50 x 2.5%)	25,200.50 630.00 25,830.50

Working notes

1. Ascertainment of Value of Goodwill	
2017	70,400
2018	56,320
2019	48,160
2020	17,408
Total Profit for 4 years	1,92,288
Average Profit	48,072
Goodwill - 3 years	
Purchase of Average Profit	1,44,216
Ram's Share of goodwill (9/16 of ₹1,44,216)	81,122
* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16	

Q3. Nov 2020 Exam, 10 marks

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses inthe 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	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at₹ 46,000. Trade receivables are considered good only 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.

Answer

Revaluation Account

2020		₹	2020		₹
July 1	To Building	11,000	July 1	By Investments (46,000 - 42,000)	4,000
	To Plant and Machinery	80,000		By Partners' Capital A/cs (loss on revaluation)	
	To Trade receivable (Bad Debts)	23,850		A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850
		1,14,850			1,14,850

Partners' Capital Accounts

	A ₹	B ₹	C ₹	D ₹		A ₹	B ₹	C ₹	D ₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	-	-	-	90,000	By D's Capital A/c (W.N.1)	-	60,000	30,000	-
To Investments A/c	-	46,000	-	-	By Bank A/c	29,255	-	25,425	2,10,000
To B's loan A/c	-	87,830	-	-					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 3 lakhs

Sacrificing ratio:

A 3/10 - 3/10 = 0

B 2/10 - 0 = 2/10

C 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

	₹
B: 90,000 x 2/3 = 60,000	
C: 90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

	₹
Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

Q4. May 2018 Exam, 10 marks

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 equipment	2,80,000
C 4,00,000	16,20,000	Stock	2,50,000
Sundry Creditors	3,70,000	Sundry debtors 3,00,000	
General Reserves	3,60,000	Less: Provision for Doubtful debts 30,000	2,70,000
		Joint life policy	1,60,000
		Cash at Bank	1,50,000
	23,50,000		23,50,000

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

(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.

Answer

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000	4,62,000		
C 77,000			
	5,62,000		5,62,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation reserve	2,31,000	1,54,000	77,000

				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
					12,11,000	8,14,000	
	12,11,000	8,14,000	5,37,000				5,37,000

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at Bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**

   = (90,000+1,40,000+1,20,000+1,30,000)/4

   = ₹ 1,20,000

2. **Goodwill at three years' purchase**

   ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Q5. Nov 2022 RTP

On 31st March,2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	1,20,000
Mr. Aadi	80,000	Plant and Machinery	80,000
Mr. Arnav	1,20,000	Stock of goods	48,000
Mr. Aarush	80,000	Sundry debtors	44,000
Sundry Creditors	40,000	Cash and Bank Balances	28,000
	3,20,000		3,20,000

On 1st April, 2022, Aadi desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

i. Land and Building be appreciated by 20%. Plant and Machinery be depreciated by 30%.

ii. Stock of goods to be valued at ₹40,000. Old credit balances of Sundry creditors, ₹8,000 to be written back.

iii. Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained ₹ 30,200.

iv. Goodwill of the entire firm is valued at ₹56,000 and Aadi's share of the goodwill is adjusted in the A/cs of Arnav and Aarush, who would share the future profits equally. No goodwill account being raised.

v. The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

vi. Amount due to Mr. Aadi is to be settled on the following basis: @ 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) Capital Accounts of the partners, (c) Cash and Bank Account and (d) Balance Sheet of the new firm M/s Arnav & Aarush as on 1.04.2022.

Answer

Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2022 April	To Plant & Machinery	24,000	2022 April	By Land and building	24,000
	To Stock of goods	8,000		By Sundry creditors	8,000
	To Provision for bad and doubtful debts	2,200		By Cash & Bank - Joint life Policy surrendered	30,200
	To Capital accounts (profit on revaluation transferred) Mr. Aadi (2/7) 8,000 Mr. Arnav(3/7) 12,000 Mr. Aarush (2/7) 8,000	28,000			
		62,200			62,200

(b) **Partners' Capital Accounts**

Dr. Cr.

Particulars	Aadi (₹)	Arnav (₹)	Aarush (₹)	Particulars	Aadi (₹)	Arnav (₹)	Aarush (₹)
To Aadi's Capital A/c - goodwill	-	4,000	12,000	By Balance b/d	80,000	1,20,000	80,000
To Cash & bank A/c - (50% dues paid)	52,000	-	-	By Revaluation A/c	8,000	12,000	8,000
To Aadi's Loan A/c - (50% transfer)	52,000	-	-	By Arnav & Aarush's Capital A/cs - goodwill	16,000	-	-
To Balance c/d	-	1,40,000	1,40,000	By Cash & bank A/c - amount brought in (Balancing figures)	-	12,000	64,000
	1,04,000	1,44,000	1,52,000		1,04,000	1,44,000	1,52,000

(c) **Cash and Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	28,000	By Aadi's Capital A/c - 50% dues paid	52,000
To Revaluation A/c – surrender value of joint life policy	30,200	By Balance c/d	82,200
To Arnav's Capital A/c	12,000		
To Aarush's Capital A/c	64,000		
	1,34,200		1,34,200

(d) **Balance Sheet of M/s Arnav & Aarush as on 01.04.2022**

Liabilities		₹	Assets		₹

Partners' Capital			Land and Building	1,20,000	
Account			Add: Appreciation 20%	24,000	1,44,000
Mr. Arnav	1,40,00		Plant & Machinery	80,000	
Mr. Aarush	0	2,80,00	Less:Depreciation 30%	24,000	56,000
Mr. Aadi's Loan		0	Stock of goods	48,000	
account	1,40,00	52,000	Less:revalued	8,000	40,000
Sundry Creditors	0	32,000	Sundry Debtors	44,000	
			Less:Provision for bad debts	2,200	41,800
			5%		82,200
			Cash & Bank balances		3,64,000
		3,64,00			
		0			

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	56,000
Mr. Aadi's Share (2/7)	16,000
Gaining ratio of Arnav & Aarush;	
Arnav = ½ - 3/7 = 1/14	
Aarush = ½ - 2/7 = 3/14	
Arnav: Aarush = 1:3	

Therefore, Arnav will bear – ¼ × 16000 or ₹4,000

Aarush will bear = ¾ × 16000 or ₹12,000

Q6. May 2022 RTP

Acme & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2021 is as under:

Liabilities		₹	**Assets**	₹
Capitals:			Land	30,000
Mr. A	2,40,000		Buildings	6,00,000
Mr. B	60,000		Plant and machinery	3,90,000
Mr. C	90,000	3,90,000	Furniture	1,29,000
Long Term Debt		9,00,000	Investments	36,000
Reserves		60,000	Inventories	3,90,000
(un-appropriated profit)			Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade Payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. F will admitted as a partner with effect from 1st April, 2021. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C in their new profit sharing ratio, which is 2:2:1.

i. The surplus funds, if any, will be used for repaying bank overdraft.

ii. The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

a) Revaluation account;

b) Partners capital accounts;

c) Bank account; and

d) Balance sheet of the reconstituted firm as on 1st April, 2021.

Answer

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Buildings A/c	30,000	By Investments A/c	9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	83,400	A 91,200	
		B 54,720	
		C 36,480	1,82,400
	1,91,400		1,91,400

Partners' Capital A/c

Particulars	A	B	C	F	Particulars	A	B	C	F
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To B's Loan A/c	-	68,280	-	-	By C and F's Capital A/c	30,000	90,000	-	-
To A and B's Capital A/c			60,000	60,000	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

Particulars	Amount ₹	Particulars	Amount ₹
To A's capital A/c	31,200	By Bank Overdraft A/c	1,32,000
To C's capital A/c	2,34,480	By Balance c/d	3,13,680
To F's capital A/c	1,80,000		
	4,45,680		4,45,680

Balance Sheet of Acme & Co.as at 1st April, 2021

Liabilities	₹	Assets	₹
Capital Accounts:		Land	30,000
A 2,40,000		Buildings	5,70,000
C 2,40,000		Plant and Machinery	3,12,000
F 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade Payables	5,10,000	Trade receivables	
Q's Loan Account	68,280	4,17,000	
		Less: Provision for	3,33,600
		Doubtful Debts	3,13,680
	20,78,280	(83,400)	20,78,280
		Balance at Bank	

Q7. Nov 2020 RTP | May 2018 RTP

On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000

Sundry Creditors	10,000 80,000	Cash and Bank Balances	7,000 80,000

On 1st April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

i. Land and Building be appreciated by 20%.
ii. Plant and Machinery be depreciated by 30%.
iii. Stock of goods to be valued at ₹10,000.
iv. Old credit balances of Sundry creditors, ₹2,000 to be written back.
v. Provisions for bad debts should be provided at 5%.
vi. Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
vii. Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
viii. The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
ix. Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2020.

Answer

Revaluation Account

Date	**Particulars**		**₹**	**Date**	**Particulars**	**₹**
2020 April	To Plant & Machinery		6,000	2020 April	By Land and building	6,000
	To Stock of goods		2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts		550		By Cash & Bank - Joint life Policy surrendered	7,550
	To Capital accounts (profit on revaluation transferred)					
	Mr. P (2/7)	2,000				
	Mr. Q(3/7)	3,000				
	Mr. R (2/7)	2,000	7,000			
			15,550			15,550

(b) **Partners' Capital Accounts**

Dr. Cr.

Particulars	**P (₹)**	**Q (₹)**	**R (₹)**	**Particulars**	**P (₹)**	**Q (₹)**	**R (₹)**
To P's Capital A/c - goodwill	-	1,000	3,000	By Balance b/d	20,000	30,000	20,000
To Cash & bank A/c - (50% dues paid)	13,000	-	-	By Revaluation A/c	2,000	3,000	2,000
To P's Loan A/c - (50% transfer)	13,000	-	-	By Q & R's Capital A/cs - goodwill	4,000	-	-
To Balance c/d	-	35,000	35,000	By Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
	26,000	36,000	38,000		26,000	36,000	38,000

(c) **Cash and Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	7,000	By Q's Capital A/c - 50% dues paid	13,000
To Revaluation A/c – surrender value of joint life policy	7,550	By Balance c/d	20,550
To Q's Capital A/c	3,000		
To R's Capital A/c	16,000		
	33,550		33,550

(d) **Balance Sheet of M/s Q & R as on 01.04.2022**

Liabilities		₹	Assets		₹
Partners' Capital			Land and Building	30,000	
Account			Add: Appreciation 20%	6,000	36,000
Mr. Q	35,000		Plant & Machinery	20,000	
Mr. R	35,000	70,000	Less:Depreciation 30%	6,000	14,000
Mr. Q's Loan account		13,000	Stock of goods	12,000	
Sundry Creditors		8,000	Less:revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less:Provision for bad debts	550	10,450
			5%		20,550
		91,000	Cash & Bank balances		91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	
Mr. P's Share (2/7)	14,000
Gaining ratio of Q & R;	4,000
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q: R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

Q8. Nov 2018 RTP

Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves		20,000	Investments	12,000
(un-appropriated			Inventories	1,30,000
profit)		3,00,000	Trade receivables	1,39,000
Long Term Debt		44,000		
Bank Overdraft		1,70,000		
Trade Payables		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

i. The surplus funds, if any, will be used for repaying bank overdraft.

ii. The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

a) Revaluation account;

b) Partners' capital accounts;

c) Bank account; and

d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Answer

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Partners' Capital A/c

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160		By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-		By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-		By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

Particulars	Amount ₹	Particulars	Amount ₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA & Co.as at 1st April, 2018

Liabilities	₹	Assets	S
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
R 80,000		Plant and Machinery	1,04,000
T 40,000	2,00,000	Furniture	43,000
Long Term Debts	3,00,000	Inventories	1,30,000
Trade Payables	1,70,000	Trade receivables 1,39,000	
Q's Loan Account	22,760	Less: Provision for Doubtful Debts (27,800)	1,11,200
		Balance at Bank	1,04,560
	6,92,760		6,92,760

Q1. July 2021 Exam, 10 marks

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

i. Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

ii. Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160
- 31st March, 2020· ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

Answer

Ram's Capital Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

Ram's executor Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
31.3.2021	To Bank A/c (25,200.50+2,520)	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
	To Balance c/d	75,601.50	31.3.2021	By Interest (1,00,802 x 2.5%)	2,520.00
		1,03,322.00			1,03,322.00
30.9.2021	To bank A/c (25,200.50+1,890)	27,090.50	1.4.2021	By Balance b/d	75,601.50
31.3.2022	To bank A/c (25,200.50+1,260)	26,460.50	30.9.2021	By Interest (75,601.50 x 2.5%)	1,890.00
31.3.2022	To balance c/d	25,200.50	30.3.2022	By Interest (25,200.50 x 2) x 2.5%	1,260.00
		78,751.50			78,751.50
30.9.2022	To bank A/c (25,200.50+630)	25,830.50	1.4.2022	By balance b/d	25,200.50
			30.9.22	By Interest (25,200.50 x 2.5%)	630.00
		25,830.50			25,830.50

Working notes

1. Ascertainment of Value of Goodwill	
2017	70,400
2018	56,320
2018	48,160
2020	17,408
Total Profit for 4 years	1,92,288
Average Profit	48,072
Goodwill - 3 years	
Purchase of Average Profit	1,44,216
Ram's Share of goodwill	
(9/16 of ₹1,44,216)	81,122 *

Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = ₹1,00,802 / 4 = 25,200.50

Q2. Jan 2021 Exam, 10 marks

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.

Answer

P's Capital Account

2020		₹	2020		₹
Sep. 30	To Current A/c	25,000	Jan. 1	By Balance b/d	30,000
	(30,000 - 5000)		Dec. 31	By Profit and Loss	
Dec. 31	To Profit and Loss Adjt.	3,000		A/c :	2,400
	(Unrecorded Liability)		Dec. 31	Interest on Capital	4,735
	To Balance Transferred			Share of Profit	11,830
Dec. 31	to P's Executor's A/c	38,465	Dec. 31	Q&R (Goodwill)	17,500
		66,465		Insurance Policies	66,465
				A/c	

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

	₹	
Average	11,830	
Goodwill at two years purchase of average net profits	23,660	
Share of P in the goodwill		11,830
(ii) Profit on Separate Life Policy:		
P's policy	25,000	
Q and R's policy @ 20% of ₹ 50,000	10,000	
	35,000	
Share of P (1/2)		17,500
(iii) **Share in profit for 2020:**		
Profit for the year		13,470
Less : Interest on capitals		(4,000)
	9,470	
P's share in profit (1/2)		4,735

Q3. Nov 2019 Exam, 10 marks

Arup and Swarup were partners. The partnership deed provides inter alia:

i. That the annual accounts be balanced on 31 st 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 Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

Answer

(i)	**Ascertainment of Swarup's Share of Profit**		**(ii)**	**Ascertainment of Value of Goodwill**	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000

	Average Profit 4 months' Profit Swarup's Share in Profit (2/5th of ₹15,000)	45,000 15,000 6,000		Average Profit Goodwill - 3 years Purchase of Average Profit Swarup's Share of goodwill (2/5 of ₹1,35,000)	45,000 1,35,000 54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5 **Swarup's Executors Account**

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1 May 1 May 1 May 1	By Capital A/c By Reserves (2/5th of ₹45,000) By Arup's Capital A/c (Share of goodwill) By P&L Suspense A/c (Share of Profit)	60,000 18,000 54,000 6,000
		1,38,000			1,38,000

Q4. May 2019 Exam, 10 marks

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	
Yedhant	75,000	35,000	33,000
Zoya	75,000	Less: Provision for doubtful debt	7,000
		(2,000)	12,000
	2,82,000	Cash in hand	2,82,000
		Cash at bank	

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 1 st 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

Answer

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)	8,500	By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		

Zoya	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
To Bal. c/d	1,08,125	83,125		By Monika & Yedhant	-	-	8,750
				By Profit and Loss Adjustment*	-	-	1,875
				(suspense) A/c	8,500	8,500	8,500
				By Revaluation			
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss	1,875
		Adjustment	7,000
		Cash in hand	12,000
	3,09,375	Cash at bank	3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 = ₹ 4375

Yedhant = ₹ 8750X1/2 = ₹ 4375

Q5. Nov 2021 RTP

The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		₹	Assets		₹
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade Payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for Doubtful debts	1800	25,200
		99,300			99,300

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.

b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

c) ₹ 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment

Answer

i. Journal Entry in the books of the M/s TMR

Date	Particulars		Dr. ₹	Cr. ₹
April,5 2021	Tina's Capital A/c	Dr.	3,000	
	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

ii. Revaluation Account

Dr.			Cr.
Particulars	**₹**	**Particulars**	**₹**
To Furniture A/c (₹ 16,800-13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100
To Inventory A/c (₹ 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Tina - ₹ 300, Meena - ₹ 300, Rita - ₹ 300)	900		
	5,100		5,100

iii. Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita (Goodwill)	3,000	3,000	-	By Balance b/d	24,600	24,600	27,000
To Cash A/c	-	-	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	-	-	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	-	By Tina (Goodwill)	-	-	3,000
				By Meena (Goodwill)	-	-	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Tina	Meena	Rita
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Q6. Nov 2019 RTP

The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities	₹	Assets	₹
Capital		Machinery	10,000
L	8,200	Furniture	5,600
M	8,200	Fixture	4,200
N	9,000	Cash	3,000
General Reserve	3,000	Inventories	1,900

Trade payables	4,700	Trade receivables 9,000	
		Less: Provision for Doubtful debts	8,400
	33,100	600	33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

d) After death of N, L and M share profit equally.

You are required to prepare:

i. Journal Entry for Goodwill adjustment.

ii. Revaluation Account and Capital Accounts of the partners.

Answer

(i) Journal Entry in the books of the M/s LMN

Date	**Particulars**		**Dr. ₹**	**Cr. ₹**
Jan 3 2018	L's Capital A/c	Dr.	1,000	
	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr.			**Cr.**
Particulars	**₹**	**Particulars**	**₹**
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	-	By Balance b/d	8,200	8,200	9,000
To Cash A/c	-	-	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	-	-	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	-	By L (Goodwill)	-	-	1,000
				By M (Goodwill)	-	-	1,000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	**L**	**M**	**N**
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

#1. Question |May 2022 Exam, 15 marks |

Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7:7: 4 as a wholesale stationer running business under the name "AVS Traders". On 31st March,2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31st March,2021 when their Balance sheet stood as under Balance Sheet as at 31st March,2021

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital accounts:			Building	1,90,000
Ajay	1,80,000		Inventory	1,30,000
Vijay	1,80,000	3,60,000	Investments	50,000
General Reserve		36,000	Trade Debtors	70,000
Trade Creditors		80,000	Cash & Bank	26,000
Bills payables		30,000	Sanjay's Capital (overdrawn)	40,000
		5,06,000		**5,06,000**

Additional Information:

(i) Following frauds were committed by Sanjay:
 (1) Investments costing ₹8,000 were sold by Sanjay at ₹ 11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.
 (2) A cheque for ₹ 7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.

(ii) A trade creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the trade creditors were paid off at a discount of 10%.

(iii) Other assets were realized as follows:

Inventory	₹ 1,20,000
Building	110% of book value
Investments	The rest of the investments were sold at a profit of ₹ 7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%

(iv) The Bills payables were settled at a discount of, ₹500.

(v) The expenses of dissolution amounted to ₹8,060.

(vi) It was found out, that realisation from Sanjay's private assets would be ₹ 7,000.
You are required to prepare
 (1) Realisation Account
 (2) Cash & Bank Account
 (3) Partners' Capital Accounts.
 (All workings should form part of your answer)

Answer

Realization Account

	Particulars	₹		Particulars		₹
To	Building	1,90,000	By	Trade creditors		80,000
To	Inventory	1,30,000	By	By Bills payable		30,000
To	Investment	50,000	By	Cash:		
To	Trade Debtors	70,000		Building	2,09,000	

				Inventory	1,20,000	
				Investments (W.N.2)	40,000	
				Trade Debtors (W.N. 3)	56,700	4,25,700
To	Partners' Capital A/cs		By	Sanjay's Capital A/c (Trade Debtors unrecorded)		7,000
	Ajay 6,160		By	By Sanjay's Capital A/c (Investments-unrecorded)		11,000
	Vijay 6,160					
	Sanjay <u>3,520</u>	15,840				
		5,53,700				**5,53,700**

Cash and Bank Account

	Particulars		₹		**Particulars**	₹
To	Balance b/d		26,000	By	Trade creditors	80,000
To	Realization A/c– assets realized			By	Realization A/c-bills payable	29,500
	Building	2,09,000		By	Realization A/c expenses	8,060
	Inventory	1,20,000		By	Capital accounts:	
	Investments (W.N.2)	40,000			Ajay	1,80,420
	Trade Debtors (W.N. 3)	56,700			Vijay	1,80,420
To	Sanjay's capital A/c	7,000				
		4,58,700				**4,58,700**

Partners' Capital Accounts

Particulars	**Ajay**	**Vijay**	**Sanjay**	**Particulars**	**Ajay**	**Vijay**	**Sanjay**
	₹	₹	₹		₹	₹	₹
To Balance b/d			40,000	Balance b/d	1,80,000	1,80,000	-
To Trade Debtors -misappropriation			7,000	By General reserve	14,000	14,000	8,000
To Investment - misappropriation			11,000	By Realization profit	6,160	6,160	3,520
To Sanjay's capital A/c (W.N. 4)	19,740	19,740		By Cash A/c			7,000
To Cash A/c	1,80,420	1,80,420		By Ajay's capital A/c			19,740
				By Vijay's capital A/c			19,740
	2,00,160	2,00,160	58,000		2,00,160	2,00,160	58,000

Working Notes:

1. Amount paid to Trade creditors

	₹

Book value	80,000
Less: Creditors taking over investments	(13,000)
	67,000
Less: Discount @ 10%	(6,700)
	60,300

2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by Sanjay	(8,000)
	42,000
Less: Taken over by a trade creditor	(9,000)
	33,000
Add: Profit on sale of investments	7,000
	40,000

Amount received from Trade debtors

	₹
Book value	70,000
Less: Unrecorded receipt	(7,000)
	63,000
Less: Discount @ 10%	(6,300)
	56,700

Deficiency of Sanjay

	₹
Balance of capital as on 31st March, 2021	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	11,000
	58,000
Less: Realization Profit	(3,520)
General reserve	(8,000)
Contribution from private assets	(7,000)
Net deficiency of capital	39,480

This deficiency of ₹ 39,480 in Sanjay's capital account will be shared by other partners Ajay and Vijay in their capital ratio of 1:1 Accordingly,

Ajay's share of deficiency = [39,480/2] = ₹ 19,740

Vijay's share of deficiency = [39,480/2] = ₹ 19,740

#2. Question | December 2021 Exam, May 2019, 5 marks |

State the circumstances when Garner v/s Murray rule is not applicable.

Answer

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 the insolvent partner.

4. When all the partners of the firm are insolvent.

#3. Question |January 2021 Exam, 15 Marks |RTP November 2022 (Dif. Figures)

Ananya Enterprises is a partnership firm is which A, B and C are three partners sharing profits and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 31st October, 2019 is as below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts:		Land & Buildings	45,00,000
A	95,00,000	Plant & Machinery	65,00,000
B	75,00,000	Furniture & Fixtures	18,00,000
C	30,00,000	Stock	13,50,000
Sundry Creditors	11,00,000	Sundry Debtors	7,50,000
		Cash	7,00,000
		Loan A	25,00,000
		Loan B	30,00,000
	2,11,00,000		**2,11,00,000**

On the Balance Sheet date all the three partners have decided to dissolve their partnership and called you to assist them in winding up the affairs of the firm. They also agreed that asset realization is distributed among them at the end of each month.

A summary of liquidation transactions is as follows:

November, 2019:

- ₹ 3,00,000 - collected from debtors, balance is uncollectable
- ₹ 11,00,000 - received from the sale of entire furniture
- ₹ 2,00,000 - liquidation expenses paid
- ₹ 6,00,000 - Cash retained in the business at the end of month

December, 2019:

- ₹ 2,20,000 - Liquidation expenses paid
- As part payment of his capital, C accepted a machinery for ₹ 9,00,000 (Book value ₹ 6,00,000)
- ₹ 2,00,000 - Cash retained in the business at the end of month.

January, 2020:

- ₹ 28,00,000 - Received on the sale of remaining plant & machinery
- ₹ 9,00,000 - Received from the sale of entire stock
- ₹ 1,50,000 - Liquidation expenses paid
- ₹ 63,00,000 - Received on sale of Land & Buildings

No cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Highest Relative Capital Method" as on 31st January, 2020.

Answer

Statement showing distribution of cash

Particulars	Creditors		Capitals		
	₹	₹	A (₹)	B (₹)	C (₹)
Balance Due after loan Nov. 2019		11,00,000	70,00,000	45,00,000	30,00,000
Balance available	7,00,000				
Realization less expenses and cash retained	6,00,000				

Amount available and paid	13,00,000	11,00,000	-	1,20,000	80,000
Balance due Dec. 2019		-	70,00,000	43,80,000	29,20,000
Opening balance	6,00,000				
Expenses paid and balance carried forward	4,20,000				
Available for distribution	1,80,000				
Cash paid to B and Machinery given to C			--	1,80,000	9,00,000
Balance due Jan.2020			70,00,000	42,00,000	20,20,000
Opening balance	2,00,000				
Amount realized less expenses	98,50,000				
Amount available and paid to partners	<u>100,50,000</u>				
First, ₹31,20,000 is paid to A and B in the ratio of 5:3			19,50,000	11,70,000	
Balance (100,50,000 – 31,20,000) ₹ 69,30,000 is paid to A,B and C in the ratio of 5:3:2			<u>34,65,000</u>	<u>20,79,000</u>	<u>13,86,000</u>
Total amount paid			54,15,000	32,49,000	13,86,000
Total loss			15,85,000	9,51,000	6,34,000

Working note:

Calculation of Highest Relative Capital Basis

(1) Scheme of payment for November

Particulars	**A (₹)**	**B (₹)**	**C (₹)**
Balance of Capital Accounts	95,00,000	75,00,000	30,00,000
Less: Loans	(25,00,000)	(30,00,000)	--
	70,00,000	45,00,000	30,00,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	15,00,000	15,00,000
Capital in profit sharing ratio, taking A's capital as base	70,00,000	42,00,000	28,00,000
Excess of C's Capital and B's Capital (A-B)		3,00,000	2,00,000
Profit-sharing ratio		3	2

It means realization up to ₹ 5,00,000 is distributed among B and C in the ratio of 3:2. So excess amount of ₹ 2,00,000 after paying creditors is distributed among B and C in the ratio of 3:2 i.e. ₹1,20,000 and 80,000 respectively.

(2) Scheme of payment for December

In the month of December C has received machinery amounting ₹ 9,00,000 against his excess capital of ₹ 1,20,000 (2,00,000 – 80,000). Excess capital of B is ₹3,00,000 out of which ₹1,20,000 already paid to him, so balance ₹ 1,80,000 available in the month of December will be paid to B.

(3) Scheme of payment for January

Particulars	**A (₹)**	**B (₹)**	**C (₹)**
Balance of Capital Accounts at the end of December	70,00,000	42,00,000	20,20,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	14,00,000	10,10,000
Capital in profit sharing ratio, taking C's capital as base	50,50,000	30,30,000	20,20,000

Excess Capital	19,50,000	11,70,000	

Since ₹ 19,50,000 and 11,70,000 is already in the ratio of 5:3, so amount realized up to ₹ 31,20,000 is distributed among A and B in the ratio of 5:3.

After that any amount realized is distributed among all the three partners in the ratio of 5:3:2.

#4. Question | November 2019 Exam, 5 Marks|

AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹ 13,440, ₹ 8,400, ₹ 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	
Trade creditors	2.800
Loan from partners	1,400
Assets of the firm:	
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. BD is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Answer

Statement of Distribution of Cash

	Realization	**Trade Creditor**	**Loans from partners**	**Partners' Capitals**			
				AD	**BD**	**SD**	**Total**
	₹	**₹**	**₹**	**₹**	**₹**	**₹**	**₹**
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	(1,400)	-				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹33,600 less cash available ₹1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹31,920			(15,960)	(9,576)	(6,384)	(31,920)
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of AD and BD written off against SD				2,520	1,176	(3,696)	-
Amount paid (2)				-	-	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920

(iv) Sale of stock	5,600						
Maximum possible loss (₹31,920 – ₹5,600)	<u>26,320</u>						
allocated to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)
Amounts at credit and cash paid (4)				<u>280</u>	<u>504</u>	<u>4,816</u>	<u>5,600</u>
Balances in capital accounts left unpaid— Loss (3 – 4) = (5)				13,160	7,896	5,264	26,320

#5. Question | November 2019 Exam, 15 Marks |

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Partners' fixed capital accounts:			Fixed assets:		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	<u>12,000</u>	60,000	Plant & Machinery	15,360	
Partners' current accounts:			Motor car	<u>840</u>	73,800
G	600		Current assets:		
S	10,800		Stock		4,680
J	<u>(480)</u>	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	<u>120</u>	2,280
Trade creditors		14,880	Cash at bank		240
			Miscellaneous losses:		
			Profit & loss sale		<u>14,400</u>
		95,400			**95,400**

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	**₹**
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are required to prepare:

(i) Cash & Bank account
(ii) Realization account, and
(iii) Partners' Fixed Capital Accounts (after transferring current accounts balances) Apply Garner Vs. Murray rule.

Answer

Cash & Bank Account

	Particulars	₹		Particulars	₹
To	Balance b/d	240	By	Realization A/c -creditors	14,040
To	Realization A/c -		By	Realization A/c- Expenses	1,800
	Land		By	G's Loan A/c	9,600
	Plant and Machinery		By	G's Capital A/c	16,280
	Stock		By	S's Capital A/c	28,680
	Trade Debtors				
To	Capital Accounts:				
	G	27,200			
	S	20,400			
	J	2,640			
		70,400			**70,400**

Realization Account

	Particulars	₹		Particulars	₹
To	Goodwill	48,000	By	Trade Creditors	14,880
To	Land	9,600	By	Provision for Bad Debts By Bank:	
To	Plant and Machinery	15,360		Land 8,400	
To	Motor Car	840		Plant and Machinery 6,000	
To	Stock	4,680		Stock 3,600	
To	Sundry Debtors	2,400		Debtors 1,920	19,920
To	Bank (Creditors)	14,040	By	G (Car)	600
To	Bank (Expenses)	1,800	By	Capital Accounts: (Loss)	
				G 27,200	
				S 20,400	
				J 13,600	61,200
		96,720			**96,720**

Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	₹	₹	₹		₹	₹	₹
To Current A/c (Transfer)	5,800		3,680	By Balance b/d	24,000	24,000	12,000
To Realization A/c (Loss)	27,200	20,400	13,600	By Current A/c (Transfer)		6,000	
To Realization A/c (Car)	600	-		By Bank			2,640
To J's Capital A/c (Deficiency)	1,320	1,320		By Bank* (realisation loss)	27,200	20,400	
To Bank*	16,280	28,680		By G & S (Deficiency)			2,640
	51,200	**50,400**	**17,280**		**51,200**	**50,400**	**17,280**

Note:

1. G, S and J will bring cash to make good their share of the loss on realization.
2. As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

*Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.

Working Note:
Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

#6. Question | November 2018 Exam, 5 Marks|

Amit paid ₹ 50,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Amit claims refund of premium. Explain –

(1) Whether he is entitled to get a refund of the premium? If yes, list the criteria for the calculation of the amount of the refund.
(2) Also explain any two conditions when no claim in this respect will arise.

Answer
If the firm is dissolved before the term expires, as is the case, Amit, being a partner who has paid premium on admission, will have to be repaid / refunded.

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,
(ii) The time period for which it was agreed that the firm will not be dissolved,
(iii) The time period for which the firm has already been in existence No claim for refund will arise if:
    I. The firm is dissolved due to death of a partner or If the dissolution of the firm is basically because of misconduct of,
    II. If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

#7. Question | November 2018 Exam, 20 Marks|

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	1,80,000	Stock	97,700
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700

G	6,000	32,400	Current account: F	18,000
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.

Answer

	Creditors ₹	**G 's Loan ₹**	**E₹**	**F ₹**	**G₹**	**Total**
Feb: Balance due	51,600	15,000	1,93,500	53,400	55,500	3,02,400*
Cash available 29,700						
Collection from debtors 51,900						
68,100						
Creditors & Loan paid (50,400 +15,000)	(50,400)	(15,000)				
65,400	1,200	-				
Discount written off						
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)	
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 ₹ 1,60,200-21,900= 1,38,300 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						
May			69,150	46,100	23,050	1,38,300
Investment taken by G					6300	6300
Balance			69,150	46,100	16,750	1,32,000
Maximum loss (1,38,300 less 6,300)			(66,000)	(44,000)	(22,000)	(1,32,000)
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						
Maximum loss (1,32,000 - 96,000)			(18,000)	(18,000)	(6,000)	36,000
Cash paid			48,000	32,000	16,000	96,000
Unpaid balance			(18,000)	(12,000)	(6,000)	36,000

*Partners' capital balances after adjusting reserves and current A/c 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

#8. Question |RTP May 2023 | RTP November 2019 (Dif.figures)

P, Q and R are sharing profits and losses in the ratio 5:3:2. Due to finding of frauds committed by R during the year, it was decided to dissolve the partnership on 31st March, 2022. As on 31st March, 2022 their Balance Sheet was as under:

Equity & Liabilities	**(₹)**	**Assets**	**(₹)**
Partner's Capital:		Plant & Machinery	6,00,000
P	4,50,000	Stock	4,27,500
Q	4,50,000	Investments	1,45,000
R	-	Debtors	2,10,000
General reserve	1,20,000	Cash	72,500
Trade creditors	2,35,000	R's Capital	75,000
Bills payable	1,00,000		
Mrs. Q's loan	1,75,000		
	15,30,000		**15,30,000**

Additional information are given as under:

(i) During the year R sold Investments costing of ₹45,000 at ₹56,000 and the said funds were transferred to his personal account. This transaction was not recorded in the firm's books.

(ii) A cheque for ₹30,000 was received from debtor, not recorded in the books and was misappropriated by R.

(iii) A Trade creditor agreed to takeover stock of the book value of ` 25,000 at ` 26,500. The rest of the Trade creditors were paid off at a discount of 2%.
(iv) The bills payable were settled at a discount of 2%.
(v) The expenses of dissolution amounted to ₹15,900.
(vi) The other assets realized were as follows:

Plant & Machinery :	5% above the book value
Stock :	Rest of the stock realized at a loss of ₹15,000
Investments :	Rest of investments were sold at a profit of ₹5,600
Debtors :	Rest of the debtors were realized at a discount of 12%.

(vii) Q agreed to takeover loan of Mrs. Q of ₹1,75,000.
(viii) The realizable value of R's private assets would only be ₹20,000.
Applying the principles laid down in Gamer vis. Murray, prepare Realization Account, Cash Account and Partner's Capital Accounts.

Answer

Realization account

	Particulars	₹		Particulars		₹
To	Plant and Machinery	6,00,000	By	Bills payable		1,00,000
To	Stock	4,27,500	By	Cash-		
To	Investment	1,45,000		Plant and machinery	6,30,000	
To	Debtors	2,10,000		Stock (W.N.4)	3,87,500	
To	Cash-creditors paid (W.N.1)	2,04,330		Investments (W.N.2)	1,05,600	
To	Cash-expenses	15,900		Debtors (W.N. 3)	1,58,400	12,81,500
To	Cash-bills payable (1,00,000-2,000)	98,000	By	Mrs. Q's Loan account		1,75,000
To	Q's capital account	1,75,000	By	Debtors-unrecorded		30,000
To	Partners' Capital A/cs:		By	Investments unrecorded		56,000
	P 885					
	Q 531					
	R 354					
		18,77,500				**18,77,500**

Cash Account

	Particulars	₹		Particulars	₹
To	Balance b/d	72,500	By	Realization A/c creditors paid	2,04,330
To	Realization A/c– assets realized		By	Realization A/c bills payable	98,000
	Plant and machinery	6,30,000	By	Realization A/c expenses	15,900
	Stock	3,87,500	By	Capital accounts:	
	Investments (W.N.2)	1,05,600		P 4,51,157	
	Debtors (W.N. 3)	1,58,400		Q 6,04,613	10,55,770
To	R's capital A/c	20,000			
		13,74,000			**13,74,000**

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹

To Balance b/d			75,000	Balance b/d	4,50,000	4,50,000	-
To Trade Debtors -misappropriation			30,000	By General reserve	60,000	36,000	24,000
To Investment - misappropriation			56,000	By Realization profit	6,160	6,160	3,520
To R's capital A/c (W.N. 5)	59,728	56,918		By Cash A/c			20,000
To Cash A/c	1,80,420	1,80,420		By P's capital A/c			59,728
				By Q's capital A/c			56,918
	5,10,885	6,61,531	1,61,000		5,10,885	6,61,531	1,61,000

Working Notes:

1. Amount paid to creditors

	₹
Book value	2,35,000
Less: Creditors taking over Stock	(26,500)
	2,08,500
Less: Discount @ 2%	(4,170)
	2,04,330

2. Amount received from sale of investments

	₹
Book value	1,45,000
Less: Misappropriated by R	(45,000)
	1,00,000
Add: Profit on sale of investments	5,600
	1,05,600

3. Amount received from debtors

	₹
Book value	2,10,000
Less: Unrecorded receipt	(30,000)
	1,80,000
Less: Discount @ 12%	(21,600)
	1,58,400

4. Amount received from sale of stock

	₹
Book value	4,27,500
Less: Taken by creditors	(25,000)
	4,02,500
Less: Loss on stock	(15,000)
	3,87,500

5. Deficiency of R

	₹
Balance of capital as on 31st March, 2022	75,000
Debtors-misappropriation	30,000

	56,000
	1,61,000
Less: Realization profit	(354)
General reserve	(24,000)
Contribution from private assets	(20,000)
Net deficiency of capital	1,16,646

The deficiency of ₹1,16,646 in R's capital account has been shared by other partners P, Q in their capital ratio (after transfer of general reserve to capital accounts i .e. 5,10,000: 4,86,000). Hence, P's share of deficiency = [1,16,646 x (510/996)] = ₹59,728 and Q's share of deficiency = [1,16,646 x (486/996)] = ₹56,918.

#9. Question |RTP May 2022|

The firm of M/s Om has four partners - A,B,C & D and as of 31st March, 2021, its Balance Sheet stood as follows:

Equity & Liabilities	**(₹)**	**Assets**	**(₹)**
Capital A/c:		Land	50,000
A	2,00,000	Building	2,50,000
B	2,00,000	Office equipment	1,25,000
C	1,00,000	Computers	70,000
Current A/cs:		Debtors	4,00,000
- A	50,000	Stocks	3,00,000
- B	1,50,000	Cash at Bank	75,000
- C	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c:	
Current Liabilities	70,000	D	87,400
	13,80,000		**13,80,000**

The partners have been sharing profits and losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 1.4.2021 on the basis of the following understanding:

(a) The following assets are to be adjusted to the extent indicated with respect to the book values:

Land	200%
Building	120%
Computers	70%
Debtors	95%
Stocks	90%

(b) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(c) D is insolvent and no amount is recoverable from him. His father, C, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

(d) The assets are realized at the agreed (adjusted) values.

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Cash A/c, Realization Account and the Partners' capital accounts (including their current accounts).

Answer

In the books of M/s Om Cash Account (Bank Column)

	Particulars	**₹**		**Particulars**	**₹**
To	Balance b/d	75,000	By		
To	Realization A/c	12,46,600	By	Realization A/c	5,75,000

	(Realization of Sundry assets)			(Payment of sundry liabilities)	
			By	Partners' Capital accounts:	
				A 2,42,600	
				B 3,42,600	
				C 1,61,400	7,46,600
		13,21,600			**13,21,600**

Realization Account

To	Land		50,000	By Current Liabilities		70,000
To	Building		2,50,000	By Loan from NBFC		5,00,000
To	Office equipment			By Cash A/c:		
To	Computers			Land	1,00,000	
To	Debtors			Building	3,00,000	
To	Stocks			Office Equip.	1,25,000	
To	Other Current Assets			Computers	49,000	
To	Cash A/c:			Debtors	3,80,000	
	Current liabilities	70,000		Stocks	2,70,000	
	Loan from NBFC	5,05,000	5,75,000	Other Current Assets	22,600	12,46,600
To	Partners' Current A/cs:					
	Profit on realization:					
	A	9,600				
	B	9,600				
	C	2,400				
	D	2,400	24,000			
			18,16,600			**18,16,600**

Partners' Capital Accounts

Particulars	**A**	**B**	**C**	**D**	**Particulars**	**A**	**B**	**C**	**D**
	₹	₹	₹	₹		₹	₹	₹	₹
To Partners' Current A/cs Transfer	-	-	-	85,000	By Balance b/d	2,00,000	2,00,000	2,00,000	-
To D A/c 50% of deficiency	-	-	42,500	-	By Partners' Current A/cs transfer	59,600	1,59,600	1,12,400	-
To D A/c balance of deficiency borne in capital ratio of other partners (2:2:1)	17,000	17,000	8,500	-	By C A/c – 50% of deficiency By A A/c	- -	- -	- -	42,500 17,000

To Cash A/c - final Settlement	2,42,600	3,42,600	1,61,400	-	By B A/c	-	-	-	17,000
					By C A/c	-	-	-	8,500
	2,59,600	**3,59,600**	**2,12,400**	**85,000**		**2,59,600**	**3,59,600**	**2,12,400**	**85,000**

Partners' Current Accounts

Particulars	**A**	**B**	**C**	**D**	**Particulars**	**A**	**B**	**C**	**D**
	₹	**₹**	**₹**	**₹**		**₹**	**₹**	**₹**	**₹**
To Balance b/d	**-**	**-**	**-**	87,400	By Balance b/d	50,000	1,50,000	1,10,000	**-**
To Partners'					By Realisation A/c	9,600	9,600	2,400	2,400
Capital A/cs (transfer)					By Partners' Capital A/cs (transfer)	-	-	-	85,000
	59,600	**1,59,600**	**1,12,400**	**87,400**		**59,600**	**1,59,600**	**1,12,400**	**87,400**

#10. Question | RTP November 2021 |

P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2021 was as follows:

Balance Sheet as on 31st March, 2021

Equity & Liabilities		**(₹)**	**Assets**	**(₹)**
Capital:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
R		-	Furniture	40,000
Creditors		20,000	Machinery	60,000
Q's current account		10,000	P's current account	10,000
Reserves		15,000		
Bank overdraft		5,000		
		2,00,000		**2,00,000**

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Answer

Books of P & Q Co.
Realization Account

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

To	Debtors	25,000		By	Creditors		20,000
To	Stock	35,000		By	Bank overdraft		5,000
To	Furniture	40,000		By	Bank:		
To	Machinery	60,000	1,60,000		Investment	25,000	
To	Bank:				Furniture	30,000	
	Creditors	20,000			Machinery	50,000	
	Bank overdraft	5,000			Debtors (90%)	22,500	
	Outstanding bill	2,000	27,000		Stock	20,125	
To	Profit transferred to:				Bad debts Recovered	1,245	1,48,870
	P's capital	1,310					
	Q's capital	1,310	2,620				
			1,89,620				**1,89,620**

Partners' Capital Accounts

	Particulars	P ₹	Q ₹		Particulars	P ₹	Q ₹
To	P's current Account	16,940		By	Balance b/d	1,00,000	50,000
To	Bank	83,060	68,810	By	Q's current Account		18,810
		1,00,000	**68,810**			**1,00,000**	**68,810**

Bank Account

	Particulars	₹		Particulars	₹
To	Balance b/d	30,000	By	Realization	27,000
To	Realization	1,48,870	By	P's capital	83,060
			By	Q's capital	68,810
		1,78,870			**1,78,870**

Working Note:

Partners' Current Accounts

	Particulars	P ₹	Q ₹		Particulars	P ₹	Q ₹
To	Balance b/d	10,000		By	Balance b/d		10,000
To	Realization	15,750		By	Reserves	7,500	7,500
To	Q's capital		18,810	By	Realization (profit)	1,310	1,310
				By	P's Capital	16,940	
		25,750	**18,810**			**25,750**	**18,810**

#11. Question |RTP May 2021, November 2018 (Dif. Figures)|

X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2020 is as below:

Liabilities	(₹)	Assets	(₹)
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Creditors	66,000	Cash at Bank	1,100
	2,34,000		**2,34,000**

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

Liabilities	**(₹)**
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000

Dissolution expenses were provided for estimated amount of	₹12,000
The creditors were settled finally for	₹63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

Answer

Statement showing distribution of cash amongst the partners

		Creditors	**Y's Loan**	**Capitals**		
				X (₹)	**Y (₹)**	**Z (₹)**
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1st Instalment amount with the firm ₹ (1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	(12,000)					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	(746)					
Less: Payment made to creditors	62,954					
	(62,954)	(62,954)				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to creditors	(646)	(646)				
Transferred to P& L A/c		2,400				
	67,962					
Less: Payment for Y's loan A/c	(18,000)		(18,000)			
Amount available for distribution to partners	49,962		nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	(4,542)					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	(2,000)					(2,000)

	43,420					48,000
Less: Paid to X and Z in 5:4 (W.N.)	(18,000)			(10,000)	-	(8,000)
Balance due	25,420			50,000	40,000	40,000
Less: Paid to X, Y & Z in 5:4:4	25,420			(9,778)	(7,821)	(7,821)
	Nil					
Amount of 3rd instalment	40,000			40,222	32,179	32,179
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)	(400)					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)	(3,600)					
	36,000					
Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	(36,000)			(13,846)	(11,077)	(11,077)
	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	(280)					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	(2,520)					
	25,200					
Less: Paid to X, Y and Z in 5:4:4	(25,200)			(9,692)	(7,754)	(7,754)
Loss suffered by partners	Nil			16,684	13,348	13,348

Working Note:

(i) ₹2,200 added to the first instalment received on sale of assets represents the Cash in Bank.

(ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹ 6,092. However, since the creditors were settled for ₹ 1,27,200 only the balance ₹ 1,292 were paid and the balance ₹ 4,800 was transferred to the Profit & Loss Account.

(iii) Highest Relative Capital Basis

	G	S	J
	₹	₹	₹
Balance of Capital Accounts	1,20,000	80,000	1,00,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	24,000	20,000	25,000
Capital in profit sharing			
ratio taking B's Capital as base (2)	1,00,000	80,000	80,000

Excess of A's Capital and C's Capital 1-2) = (3)	20,000	Nil	20,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	4,000		5,000
Capital in profit sharing			
ratio taking A's Capital as base (4)	20,000		16,000
Excess of C's Capital (3-4)=(5)	nil		4,000

Therefore, firstly ₹4,000 is to be paid to C, then A and C to be paid in proportion of 5:4 up to ₹ 36,000 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz A, B and C.

#12. Question |RTP November 2020|

Amit, Sumit and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	(₹)	Assets		(₹)
Capital Accounts:		Land & Building		1,35,000
Amit	55,200	Plant & Machinery		45,000
Sumit	55,200	Furniture		25,500
General Reserve	61,500	Investments		15,000
Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
	-	Kumar		32,400
	3,56,400			**3,56,400**

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at Rs. 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture - Remaining taken over by Kumar at 90% of book value
Stock - Realized 120% of book value
Book Debts - 12,000 of debts proved bad, remaining were fully realized
Land & Building - Realized ₹1,65,000
Investments - Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 2020, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form in the books of Partnership firm.

Answer

Realization Account

	Particulars	₹		Particulars	₹
To	Land and Building	1,35,000	By	Provision for bad debts	6,000
To	Plant and Machinery	45,000	By	Loan from D	1,20,000
To	Furniture	25,500	By	Trade creditors	30,000

To	Investments	15,000	By	Bills payable	12,000
To	Book debts	60,000	By	Outstanding salary	7,500
To	Stock	36,000	By	Kumar - Furniture taken over (13,500 x .9)	12,150
To	Bank (Realization expenses)	15,000	By	Bank A/c -	
To	Amit– Realization expenses	3,000		Stock Realized 43,200	
To	Bank A/c -			Land & Building 1,65,000	
	Bill payable	11,940		Debtors 48,000	2,56,200
	D's Loan	7,500		Amit (Investment taken over)	12,750
	Creditors	18,000			
	Salary	7,500			
To	Profit trs/f to partners' capital Accounts				
	Amit 9,264				
	Sumit 9,264				
	Kumar 4,632	23,160			
		4,56,600			**4,56,600**

Bank Account

To	Balance b/d	13,500	By	Realization A/c (payment of liabilities:11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To	Realization A/c (assets realized)	2,56,200	By	Amit	79,314
To	Kumar	12,618	By	Sumit	89,064
		2,82,318			**2,82,318**

Partners' Capital Accounts

Particulars	**Amit**	**Sumit**	**Kumar**	**Particulars**	**Amit**	**Sumit**	**Kumar**
	₹	₹	₹		₹	₹	₹
To Balance b/d			32,400	By Balance b/d	55,200	55,200	
To Realization A/c (Investment taken over)	12,750			By Kumar's Loan			15,000
To Realization A/c (Furniture taken over)				By General Reserve	24,600	24,600	12,300
To Bank A/c	79,314	89,064		By Realization A/c (expense)	3,000		
				By Bank A/c			12,618
	92,064	**89,064**	**44,550**		**92,064**	**89,064**	**44,550**

Working Notes:

1. Payment for Bills Payable

Particulars	**Amount (₹)**

Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. Payment to D's Loan

Particulars	Amount (₹)
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (₹45,000) and ₹7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. ₹60,000 – ₹6,000 = ₹54,000.	54,000

3.Payment to Trade Creditors

Particulars	Amount (₹)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value ₹12,000 accepted at value ₹10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	Amount (₹)
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value ₹12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

#13.Question |RTP May 2020|

Ram, Wazir and Adil give you the following Balance Sheet as on 31st March, 2019:

Liabilities		(₹)	Assets		(₹)
Ram's Loan		15,000	Plant and Machinery at cost		30,000
Capital Accounts:			Fixtures and Fittings		2,000
Ram	30,000		Stock		10,400
Wazir	10,000		Debtors	18,400	
Adil	2,000	42,000	Less: Provision	(400)	18,000
Sundry Creditors		17,800	Joint Life Policy		15,000
Loan on Hypothecation of			Patents and Trademarks		10,000
Stock	6,200		Cash at Bank		8,000
Joint Life Policy Reserve	12,400				
	93,400				**93,400**

The partners shared profits and losses in the ratio of Ram 4/9, Wazir 2/9 and Adil 1/3. Firm was dissolved on 31st March, 2019 and you are given the following information:

(a) Adil had taken a loan from insurers for ₹5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹10,200 after deducting ₹5,000 for Adil's loan and ₹300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹6,000 at a valuation of ₹4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹3,000 and the loan credit or agreed to accept the shares at this value.

(d) The remaining assets realized the following amount:

Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents	at 50% of their book value.

(e) The liabilities were paid and a total discount of ₹500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹2,300.

You are required to prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form. Also provide necessary working notes in your Answer

Answer

Realization Account

	Particulars	₹		Particulars		₹
To	Plant and machinery	30,000	By	Provision for doubtful debts		
To	Fixtures and fittings	2,000	By	Loan on hypothecation of stock (W.N.3)		3,000
To	Stock	10,400	By	Creditors (W.N.2)		500
To	Debtors	18,400	By	Joint Life Policy A/c (W.N.4)		12,900
To	Patents and Trademarks (W.N.5)	5,500	By	Bank		
To	Bank	2,300		Plant and machinery		17,000
				Fixtures and fittings		1,000
				Stock		9,000
				Patents and Trademarks		2,000
			By	Partners' Capital Accounts		
				Ram	2,800	
				Wazir	1,400	
				Adil	2,100	6,300
		68,600				**68,600**

Bank Account

	Particulars	₹		Particulars	₹
To	Balance b/d	8,000	By	Adil's Capital A/c- drawings	5,300
To	Joint Life Policy	15,500	By	Loan on hypothecation of stock	3,200
To	Realisation A/c	45,500	By	Creditors	12,800
To	Adil's Capital A/c	5,400	By	Realisation A/c (expenses)	2,300
			By	Ram's Loan A/c	15,000
			By	Ram's Capital A/c	27,200
			By	Wazir's Capital A/c	8,600
		74,400			**74,400**

Partners' Capital Accounts

Particulars	Ram	Wazir	Adil	Particulars	Ram	Wazir	Adil

	₹	₹	₹		₹	₹	₹
To Bank			5,300	By Balance b/d	55,200	55,200	
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (bal.fig.)			5,400
To Bank (Bal. Fig.)	27,200	8,600					
	30,000	**10,000**	**7,400**		**30,000**	**10,000**	**7,400**

Working Notes:

1. Ram's Loan Account

		₹			₹
To	Bank A/c	15,000		By Balance b/d	15,000
		15,000			15,000

2. Sundry Creditors Account

		₹			₹
To	Patents and Trademarks A/c	4,500		By Balance b/d	17,800
To	Realisation A/c	500			
To	Bank A/c	12,800			
		17,800			**17,800**

3. Loan on Hypothecation of Stock Account

		₹			₹
To	Realisation A/c	3,000	By	Balance b/d	6,200
To	Bank A/c	3,200			
		6,200			**6,200**

4. Joint Life Policy Account

		₹			₹
To	Balance b/d	15,000	By	Joint Life Policy Reserve A/c	12,400
To	Realisation A/c	12,900	By	Bank A/c (10,200 + 5,300)	15,500
		27,900			**27,900**

5. Patents and Trademarks Account

		₹			₹
To	Balance b/d	10,000	By	Creditors A/c	4,500
			By	Realisation A/c	1,500
			By	Realisation A/c (bal.fig.)	4,000*
		10,000			**10,000**

#14.Question |RTP May 2019|

A partnership firm was dissolved on 30th June, 2018. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		**(₹)**	**Assets**	**(₹)**
Capitals:			Cash	21,600
A	1,52,000		Sundry Assets	
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.

Answer

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	96,000
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 realised ₹1,60,000					
Add: Balance out					
of the Provision for					
Expenses A/c <u>₹2,800</u>					
₹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. Highest relative capital basis

		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	-	-	
10.	Balance of Excess capital (5-9)	48,000		24,000	
11.	Distribution sequence:				
	First ₹8,000 (2 : 0 : 0)	8,000	-	-	**2.**
	Next ₹72,000 (2 : 0 : 1)	48,000	-	24,000	
	Over ₹80,000 (2 : 2 : 1)				

Distribution of Second 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

Q1. Dec 2022 Exam, 15 marks

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 exceptfrom Mr. J, holding 5,000 shares who failed to pay ·the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.
Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company.

Answer

Journal Entry no.	**Particulars**	**₹**	**₹**
1	Bank A/c Dr To Equity Share Application A/c (Being application money on 2,00,000 shares @₹ 3 per share received)	6,00,000	6,00,000
2	Equity Share Application A/c Dr To Equity Share Capital A/c (Being transfer of application money to Equity Share Capital on 2,00,000 shares @ ₹ 3 per share as per Director's Resolution no... dated...)	6,00,000	6,00,000
3	Equity Share Allotment A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no......dated......)	10,00,000	6,00,000 4,00,000
4	Bank A/c Dr To Equity Share Allotment A/c (Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share) OR Bank A/c Dr Calls in Arrears A/c Dr To Equity Share Allotment A/c (Being amount received against allotment on 2,00,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. J holding 5,000 shares failed to pay allotment money)	9,75,000 9,75,000 25,000	9,75,000 10,00,000
5	Equity Share Call A/c Dr To Equity Share Capital A/c (Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no......dated.......)	8,00,000	8,00,000

6	Bank A/c Dr To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share) OR Bank A/c Dr Calls in Arrears A/c Dr To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share, J holding 5,000 shares and K holding 10,000 shares failed to pay call money)	7,40,000 60,000 7,40,000	 7,40,000 8,00,000
7	Equity Share Capital A/c (15,000 x ₹ 10) Dr Securities Premium A/c (5000 x ₹ 2) Dr To Equity Share Allotment A/c (5000 x ₹ 5) To Equity Share Call A/c (15,000 x ₹ 4) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No.....dated ....) OR Equity Share Capital A/c (15,000 x ₹ 10) Dr Securities Premium A/c (5000 x ₹ 2) Dr To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000) To Forfeited Shares A/c (Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No......dated.......)	1,50,000 10,000 1,50,000 10,000	 25,000 60,000 75,000 85,000 75,000
8	Bank A/c Dr Forfeited Shares A/c Dr To Equity Share Capital A/c (Being re-issue of 10,000 shares @ ₹ 9 each as per Board's Resolution No......dated......)	90,000 10,000	 1,00,000
9	Forfeited Shares A/c Dr To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	35,000	 35,000

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

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		24,05,000
ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		24,05,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each	20,00,000	
	Subscribed, called up and paid up share capital		
	1,95,000 Equity shares of ₹ 10 each	19,50,000	

	Add: Forfeited shares	30,000	19,80,000
2.	**Reserves and Surplus**		
	Securities Premium	3,90,000	
	Capital Reserve	35,000	4,25,000
3.	**Cash and Cash Equivalents**		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment	9,75,000	
	Amount Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of J	₹ 3	Amount forfeited per share of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	Less: Loss on re-issue per share	(₹ 1)
Surplus	₹ 2	Surplus	₹ 5

Transferred to Capital Reserve: J's share (5,000 x ₹ 2) ₹ 10,000
K's Share (5,000 x ₹ 5) ₹ 25,000
Total ₹ 35,000

(2) Balance of Security Premium

Total Premium amount receivable on allotment = 4,00,000
Less: Amount reversed on forfeiture = (10,000)
Balance remaining = 3,90,000

Q2. May 2022 Exam, 15 marks

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 having100 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).

Answer

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per share)		40,000	 40,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)		40,000	 40,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)		80,000	 60,000 20,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		80,000	 80,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c		40,000	 40,000

	(Being first call made due on 20,000 shares at ₹ 2 per share)			
6	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)		46,000	 40,000 6,000
7	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each)		60,000	 60,000
8	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)		53,100 6,000 900	 60,000
9	Interest on Calls in Advance A/c Dr. To Shareholders A/c (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)		240	 240
10	Shareholders A/c Dr. To Bank A/c (Being payment of interest made to shareholder)		240	 240
11	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		15	 15
12	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)		615	 600 15
13	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		10	 10
14	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 100 share for calls in arrears and interest thereupon)		310	 300 10

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240

Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

Q3. Dec 2021 Exam, 15 marks

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. The forfeited shares were re-issued at ₹ 9 per share fully paid-up.
Pass necessary Journal entries in the books of Fashion Garments Ltd.

Answer

In the books of Fashion Garments Ltd.
Journal Entries

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000shares @ ₹ 1 per share)		10,000	 10,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)		10,000	 10,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)		20,000	 20,000
Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received on 9,900 shares) OR Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share Allotment A/c (Allotment Amount received except 100 shares)		19,800 19,800 200	 19,800 20,000
Equity Share Capital A/c Dr. To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Ram forfeited) OR Equity Share Capital A/c Dr. To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non-payment of allotment money)		300 300	 100 200 100 200
Equity Share First Call A/c Dr. To Equity Share Capital A/c		29,700	 29,700

(First call made due on 9,900 shares at ₹ 3 per share)			
Bank A/c Dr. To Equity Share First Call A/c (First call money received on 9,750 shares at ₹ 3 per share) OR Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share First Call A/c (First Call money received except 150 shares)		29,250 29,250 450	 29,250 29,700
Equity Share Capital A/c Dr. To Share Forfeiture A/c To Equity Share First Call A/c (150 Shares of Shyam forfeited) OR Equity Share Capital A/c Dr. To Share Forfeiture A/c To Calls in arrears A/c (150 shares forfeited due to non - payment of First call money)		900 900	 450 450 450 450
Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Second and Final call made due on 9,750 shares at ₹ 4 per share)		39,000	 39,000
Bank A/c Dr. To Equity Share Second and Final Call A/c (Second and Final call money received on 9,700 shares at ₹ 4 per share) OR Bank A/c Dr. Calls in arrears A/c Dr. To Equity Shares Second and Final call A/c (Second and Final call money received except 50 shares)		38,800 38,800 200	 38,800 39,000
Equity Share Capital A/c Dr. To Share Forfeiture A/c To Equity Share Second and Final Call A/c (50 Shares of Mohan forfeited) OR Equity Share Capital A/c Dr. To Shares Forfeiture A/c To Calls in arrears A/c (50 shares forfeited due to non-payment of Second and final call money)		500 500	 300 200 300 200
Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (300 shares reissued at ₹ 9 per share)		2,700 300	 3,000
Share Forfeiture A/c Dr. To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)		550	 550

Working Note-1:

Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Ram forfeited		₹ 100
Surplus out of 150 shares of Shyam forfeited	₹ 450	
Surplus out of 50 shares of Mohan forfeited		₹ 300
	₹ 850	
Less: Loss on re-issue of shares		₹ 300
Transferred to Capital Reserve	₹ 550	

Q4. July 2021 Exam, 15 marks

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.

Answer

			Dr. ₹	**Cr. ₹**
1.	Bank Account To Share Application & Allotment A/c (Being Application money on 3,00,000 shares at ₹ 9 per share received.)	Dr.	27,00,000	 27,00,000
2.	Share Application & Allotment A/c To Share Capital A/c (75,000 x ₹ 4) To Securities premium A/c (75,000 x ₹ 5) To Bank /c (2,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred)	Dr.	27,00,000	 3,00,000 3,75,000 18,00,000 2,25,000
3.	Share First & Final Call A/c (75,000 x6) To Share Capital Account 4,50,000 (Amount First & Final Call A/c due from members as per Directors, resolution no...... dated.....)	Dr.	4,50,000	 4,50,000
4.	Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.)	Dr. Dr.	2,21,625 3,375	 2,25,000
5.	Equity share capital A/c To Share forfeiture A/c To Calls in arrear A/c (Being 1,125 shares forfeited for non payment of final call.)	Dr.	11,250	 7,875 3,375
6.	Bank Account A/c (1,125 x ₹ 6) Share forfeiture A/c (1,125 x ₹ 4) To Share Capital Account (1,125 x ₹ 10) (Being forfeited shares reissued at ₹ 4 discount)	Dr.	6,750 4,500	 11,250
7.	Share forfeiture A/c To Capital reserve A/c (Being share forfeiture transferred to capital reserve*)	Dr.	3,375	 3,375

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000 1,00,000	- 75,000	18,00,000 9,00,000	- 3,00,000	- 3,75,000	- 2,25,000	- 4,50,000	- 4,25,000	18,00,000 -
3,00,000	**75,000**	**27,00,000**	**3,00,000**	**3,75,000**	**2,25,000**	**4,50,000**	**4,46,625***	**18,00,000**

* ₹ 4,50,000 less ₹ 3,375.

2. Number of shares allotted to Mr. Raj = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. Calculation of calls in arrear

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

Q5. Jan 2021 Exam, 2 marks| May 2018 Exam

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

Re-issue of forfeited shares is allotment of shares but not a sale.

Answer

False: Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier

Q6. Jan 2021 Exam, 15 marks

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.

Answer

Journal of A Limited

Date 2020	Particulars		Dr. ₹	Cr. ₹
May 31	Bank A/c (Note 1 – Column 3) Dr. To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share)		11,20,000	11,20,000
June 10	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No.....dated...)		11,20,000	2,70,000 5,50,000 3,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)		6,75,000	1,35,000 5,40,000
	Bank A/c (Note 1 – Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received)		1,25,000	1,25,000
Dec. 31	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received)		9,45,000	9,45,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received On Allotment
	1)	2)	3)	4)	5)	6)	7)	8)
i.	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
ii.	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
iii.	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil

TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

i. Amount Received on Application (3) = No. of shares applied for (1) X ₹2

ii. Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

Q7. Nov 2020 Exam, 10 marks

ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Answer

1. Bank A/c To Equity Share Application A/c (Being the application money received for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
2. Equity Share Application A/c To Equity Share Capital A/c (Being share allotment made for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
3. Equity Share Allotment A/c To Equity Share Capital A/c (Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)	Dr.	60,000	60,000
4. Bank A/c To Equity Share Allotment A/c (Being allotment money received for 20,000 equity shares at ₹ 3 per share)	Dr.	60,000	60,000
5. Equity Share First Call Account To Equity Share Capital A/c (Being first call money due on 20,000 equity shares @ Rs. 4 per share)	Dr.	80,000	80,000
6. Bank Account To Equity Share First Call Account (Being full amount of first call money received except on 300 shares) OR Bank Account Calls in Arrear A/c To Equity Share First Call Account (Being full amount of first call money received except on 300 shares)	Dr. Dr. Dr.	78,800 78,800 1,200	78,800 80,000
7. Equity Share Final Call Account To Equity Share Capital A/c 20,000 (Being first call and final call money due)	Dr.	20,000	20,000
8. Bank Account To Equity Share Final Call Account	Dr.	19,700	19,700

(Being full amount of final call money received except on 300 shares) OR Bank Account Calls in Arrear A/c To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	 Dr. Dr.	 19,700 300	 20,000
9. Equity Share Capital A/c (300 x ₹ 10) To Equity Share First Call Account To Equity Share Final Call Account To Forfeited Shares A/c Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No…..dated ….) OR Equity Share Capital A/c To Forfeited Shares A/c To Calls in Arrears (Being 300 shares forfeited on which first call and final call money was unpaid.)	Dr. Dr.	3,000 3,000	 1,200 300 1,500 1,500 1,500
10. Bank A/c (300 x ₹ 8) Forfeited Shares A/c To Equity Share Capital A/c Being re-issue of 300 shares @ ₹8 each as per Board's Resolution No…..dated….)	Dr. Dr.	2,400 600	 3,000
11. Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	900	 900

Q8. Nov 2019 Exam, 2 marks

State with reasons, whether the following statements are true or false:
When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.)

Answer

False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited

Q9. Nov 2019 Exam, 15 marks

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 cal l money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Answer

In the books of B limited

Journal entries

Journal Entry no.	Particulars	₹	₹

1	Bank A/c Dr To Equity Share Application A/c (Being application money on 50,000 shares @₹ 3 per share received)	1,50,000	 1,50,000
2	Equity Share Application A/c Dr To Equity Share Capital A/c (Being transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Director's Resolution no… dated…)	1,50,000	 1,50,000
3	Equity Share Allotment A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being amount due from shareholders in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no……dated……)	2,50,000	 1,50,000 1,00,000
4	Bank A/c Dr To Equity Share Allotment A/c (Being amount received against allotment on 49,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share) OR Bank A/c Dr Calls in Arrears A/c Dr To Equity Share Allotment A/c (Being amount received against allotment on 49,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. X holding 1,000 shares failed to pay allotment money)	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
5	Equity Share Call A/c Dr To Equity Share Capital A/c (Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no……dated…….)	8,00,000	 8,00,000
6	Bank A/c Dr To Equity Share Call A/c (Being amount received against the call on 47,000 shares @ ₹ 4 per share) OR Bank A/c Dr Calls in Arrears A/c Dr To Equity Share Call A/c (Being amount received against the call on 47,000 shares @ ₹ 4 per share, X holding 1,000 shares and Y holding, 2000 shares failed to pay call money)	1,88,000 1,88,000 12,000	 1,88,000 2,00,000
7	Equity Share Capital A/c (3,000 x ₹ 10) Dr Securities Premium A/c (1,000 x ₹ 2) Dr To Equity Share Allotment A/c (1,000 x ₹ 5) To Equity Share Call A/c (3,000 x ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No…..dated ….) OR Equity Share Capital A/c (3,000 x ₹ 10) Dr Securities Premium A/c (1,000 x ₹ 2) Dr	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000

	To Calls in Arrears A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No……dated…….)		15,000
8	Bank A/c Dr Forfeited Shares A/c Dr To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹ 8 each as per Board's Resolution No……dated……)	20,000 5,000	 25,000
9	Forfeited Shares A/c Dr To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	**Notes No.**	**₹**
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and Cash Equivalents	3	6,03,000 *
Total		6,03,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Add: Forfeited shares		
	Reserves and Surplus	4,95,000	
	Securities Premium	3,000	4,98,000
2.	Capital Reserve		
		98,000	
		7,000	1,05,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹4

Transferred to Capital Reserve: X's share (1,000 x ₹ 1) ₹ 1,000
Y's Share (1,500 x ₹ 4) ₹ 6,000
Total ₹ 7,000

(2) Balance of Security Premium

Total Premium amount receivable on allotment = 1,00,000
Less: Amount reversed on forfeiture = (2,000)
Balance remaining = 98,000

Q10. May 2019 Exam, 10 marks | May 2020 RTP

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.

Answer

In the books of Bhagwati Ltd.
Journal Entries

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 3,00,000 shares at ₹ 3 per share)	9,00,000	 9,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (2,00,000 x ₹ 3) To Share allotment A/c (Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)	9,00,000	 6,00,000 3,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)	10,00,000	 10,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)	7,00,000	 7,00,000
Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)	4,00,000	 4,00,000
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share first and final call A/c (Being final call received on 1,97,000 shares)	3,94,000 6,000	 4,00,000
Share capital A/c (3,000 x ₹ 10) Dr. To Forfeited share A/c (3,000 x ₹ 8) To Calls in arrears A/c (3,000 x₹ 2) (Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)	30,000	 24,000 6,000
Bank A/c (2,500 x ₹6) . Dr. Forfeited share A/c (2,500 x ₹4) To Equity Share Capital A/c (2,500 x ₹ 10) (Being re-issue of 2,500 shares @6)	15,000 10,000	 25,000
Forfeited share A/c (2,500 x ₹ 4) Dr. To capital reserve A/c (2,500 x ₹ 4) (Being profit on re-issue transferred to capital reserve)	10,000	 10,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c ₹

Forfeited amount per share	= 24,000/3,000	= 8	
Loss on re issue (8-4)		4	
Surplus per share			4
Transfer to capital reserve	4 x 2,500	₹ 10,000	

Q11. Nov 2018 Exam, 10 marks

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 share.

Answer

(i) **Journal Entries in the books of X Ltd.**

Date			**Dr. ₹**	**Cr. ₹**
a)	Equity Share Capital A/c To Equity Share Allotment money A/c (300 x ₹ 3) To Equity Share Final Call A/c (300 x ₹ 4) To Forfeited Shares A/c (300 x ₹ 3) (Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No……………dated…………….)	Dr.	3,000	 900 1,200 900
b)	Bank Account (300 x 8) Dr. Forfeited Shares Account (300x 2) To Equity Share Capital Account (Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per Board's resolution No………dated…………….)	Dr. Dr.	2,400 600	 3,000
c)	Forfeited Shares Account Dr. To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	300	 300

(ii)

Date			**Dr. ₹**	**Cr. ₹**
a)	Equity Share Capital A/c (200 x ₹ 7) To Equity Share First Call A/c (200 x ₹ 2) To Forfeited Shares A/c (200 x ₹ 5) (Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No………. dated……………..)	Dr.	1,400	 400 1,000
b)	Bank Account Dr. Forfeited Shares Account Dr. To Equity Share Capital Account (Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No…………… dated………….)	Dr.	900 600	 1,500
c)	Forfeited Shares Account Dr. To Capital Reserve Account 150 (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	 150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)		₹750
Less: Forfeiture of 150 shares	(₹600)	
Profit on re-issue of shares		₹150

(iii)

Date			**Dr. ₹**	**Cr. ₹**

a)	Equity Share Capital A/c (100 x ₹ 6) To Equity Share Final Call A/c (100 x ₹ 3) To Discount on issue of shares (100 x ₹ 1) To Forfeited Shares A/c (100 x ₹ 2) (Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No............dated.......)	Dr.	600	 300 100 200
b)	Bank Account (80 x ₹ 6) Discount on issue of shares (80 x ₹ 1) Forfeited Shares A/c (80 x ₹ 1) To Equity Share Capital Account (80 x ₹ 8) (Being the re-issue of 80 shares fully paid up as per Board's Resolution No.........dated..........)	Dr. Dr. Dr.	480 80 80	 640
c)	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	80	 80

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2) ₹ 200.00

Forfeited shares balance for 80 shares ₹ 160.00

Less: Forfeiture of 80 shares (₹ 80.00)

Profit on re-issue of shares ₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has given strictly based on the information provided in the question.

Q12. May 2018 Exam, 10 marks | May 2020 RTP

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, 2018. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

i. ₹ 2 per share payable on application, to be received by 1st July, 2018;
ii. Allotment to be made on 10th July, 2018 and a further ₹ 5 per share (including the premium) to be payable;
iii. The final call for the balance to be made, and the money received by 30th April, 2019.

Applications were received for 4,20,000 shares and were dealt with as follows:

1) Applicants for 20,000 shares received allotment in full;
2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

Answer

Journal of Piyush Limited

Date 2018	Particulars	Dr.	Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c	Dr.	8,40,000	 8,40,000

	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 1,30,000 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...)	Dr.	8,40,000	 2,60,000 4,00,000 1,80,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹2 each as per Board's Resolution No....dated....)	Dr.	6,50,000	 3,90,000 2,60,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	2,50,000	2,50,000
April 30	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)	Dr.	6,50,000	6,50,000

Working Note:

Calculation for Adjustment and Refund

Category	**No. of Shares Applied for**	**No. of Shares Allotted**	**Amount Received on Application (1) X ₹2**	**Amount Required on Application (2) X ₹ 2**	**Amount adjusted on Allotment**	**Refund [3 – (4 + 5)]**	**Amount due on Allotment**	**Amount received On Allotment**
	1)	**2)**	**3)**	**4)**	**5)**	**6)**	**7)**	**8)**
i.	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
ii.	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
iii.	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

Q13. May 2023 RTP

Finopolis Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 3,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

i. ₹ 2 per share payable on application, to be received by 1st July, 2022;

ii. Allotment to be made on 10th July, 2022 and a further ₹ 5 per share (including the premium) to be payable;

iii. The final call for the balance to be made, and the money received by 31th March, 2023.

Applications were received for 8,40,000 shares and were dealt with as follows:

1. Applicants for 40,000 shares received allotment in full;

2. Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
3. Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
4. The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Finopolis limited.

Answer

Journal of Finopolis Limited

Date 2017	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3) Dr. To Equity Share Application A/c (Being application money received on 8,40,000 shares @ ₹ 2 per share)		16,80,000	16,80,000
July 10	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)		16,80,000	5,20,000 8,00,000 3,60,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹2 each as per Board's Resolution No....dated....)		13,00,000	7,80,000 5,20,000
	Bank A/c (Note 1 – Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received)		5,00,000	5,00,000
April 30	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money on 2,60,000 shares @ ₹ 5 each received)		13,00,000	13,00,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1) X ₹2	Amount Required on Application (2) X ₹ 2	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received On Allotment
	1)	2)	3)	4)	5)	6)	7)	8)
i.	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
ii.	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000

iii.	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

Q14. May 2023 RTP

Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Avtar Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

Answer

Journal Entries in the books of Avtar Ltd.

(i)

Date			**Dr. ₹**	**Cr. ₹**
a)	Equity Share Capital A/c To Equity Share Allotment money A/c (900 x ₹ 3) To Equity Share Final Call A/c (900 x ₹ 4) To Forfeited Shares A/c (900 x ₹ 3) (Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No...............dated................)	Dr.	9,000	 2,700 3,600 2,700
b)	Bank A/c (900 x 8) Forfeited Shares A/c (900x 2) To Equity Share Capital A/c (Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No.........dated................)	Dr. Dr.	7,200 1,800	 9,000
c)	Forfeited Shares Account Dr. To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	900	 900

(ii)

Date			**Dr. ₹**	**Cr. ₹**
a)	Equity Share Capital A/c (200 x ₹ 7) To Equity Share First Call A/c (200 x ₹ 2) To Forfeited Shares A/c (200 x ₹ 5) (Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No.......... dated.................)	Dr.	1,400	 400 1,000
b)	Bank Account Dr. Forfeited Shares Account Dr. To Equity Share Capital Account (Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No............... dated.............)	Dr. Dr.	900 600	 1,500
c)	Forfeited Shares Account Dr. To Capital Reserve Account 150 (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	 150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹ 750
Less: Forfeiture of 150 shares	(₹600)
Profit on re-issue of shares	₹150

Q15. Nov 2022 RTP

Radha Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each.
The amounts were payable as follows:
On application - ₹ 3 per share
On allotment - ₹ 5 per share
On first and final call - ₹ 2 per share
Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share.
Pass necessary Journal entries to record the above transactions in the books of Radha Ltd.

Answer

In the books of Radha Ltd.
Journal Entries

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 3,00,000 shares at ₹ 3 per share)	9,00,000	 9,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (2,00,000 x ₹ 3) To Share allotment A/c (Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)	9,00,000	 6,00,000 3,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)	10,00,000	 10,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)	7,00,000	 7,00,000
Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)	4,00,000	 4,00,000
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share first and final call A/c (Being final call received on 1,97,000 shares)	3,94,000 6,000	 4,00,000
Share capital A/c (3,000 x ₹ 10) Dr. To Forfeited share A/c (3,000 x ₹ 8) To Calls in arrears A/c (3,000 x₹ 2) (Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)	30,000	 24,000 6,000
Bank A/c (2,500 x ₹6) . Dr. Forfeited share A/c (2,500 x ₹4) To Equity Share Capital A/c (2,500 x ₹ 10) (Being re-issue of 2,500 shares @6)	15,000 10,000	 25,000
Forfeited share A/c (2,500 x ₹ 4) Dr.	10,000	

To capital reserve A/c (2,500 x ₹ 4) (Being profit on re-issue transferred to capital reserve)		10,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c **₹**

Forfeited amount per share	= 24,000/3,000		8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 x 2,500	₹ 10,000	

Q16. May 2022 RTP

On 1st June, 2020, Suraj Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 20 on allotment;

First call of ₹ 30 on 1st Dec, 2020; and

Second and final call of ₹ 30 on 1st March, 2021.

By 20th July, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2021

Answer

In the books of Suraj Ltd.

Journal Entries

2020			Dr. ₹	Cr. ₹
July 20	Bank Account To Share Application A/c (Application money on 40,000 shares at ₹ 20 per share received.)	Dr.	8,00,000	8,00,000
Aug 1	Share Application A/c To Share Capital A/c 8,00,000 (The amount transferred to Capital Account on 40,000 shares ₹ 20 on application. Directors' resolution no........ dated .....)	Dr.	8,00,000	8,00,000
	Share Allotment A/c Dr. 8,00,000 To Share Capital A/c (Being share allotment made due at₹ 20 per share. Directors' resolution no...... dated ......)	Dr.	8,00,000	8,00,000
Sept 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	8,00,000	8,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at ₹ 30 as per Directors, resolution no... dated...)	Dr.	12,00,000	12,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	12,00,000	12,00,000
2021 March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at ₹ 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	12,00,000	12,00,000

March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at ₹ 30 per share.)	Dr.	12,00,000	12,00,000

Q17. May 2022 RTP

Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non-payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record thejournal entries for forfeiture and reissue of shares.

Answer

In the Books of Delta Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Share capital A/c (600 × ₹ 10) Securities Premium A/c (600 × ₹ 1) To Calls-in-arrears A/c (600 × ₹ 3) To forfeited Shares A/c (600 × ₹ 8) (Being 600 shares forfeited for non-payment of call money)	Dr. Dr.	6,000 600	 1,800 4,800
2.	Bank A/c (400 × ₹ 9) Forfeited Shares A/c (400 × ₹ 1) To Share Capital A/c (400 × ₹ 10) (Being 400 shares re-issued as fully paid-up for ₹ 9 per share)	Dr. Dr.	3,600 400	 4,000
3.	Forfeited Shares A/c To Capital Reserve A/c (Being the transfer of profit on re-issue of 400 shares to Z)	Dr.	2,800	 2,800
4.	Bank A/c (100 × ₹ 11) To Share Capital A/c (100 × ₹ 10) To Securities Premium A/c (100 × ₹ 1) (Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)	Dr.	1,100	 1,000 100
5.	Forfeited Shares A/c (₹ 4,800 × 100/600) To Capital Reserve A/c (Being the transfer of profit on re-issue of 100 shares to X)	Dr.	800	 800

Q18. Nov 2021 RTP

On 1st April, 2020, States Ltd. issued 1,80,000 shares of ₹ 10 each payable as follows:
₹ 2 on application, ₹ 3 on allotment, ₹ 2 on First call 1st October, 2020; and ₹ 3 on Final call 1st February, 2021.
By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15 th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021.

Answer

In the books of States Ltd.
Journal Entries

2020			Dr. ₹	Cr. ₹
May 20	Bank Account To Share Application A/c	Dr.	3,00,000	 3,00,000

	(Application money on 1,50,000 shares at ₹ 2 per share received.)			
June 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 1,50,000 shares ₹ 2 on application. Directors' resolution no........ dated	Dr.	3,00,000	3,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being share allotment made due at₹ 20 per share. Directors' resolution no...... dated ......)	Dr.	4,50,000	4,50,000
July 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	4,50,000	4,50,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 1,50,000 shares at ₹ 2 as per Directors, resolution no... dated...)	Dr.	3,00,000	3,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	3,00,000	3,00,000
2021 Feb 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 1,50,000 share at ₹ 3 per share on second and final call, as per Directors resolution no... dated...)	Dr.	4,50,000	4,50,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 1,50,000 shares at ₹ 3 per share.)	Dr.	4,50,000	4,50,000

Q19. Nov 2021 RTP

Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Answer

In the books of Company

Journal

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (12,000 x ₹60) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 12,000 preference shares ₹ 60each being called up for non-payment of allotmentand first call money as per Board's Resolution No.... dated.....)	Dr.	7,20,000	 2,40,000 2,40,000 2,40,000
Bank A/c (10,000 x ₹50) Forfeited Shares A/c (10,000 x ₹10)	Dr. Dr.	5,00,000 1,00,000	

To Preference Share Capital A/c (Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)		6,00,000
Forfeited Shares A/c Dr. To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital Reserve)	1,00,000	1,00,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 2,40,000/1,20,000 = ₹ 20

Loss on re-issue = ₹ 60 – ₹ 50 = ₹ 10

Surplus per share re-issued ₹ 10

Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

Q20. May 2021 RTP

Alankit Limited issued at par 2,00,000 Equity shares of ₹ 100 each payable ₹ 25 on application; ₹ 30 on allotment; ₹ 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.

You are required to prepare journal entries to record these transactions.

Answer

Book of Alankit Limited

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c To Equity Share Application A/c (Money received on applications for 2,00,000 shares @₹ 25 per share)	Dr.	50,00,000	50,00,000
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)	Dr.	50,00,000	50,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)	Dr.	60,00,000	60,00,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	60,00,000	60,00,000
	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹ 20 per share)	Dr.	40,00,000	40,00,000
	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,00,000 shares at ₹25 per share)	Dr.	50,00,000	40,00,000 10,00,000
	Equity Share Final Call A/c	Dr.	50,00,000	

	To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹25 each)			50,00,000
	Bank A/c Calls in Advance A /C Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 1,56,000 shares and calls in advance for 40,000 shares adjusted)	Dr. Dr. Dr.	39,00,000 10,00,000 1,00,000	 50,00,000
	Interest on Calls in Advance A/c To shareholders A/c (Being interest made due on calls in advance of ₹10,000,00 at the rate of 12% p.a.)	Dr.	30,000	 30,000
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.	30,000	 30,000
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.	1,667	 1,667
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.	1,01,667	 1,00,000 1,667

Q21. May 2021 RTP

Samuel who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Answer

Particulars		**Dr. ₹**	**Cr. ₹**
Preference Share Capital A/c (12,000 x ₹75) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 12,000 preference shares ₹ 75each being called up for non-payment of allotmentand first call money as per Board's Resolution No.... dated.....)	Dr.	9,00,000	 3,00,000 3,00,000 3,00,000
Bank A/c (10,000 x ₹65) Forfeited Shares A/c (10,000 x ₹10) To Preference Share Capital A/c (Being re-issue of 10,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)	Dr. Dr.	6,50,000 1,00,000	 7,50,000
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital Reserve)	Dr.	1,50,000	 1,50,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 3,00,000/12,000 = ₹ 25
Loss on re-issue = ₹ 75 – ₹ 65 = ₹ 10
Surplus per share re-issued ₹ 15
Transferred to capital Reserve ₹ 15 x 10,000 = ₹ 1,50,000.

Q22. Nov 2020 RTP | May 2019 RTP

Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Answer

Bank A/c To Equity Share Application A/c (Money received on application for 1,000 shares @ ₹ 25 per share)	Dr.	25,000	 25,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital)	Dr.	25,000	 25,000
Equity Share Allotment A/c To Equity Share Capital A/c 30,000 (Amount due on the allotment of 1,000 shares @ ₹ 30 per share)	Dr.	30,000	 30,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	30,000	 30,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 1,000 shares @ ₹ 20 per share)	Dr.	20,000	 20,000
Bank A/c Calls-in-Arrears A/c Dr. To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)	Dr. Dr.	19,250 2,000	 20,000 1,250

Q23. Nov 2019 RTP | Nov 2018 RTP

On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:
₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018. By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15 th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Answer

Pehal Ltd.
Journal

2017		Dr. ₹	Cr. ₹
May 20	Bank Account Dr. To Share Application A/c	18,00,000	 18,00,000

	(Application money on 60,000 shares at ₹ 30 per share received.)		
June 1	Share Application A/c Dr. To Share Capital A/c (The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)	18,00,000	 18,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)	18,00,000	 18,00,000
July 15	Bank Account Dr. To Share Application and Allotment A/c (The sums due on allotment received.)	18,00,000	 18,00,000
Oct. 1	Share First Call Account Dr. To Share Capital Account (Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)	12,00,000	 12,00,000
Oct. 20	Bank Account Dr. To Share First Call Account (Receipt of the amounts due on first call.)	12,00,000	 12,00,000
2018 Feb. 1	Share Second and Final Call A/c Dr. To Share Capital A/c (Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)	12,00,000	 12,00,000
March 31	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 60,000 shares at ₹20 per share.)	12,00,000	 12,00,000

Q24. Nov 2019 RTP | May 2018 RTP

Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Answer

Particulars	**Dr. ₹**	**Cr. ₹**
Preference Share Capital A/c (4,000 x ₹75) Dr. To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 4,000 preference shares ₹ 75each being called up for non-payment of allotmentand first call money as per Board's Resolution No.... dated.....)	3,00,000	 1,00,000 1,00,000 1,00,000
Bank A/c (3,000 x ₹65) Dr.	1,95,000 30,000	 2,25,000

Forfeited Shares A/c (3,000 x ₹10) Dr. To Preference Share Capital A/c (Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)		
Forfeited Shares A/c Dr. To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital Reserve)	45,000	 45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue = ₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

Q25. May 2019 RTP

Kumar who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Answer

Particulars	**Dr. ₹**	**Cr. ₹**
Preference Share Capital A/c (4,000 x ₹75) Dr. To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 4,000 preference shares ₹ 75each being called up for non-payment of allotmentand first call money as per Board's Resolution No.... dated.....)	3,00,000	 1,00,000 1,00,000 1,00,000
Bank A/c (3,000 x ₹65) Dr. Forfeited Shares A/c (3,000 x ₹10) Dr. To Preference Share Capital A/c (Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)	1,95,000 30,000	 2,25,000
Forfeited Shares A/c Dr. To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital Reserve)	45,000	 45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue = ₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

Q26. Nov 2018 RTP

Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.
You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

Answer

Journal Entries

Particulars	Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹70) Dr. To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotmentand first call money as per Board's Resolution No.... dated.....)	1,75,000	 50,000 50,000 75,000
Bank A/c (2,000 x ₹60) Dr. Forfeited Shares A/c (2,000 x ₹10) Dr. To Preference Share Capital A/c (Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)	1,20,000 20,000	 1,40,000
Forfeited Shares A/c Dr. To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital Reserve)	40,000	 40,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share	=₹ 75,000/2,500	=	₹ 30
Loss on re-issue	= ₹ 70 – ₹ 60	=	₹ 10
Surplus per share re-issued			₹ 20

Transferred to capital Reserve ₹ 20 x 2,000 = ₹ 40,000.

Q27. May 2018 RTP

Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal.
You are required to prepare journal entries to record these transactions.

Answer

Book of Pihu Limited
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount(₹)
	Bank A/c	Dr.	5,00,000	

	To Equity Share Application A/c (Money received on applications for 2,00,000 shares @₹ 2.50 per share)			5,00,000
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)	Dr.	5,00,000	 5,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)	Dr.	6,00,000	 6,00,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	6,00,000	 6,00,000
	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000shares at ₹.2 pernshare)	Dr.	4,00,000	 4,00,000
	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 20,000 sharesat ₹2.50 per share)	Dr.	4,50,000	 4,00,000 50,000
	Equity Share Final Call A/c To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹2.50 each)	Dr.	5,00,000	 5,00,000
	Bank A/c Calls in Advance /C Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.	4,45,000 50,000 5,000	 5,00,000
	Interest on Calls in Advance A/c To shareholders A/c (Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)	Dr.	1,500	 1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.	1,500	 1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.	83.34	 83.34
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.	5,083.34	 5,000 83.34

Q1. Nov 2020 Exam, 5 marks

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000as 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.

Answer

In the books of Y Company Ltd.
Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
(i)	Fixed Assets A/c Dr. To Vendor A/c (Being the purchase of fixed assets from vendor)	13,00,000	 13,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c (Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)	13,00,000 2,00,000	 15,00,000
(ii)	Bank A/c Dr. To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 540 each)	27,00,000	 27,00,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No....dated....)	27,00,000 3,00,000	 30,00,000
(iii)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)	14,00,000	 14,00,000

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Q2. May 2019 Exam, 5 marks

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 on30th 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.

Answer

Journal Entries

		Dr. (₹)	Cr. (₹)
1-1-2018	Bank A/c Dr. Discount/Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount redeemable at premium)	18,00,000 3,00,000	 20,00,000 1,00,000
30-6-2018	Debenture Interest A/c Dr. To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	1,00,000	 90,000 10,000

	Debenture holders A/c Dr. Tax Deducted at Source A/c Dr. To Bank A/c (For payment of interest and TDS)	90,000 10,000	 1,00,000
31-12-2018	Debenture Interest A/c Dr. To Debenture holders A/c To Tax Deducted at Source A/c (For interest payable)	1,00,000	 90,000 10,000
	Debenture holders A/c Dr. Tax Deducted at Source A/c Dr. To Bank A/c (For payment of interest and TDS)	90,000 10,000	 1,00,000
	Profit and Loss A/c Dr. To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	2,00,000	 2,00,000
	Profit and Loss A/c Dr. To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)	60,000	 60,000

Q3. Nov 2018 Exam, 5 marks | May 2020 RTP

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.

Answer

Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

Q4. May 2023 RTP

Somya Limited issued 30,000 12% Debentures of the nominal value of ₹15,00,00,00 as follows:

a) To sundry persons for cash at 90% of nominal value of ₹ 75,00,000.

b) To a vendor for purchase of fixed assets worth ₹ 30,00,000 – ₹ 37,50,000 nominal value.

c) To the banker as collateral security for a loan of ₹ 30,00,000 – ₹ 37,50,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

Answer

In the books of Somya Ltd.
Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
a)	Bank A/c Dr. To Debentures Application A/c (Being the application money received on 15,000 debentures @ ₹ 450 each)	67,50,000	 67,50,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of 15,000 12% Debentures@ 90% as per Board's Resolution No....dated....)	67,50,000 7,50,000	 75,00,000
b)	Fixed Assets A/c Dr.	30,00,000	

	To Vendor A/c (Being the purchase of fixed assets from vendor)		30,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of debentures of ₹ 37,50,000 to vendor to satisfy his claim)	30,00,000 7,50,000	 37,50,000
c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of ₹30,00,000 taken from bank by issuing debentures of ₹37,50,000 as collateral security)	30,00,000	 30,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

Q5. Nov 2022 RTP | May 2018 RTP

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

Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Answer

False: Debenture interest is payable before the payment of any dividend on shares.

Q6. Nov 2022 RTP

Pure Ltd. issues 5,00,000 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.

Answer

Total amount of discount comes to ₹ 3,00,000 (₹ 0.6 X 5, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 50, 00,000	1/5th of ₹ 3,00,000	= ₹ 60,000
2nd	₹ 50, 00,000	1/5th of ₹ 3,00,000	= ₹ 60,000
3rd	₹ 50, 00,000	1/5th of ₹ 3,00,000	= ₹ 60,000
4th	₹ 50, 00,000	1/5th of ₹ 3,00,000	= ₹ 60,000
5th	₹ 50, 00,000	1/5th of ₹ 300,000	= ₹ 60,000

Q7. May 2022 RTP | May 2021 RTP

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

Debenture holders enjoy the voting rights in the company.

Answer

False: Debenture holders do not enjoy voting rights in company.

Q8. May 2022 RTP

On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

Answer

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
2020 April	Sundry Assets A/c Dr. Goodwill A/c (Bal. fig) Dr. To Himalayan Ltd. A/c	4,50,000 50,000	 4,40,000

	To Sundry Liabilities A/c (Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)		60,000
	Himalyan Ltd. A/c Dr. To 8% Debentures A/c To Securities Premium A/c (Being 4000; 8% Debenture of ₹ 100 each issued at a premium of 10%)	4,40,000	 4,00,000 40,000
	Bank A/c Dr. To Debenture Application A/c (Being the application money received for 3000, 8% Debenture)	90,000	 90,000
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3000; 8% Debenture allotted)	90,000	 90,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)	1,80,000 45,000	 2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)	1,80,000	 1,80,000
2021 Mar,31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)	45,000	 45,000

Q9. Nov 2021 RTP

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par;

(ii) Debentures are issued at 20 % discount; and

(iii) Debentures are issued at 20% premium

Answer

Books of Avantika Ltd.
Journal

Machinery A/c To Avneet Ltd. (Machinery purchased)	Dr.	9,90,000	 9,90,000
Case(i) When debentures are issued at par: Avneet Ltd. To 10% Debentures A/c (10% Debentures issued to Avneet Ltd.)	 Dr.	 9,90,000	 9,90,000
Case(ii) When debentures are issued at 20% discount: Avneet Ltd. Discount on Issue of Debentures A/c To 10% Debentures A/c (10% Debentures issued to Avneet Ltd. at 20% discount)	 Dr. Dr.	 9,90,000 2,47,500	 12,37,500
Case(iii) When debentures are issued at 20% premium: Avneet Ltd. To 10% Debentures A/c To Premium on Issue of Debentures A/c (10% Debentures issued to Avneet Ltd. at 20% premium)	 Dr.	 9,90,000 8,25,000	 1,65,000

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100
Less: Discount 20%	20
Value at which issued	80

₹ 9,90,000/80 = 12,375 Debentures

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120

₹9,90,000/ 120 = 8,250 Debentures

Q10. May 2021 RTP

Priya Ltd. issued 25,00,000, 12% debentures of ₹ 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 4 on application

₹ 5 on allotment

Record necessary journal entries regarding issue of debenture.

Answer

Books of Priya Ltd.
Journal

Particulars	**L.F.**	**Debit (₹)**	**Credit (₹)**
Bank A/c Dr. To Debenture Application A/c (Debenture application money received)		1,00,00,000	1,00,00,000
Debenture Application A/c Dr. To 12% Debentures A/c (Application money transferred to 12% debentures account consequent upon allotment)		1,00,00,000	1,00,00,000
Debenture allotment A/c Dr. Discount on issue of debentures A/c Dr. To 12% Debentures A/c (Amount due on allotment)		1,25,00,000 25,00,000	1,50,00,000
Bank A/c Dr. To Debenture Allotment A/c (Money received consequent upon allotment)		1,25,00,000	1,25,00,000

Q11. Nov 2020 RTP | Nov 2018 RTP

A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company

Answer

In the books of A Limited

Date	**Particulars**	**₹ '000**	**₹ '000**
April 1	Bank A/c Dr. To 12% Debentures Application A/c (Being money received on 3,85,000 debentures)	38,500	38,500
April 7	12% Debentures Application A/c Dr. To Bank A/c (Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)	3,500	3,500
April 7	12% Debentures Application A/c Dr. To 12% Debentures A/c	35,000	35,000

	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)		

Q12. Nov 2019 RTP

Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 40 on application

₹ 50 on allotment

You are required to give necessary journal entries regarding issue of debenture.

Answer

Books of Pihu Ltd.

Journal

Particulars	**L.F.**	**Debit (₹)**	**Credit (₹)**
Bank A/c Dr. To Debenture Application A/c (Debenture application money received)		20,00,00,000	 20,00,00,000
Debenture Application A/c Dr. To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)		20,00,00,000	 20,00,00,000
Debenture allotment A/c Dr. Discount on issue of debentures A/c Dr. To 9% Debentures A/c (Amount due on allotment)		25,00,00,000 5,00,00,000	 30,00,00,000
Bank A/c Dr. To Debenture Allotment A/c (Money received consequent upon allotment)		25,00,00,000	 25,00,00,000

Q13. May 2019 RTP

Suvidha Ltd. purchased machinery worth ₹1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par;

(ii) Debentures are issued at 10% discount; and

(iii) Debentures are issued at 10% premium

Answer

Books of Suvidha Ltd.

Journal

Machinery A/c Dr. To Hemant Ltd. (Machinery purchased)	1,98,000	 1,98,000
Case(i) When debentures are issued at par: Hemant Ltd. Dr. To 12% Debentures A/c (12% Debentures issued to Hemant Ltd.)	 1,98,000	 1,98,000
Case(ii) When debentures are issued at 10% discount: Hemant Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c (12% Debentures issued to Hemant Ltd. at 10% discount)	 1,98,000 22,000	 2,20,000
Case(iii) When debentures are issued at 10% premium: Hemant Ltd. Dr. To 12% Debentures A/c To Premium on Issue of Debentures A/c	 1,98,000	 1,80,000 18,000

(12% Debentures issued to Hemant Ltd. at 10% premium)		

Workings:

(a) Number of debentures issued in case of 10% discount:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90

₹ 1,98,000/90 = 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	(₹)
Face value	100
Add: Premium 10%	10
Value at which issued	110

₹1,98,000/ 110 = 1,800 Debentures

Q14. May 2018 RTP

Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

Answer

In the books of Riya Company Ltd.
Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
(a)	Bank A/c Dr. To Debentures Application A/c (Being the application money received on 10,000 debentures @ ₹ 450 each)	45,00,000	45,00,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)	45,00,000 5,00,000	50,00,000
(b)	Fixed Assets A/c Dr. To Vendor A/c (Being the purchase of fixed assets from vendor)	20,00,000	20,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of debentures of ₹25,00,000 to vendor to satisfy his claim)	20,00,000 5,00,000	25,00,000
(c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)	20,00,000	20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

Unit 4 : Accounting for bonus issue and right issue

ILLUSTRATIONS

#1. Illustration | May 2018, 5 Marks|

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.
Issued and Subscribed Capital:

	Rs.
10,000; 10% Preference Shares of Rs.10 each fully paid	1,00,000
1,00,000 Equity Shares of Rs.10 each Rs.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 @ Rs.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.

Answer

In the books of Arya Ltd. Journal Entries

Date 2018	Particulars		Dr. (Rs.)	Cr. (Rs.)
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs.2 per share on 1,00,000 equity shares due as per Board's Resolution dated)	Dr.	2,00,000	 2,00,000
April 15	Bank A/c To Equity Share Final Call A/c (Final Call money on 1,00,000 equity shares received)	Dr.	2,00,000	 2,00,000
April 15	Securities Premium A/c General Reserve A/c* To Bonus to Shareholders A/c (Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated)	Dr. Dr.	25,000 1,75,000	 2,00,000
April 15	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	2,00,000	 2,00,000

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

#2. Illustration | Jan 2021, 5 Marks|

Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2019:

Particulars	Rs.
80,000 Equity shares of Rs.10 each, Rs.8 paid-up	6,40,000
Capital Reserve (including Rs.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 @Rs.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.

Answer

Journal Entries in the books of Star Ltd.

Date 2018	Particulars		Dr. (Rs.)	Cr. (Rs.)
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of Rs.2 per share on 80,000 equity shares made due)			
April 15	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final Call money on 80,000 equity shares received)			
April 15	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*	Dr.	1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)			
April 15	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Capitalization of profit)			

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*considering it as free reserve as it has been realized.

**Alternatively, different combination of profit and loss balance and general reserve may also be used.

#3. Illustration | July 2021, 5 Marks|

Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020

Authorized capital:	Rs.
3,00,000 Equity shares of Rs.10 each	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of Rs.10 each, Rs.8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realized in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ Rs.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.

Answer

Journal Entries

Date	Particulars	Rs.	Rs.
1.04.2020	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call of Rs.2/- per share on 2,00,000 equity shares due as per Board's resolution dated)	4,00,000	4,00,000
25.04.2020	Bank A/c Dr. To Equity Share Final Call A/c (Final Call money on 2,00,000 equity shares received)	4,00,000	4,00,000
	Capital Redemption Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated)*	1,20,000 3,60,000 20,000	5,00,000
	Bonus to shareholders Dr. To Equity Share Capital A/c (Being issue of bonus shares)	5,00,000	5,00,000

*Any other logical method for utilization of reserves may be followed as per the Companies Act, 2013.

Extract of Balance Sheet

Authorized Capital	**Rs.**
3,00,000 Equity shares of Rs.10/- each	30,00,000
Issued and Subscribed Capital	
2,50,000 Equity shares of Rs.10/- each, fully paid (Out of the above 50,000 Equity shares Rs.10/- each were issued by way of bonus shares)	25,00,000
Reserves and Surplus	
Securities premium (not realized in cash)	
Profit and Loss Account	75,000
	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.

Unit 5: Redemption of Preference Shares

ILLUSTRATIONS

#1. Illustration | May 2018, 10 Marks |

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of Rs.100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 40,000 Equity Shares of Rs.10 each at par

(ii) 2,000 12% Debentures of Rs.100 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.

Answer

In the books of Dheeraj Limited Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	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 Rs.10 each at par as per Board's resolution No......dated.....)			
	Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	(Being the issue of 2,000 Debentures of Rs.100 each as per Board's Resolution No.....dated......)			
	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 To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	50,000	 50,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	1,00,000	 1,00,000

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed		Rs.5,00,000
Less: Proceeds from new issue	(Rs.4,00,000)	
Balance		Rs.1,00,000

#2. Illustration | May 2019, 10 Marks |

The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars	(Rs.)
EQUITY AND LIABILITIES	
1. Shareholder's funds:	5,80,000
(a) Share Capital	96,000
(b) Reserves and Surplus	
2. Current Liabilities: Trade Payables	1,13,000
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)	
Total	62,000
	7,89,000

The Share Capital of the company consists of Rs.50 each Equity shares of Rs.4,50,000 and Rs.100 each 8% Redeemable Preference Shares of Rs.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 to:

(a) sell all the investments for Rs.30,000.

(b) finance part of redemption from company funds, subject to, leaving a Bank balance of Rs.24,000.

(c) issue minimum equity share of Rs.50 each at a premium of Rs.10 per share to raise the balance of funds required.

You are required to:

1. Pass Journal Entries to record the above transactions.
2. Prepare Balance Sheet after completion of the above transactions

Answer

Journal Entries

	Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
1	Bank A/c To Share Application A/c (For application money received on 1,250 shares @ Rs.60 per share)	Dr.	75,000	75,000
2	Share Application A/c To Equity Share Capital A/c To Securities Premium A/c (For disposition of application money received)	Dr.	75,000	62,500 12,500
3	Preference Share Capital A/c To Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable on redemption of preference shares)	Dr. Dr.	1,30,000 13,000	1,43,000
4	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	Dr.	13,000	13,000
5	Bank A/c To Profit and Loss A/c (loss on sale) A/c To Investment A/c (For sale of investments at a loss of Rs.3,500)	Dr. Dr.	30,000 7,000	37,000
6	Preference Shareholders A/c To Bank (Being amount paid to Preference shareholders)	Dr.	1,43,000	1,43,000
	Profit and Loss A/c To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., Rs.1,30,000 - Rs.62,500)	Dr.	67,500	67,500

Balance Sheet of Clean Ltd. (after redemption)

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	Share capital	1	5,12,500
	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 Equipments		
	Tangible asset		6,90,000
2.	Current Assets		
	Cash and cash equivalents (bank)	3	24,000
	Total		7,14,000

Notes to accounts

		Rs.
1.	Share Capital	
	Equity share capital Rs.(4,50,000 + 62,500)	5,12,500
2.	Reserves and Surplus	
	Capital Redemption Reserve	67,500
	Profit and Loss Account Rs.(96,000 – 13,000 – 7,000 – 67,500)	8,500
	Security Premium	12,500
		88,500
3.	Cash and cash equivalents	
	Balances with banks Rs.(62,000 + 75,000 +30,000 – 1,43,000)	24,000

Working Note:
Calculation of Number of Shares:

		Rs.
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

#3. Illustration | Nov 2018, 5 Marks |

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.

Answer

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.

#4. Illustration | Nov 2020, 12 Marks |

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (Rs.)
6,00,000 Equity shares of Rs.10 each fully paid up	60,00,000
30,000, 10% Preference shares of Rs.100 each, Rs.80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of Rs.10 each at a premium of 20%, Rs.2 being payable on application, Rs.7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.

Answer

Journal Entries

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	10% Preference Share Final Call A/c To 10% Preference Share Capital A/c (For final call made on preference shares @ Rs.20 each to make them fully paid up)	Dr	6,00,000	 6,00,000
2	Bank A/c	Dr.	6,00,000	

	To 10% Preference Share Final Call A/c (For receipt of final call money on preference shares)			6,00,000
3	Bank A/c To Equity Share Application A/c (For receipt of application money on 1,50,000 equity shares @ Rs.2 per share)	Dr.	3,00,000	3,00,000
4	Equity Share Application A/c To Equity Share Capital A/c (For capitalization of application money received)	Dr.	3,00,000	3,00,000
5	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 1,50,000 equity shares @ Rs.7 per share including a premium of Rs.2 per share)	Dr.	10,50,000	7,50,000 3,00,000
6	Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	10,50,000	10,50,000
7	10% Preference Share Capital A/c To Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 10 % premium)	Dr. Dr.	30,00,000 3,00,000	33,00,000
8	General Reserve A/c To Premium on Redemption A/c (Writing off premium on redemption of preference shares)	Dr.	3,00,000	3,00,000
9	General Reserve A/c To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 - 3,00,000 - 7,50,000)	Dr.	19,50,000	19,50,000
10	Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	33,00,000	33,00,000

Balance Sheet (extracts)

		Particulars	Notes No.	As at 31.3.2020	As at 31.12.2019
				Rs.	Rs.
	EQUITY AND LIABILITIES				
1.	Shareholders' funds				
	a)	Share capital	1	70,50,000	84,00,000
	b)	Reserves and Surplus	2	59,00,000	59,00,000

Notes to Accounts:

		As at 31.3.2020	As at 31.12.2019
1.	Share Capital		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of Rs.10 each fully paid up	60,00,000	60,00,000
	1,50,000 Equity shares of Rs.10 each Rs.7 paid up	10,50,000	-
	30,000, 10% Preference shares of Rs.100 each, Rs.80 paid up	-	24,00,000
		70,50,000	84,00,000
2.	Reserves and Surplus		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		59,00,000	59,00,000

Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.

2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are Rs.10,50,000 (Rs.3,00,000 application money plus Rs.7,50,000 received on allotment towards share capital) and balance Rs.19,50,000 to taken from general reserve account.

#5. Illustration | Dec 2021, 20 Marks |

The following is the summarized Balance Sheet of R Limited as at 31st March, 2021:

	Rs.
Liabilities	
Authorized Capital	
1,50,000 Equity shares of Rs.10 each	15,00,000
30,000 10% Redeemable Preference shares of Rs.100 each	30,00,000
	45,00,000
Issued, subscribed and paid up	
90,000 Equity shares of Rs.10 each	9,00,000
15,000 10% Redeemable Preference shares of Rs.100 each	15,00,000
Reserves & Surplus	
Securities Premium	18,00,000
General Reserve	16,50,000
Profit & Loss A/c	1,20,000
7500, 9% Debentures of Rs.100 each	7,50,000
Trade Payables	2,12,500
	69,32,500
Assets	
Non-Current Assets	
Property Plant & Equipment	31,60,000

Investments (Market Value, Rs.17,40,000)	14,70,000
Trade Receivables	17,60,000
Cash & Bank Balance	5,42,500
	69,32,500

In Annual General Meeting held on 15th May, 2021 the company passed the following resolutions:

(i) To redeem 10% preference shares at a premium of 5%.
(ii) To redeem 9% Debentures by making offer to Debenture holders to convert their holding into equity shares at Rs.40 per share or accept cash on redemption.
(iii) To issue fully paid bonus shares in the ratio of one equity share for every three shares held on 31st March, 2021.
(iv) Redemption of preference shares and debentures will be paid through company's cash & bank balance subject to leaving a minimum cash & bank balance of Rs.2,00,000.
(v) To issue sufficient number of equity shares @ Rs.40 per share if required to finance redemption of Preference Shareholders and debenture holders.

On 5th June, 2021 investments were sold for Rs.16,80,000 and preference shares were redeemed. 30% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 2021. The bonus issue was concluded by 10th August, 2021.
You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2021. All working notes should form part of your answer.
Answer

Journal Entries in the Books of R Limited

		Rs.	Rs.
June 5	Cash & Bank A/c Dr.	16,80,000	
	To Investment A/c		14,70,000
	To Profit & Loss A/c		2,10,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)		
June 5	10% Redeemable preference share capital A/c	15,00,000	
	Premium on redemption of pref. share A/c Dr.	75,000	
	To Preference shareholders A/c		15,75,000
	(Being amount payable to preference shareholders on redemption)		
June 5	Preference shareholders A/c Dr.	15,75,000	
	To Cash & bank A/c		15,75,000
	(Being amount paid to preference shareholders)		
June 5	General reserve* A/c Dr.	15,00,000	
	To Capital redemption reserve A/c		15,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)		
Aug. 1	9% Debentures A/c Dr.	7,50,000	
	Interest on debentures A/c (Rs.7,50,000 x 9% x 4/12)	22,500	
	To Debenture holders A/c		7,72,500
	(Being amount payable to debenture holders along with interest payable)		
Aug. 1	Debenture holders A/c Dr.	7,72,500	

	To Cash & bank A/c (2,25,000 + 22,500) To Equity share capital A/c (13,125 X Rs.10) To Securities premium A/c (13,125 x Rs.30) (Being claims of debenture holders satisfied) (refer W.N.1)		2,47,500 1,31,250 3,93,750
Aug. 10	Capital Redemption Reserve A/c Dr. To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares)	3,00,000	3,00,000
Aug. 10	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 30,000 fully paid equity shares of Rs.10 each issued as bonus in ratio of 1 share for every 3 shares held)	3,00,000	3,00,000
Sept.30	General Reserve A/c Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from general reserve)	75,000	75,000
Sept.30	Profit & Loss A/c Dr. To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	22,500	22,500

Balance Sheet as at 30th September, 2021

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	13,31,250
	b	Reserves and Surplus	2	37,76,250
2		Current liabilities		
	a	Trade Payables		2,12,500
		Total		53,20,000
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment		31,60,000
2		Current assets		
	a	Trade receivables		17,60,000
	b	Cash and bank balances (W.N.2)		4,00,000
		Total		53,20,000

Notes to accounts:

		Rs.	Rs.
1	**Share Capital**		
	Authorized share capital		
	1,50,000 Equity shares of Rs.10 each	15,00,000	
	30,000 Redeemable Preference shares of Rs.100 each	30,00,000	
	Issued, subscribed and paid up		

	1,33,125 Equity shares of Rs.10 each [90,000+13,125+30,000] (Out of which 1,33,125 shares were issued for the consideration other than cash)		13,31,250
2	**Reserves and Surplus**		
	Securities Premium		
	Balance as per balance sheet	18,00,000	
	Add: Premium on equity shares issued on conversion of debentures (13,125 x 30)	3,93,750	
	Balance		21,93,750
	Capital Redemption Reserve (15,00,000 - 3,00,000)		12,00,000
	General Reserve		
	Opening Balance 16,50,000		
	Less Transfer to Capital Redemption Reserve (15,00,000)		
	1,50,000		
	Less: Premium on redemption of preference shares (75,000)		75,000
	Profit & Loss A/c	1,20,000	
	Add: Profit on sale of investment	2,10,000	
	Less: Interest on debentures	(22,500)	3,07,500
	Total		37,76,250

Working Notes:

	Rs.
1. **Redemption of Debentures**	
7,500 Debentures of Rs.100 each	7,50,000
Less: Cash option exercised by 30% holders	(2,25,000)
Conversion option exercised by remaining 70%	5,25,000
Equity shares issued on conversion = 5,25,000/40 = 13,125 shares	
2. **Cash and Bank Balance**	
Balance as per balance sheet	5,42,500
Add: Realization on sale of investment	16,80,000
	22,22,500
Less: Paid to preference share holders	(15,75,000)
Paid to Debenture holders (2,25,000 + 22,500)	(2,47,500)
Balance	4,00,000

Note:

1. There is no need to issue fresh equity shares as the company is having sufficient cash balance.
2. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Alternative considering otherwise also possible by utilizing securities premium.

#1. Illustration |May 2018, 5 Marks |

Gurudev Limited purchases for immediate cancellation 6,000 of its own 12 % debentures of Rs.100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:

(i) Debentures are purchased at Rs.98 ex-interest.

(ii) Debentures are purchased at Rs.98 cum-interest.

Answer

(i) In case of ex-interest

Date	Particulars		Rs.	Rs.
1.11.2017	Own Debentures A/c Debentures Interest A/c [6,000 x 100 x 12% x (1/12)] To Bank A/c (Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)	Dr. Dr.	5,88,000 6,000	 5,94,000
1.11.17	12% Debentures A/c To Own Debentures A/c To Capital reserve A/c (Profit on cancellation of debentures) (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	 5,88,000 12,000

(ii) **In case of cum interest**

1.11.17	Own Debenture A/c Debenture Interest Account A/c [6,000 x100 x12% x (1/12)] To Bank A/c (Being 6,000 debentures purchased @ Rs.98 cum interest for immediate cancellation)	Dr. Dr.	5,82,000 6,000	 5,88,000
1.11.17	12% Debenture A/c To Own Debentures A/c To Capital reserve A/c (Profit on cancellation of debentures) (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	 5,82,000 18,000

#2. Illustration |Nov 2018, 8 Marks |

A Company had issued 1,000 12% debentures of Rs.100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at Rs.102 after giving 6 months' notice. On 31st December, 2016, the accounts of the company showed the following balances:

Debenture redemption fund Rs.53,500 represented by 10% Govt. Loan of a nominal value of Rs.42,800 purchased at an average price of Rs.101 and Rs.10,272 uninvested cash in hand.
On 1st January 2017, the company purchased Rs.11,000 of its own debentures at a cost of Rs.10,272.

On 30th June, 2017, the company gave a six months' notice to the holders of Rs.40,000 debentures and on 31st December, 2017 carried out the redemption by sale of Rs.40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.

Prepare ledger account of Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year.

Answer

Debenture Redemption Fund Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.17	To Debenture Redemption Fund Investment A/c	408	1.1.17	By Balance b/d	53,500
	To Premium on redemption of debentures	800	31.12.17	By interest on DRFI (10%of Rs.42,800)	4,280
	To Balance c/d	57,892		By interest on own debentures (i e. 12% on Rs.11,000)	1,320
		59,100			59,100
			1.1.18	To Balance b/d	57,892

Debenture Redemption Fund Investment Account

		Rs.			Rs.
1.1.17	To Balance b/d (428 x Rs.101)	43,228	31.12.17	By Bank A/c	40,800
1.1.17	To Bank	10,272		By Debenture redemption Fund (1% of Rs.40,800)	408
	To capital Reserve (Profit on cancellation of Debentures)	728		By 12% Debentures	11,000
				By Balance c/d	2,020
31.12.17		54,228			54,228
1.1.18	To Balance b/d	2,020			

#3. Illustration |Nov 2019, 5 Marks |

A company had issued 40,000, 12% debentures of Rs.100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. 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 Rs.10) at a predetermined price of Rs.15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Answer

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5) = Rs.7,35,000

Equity shares of Rs. 10 each issued to debenture holders on redemption [Rs.7,35,000/ Rs.15]
= 49,000 shares

Amount of cash to be paid
Amount to be paid into cash on redemption
[42,00,000 (40,000 x Rs.105) – 7,35,000] = Rs.34,65,000

#4. Illustration |Nov 2019, 10 Marks |

Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of Rs.100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts:
- Investment in 1,000, 7% secured Govt. bonds of Rs.100 each, Rs.1,00,000.
- Debenture Redemption Reserve is Rs.50,000.

Interest on investments is received yearly at the end of financial year.
1,000 own debentures were purchased on 30th March, 2020 at an average price of Rs.96.50 and cancelled on the same date.
On 31st March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020.

(1) 9% Debentures Account.
(2) Debenture Redemption Reserve Account.
(3) DRR Investment Account.
(4) Own Debentures Account.

Answer

9% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30th March, 2020	To Own Debentures A/c	96,500	1st April, 2019	By Balance b/d	8,00,000
March, 2020	To Profit on cancellation	3,500			
31st March, 2020	To Bank A/c	7,00,000			
		8,00,000			8,00,000

Debenture Redemption Reserve (DRR) Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 2020	To General Reserve A/c	80,000	1st April, 2019	By Balance b/d	50,000
			1st April, 2019	By Profit and loss A/c [Refer Working Note 3]	30,000
		80,000			80,000

Debenture Redemption Reserve Investments (DRRI) Account

Date	Particulars	Amount	Date	Particulars	Amount
1st April 2019	To Balance b/d	1,00,000	31st March, 2020	By Bank A/c (1,000 x 100 x 15%)	15,000
1st April 2019	To Bank A/c (Refer Working Note 1)	20,000	31st March, 2020	By Bank A/c (Refer Working Note 2)	1,05,000
		1,20,000			1,20,000

Own Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
30th March, 2020	To Bank A/c*	96,500	30th March, 2020	By 9% Debentures	96,500
		96,500			96,500

* interest not considered.

Working Notes:

1. Debenture Redemption Reserve Investment A/c

The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:

= Total No of debentures X Face value per debenture X 15%
= 8,000 X 100 X 15% = Rs.1,20,000/-

The company has already invested in specified investments i.e. 7% Govt bonds for an amount of Rs.1,00,000 as per the information given in the question. The balance amount of Rs.20,000 (i.e. Rs.1,20,000 less Rs.1,00,000) would be invested by the company on 1 April 2019.

2. Redemption of Debenture Redemption Reserve Investments on 31.3.2020

Since the company purchased 1,000 own debentures on 31 March 2020, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

= No of own debentures to be bought X Face value per debenture X 15%
= 1,000 X 100 X 15% = Rs.15,000/-

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15% = (8,000 - 1,000) X 100 X 15% = Rs.1,05,000/-

3. Debenture Redemption Reserve

The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is Rs.8,00,000 thus 10% of it i.e. 80,000 should be there in DRR a/c. The available balance in DRR a/c is only 50,000 therefore 30,000 (80,000 – 50,000) additional amount will be transferred from General Reserve or Profit and loss A/c to DRR A/c.

#5. Illustration |Jan 2021, 8 Marks |

During the year 2019-2020, A Limited (a listed company) made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued - 1,00,000; face value and issue price Rs.100 per debenture. (Whole issue was underwritten by X Ltd.)
(ii) Convertible portion per debenture -60%, date of conversion -on expiry of 6 months from the date of closing of issue.
(iii) Date of closure of subscription lists -1st May,2019, date of allotment – 1st June, 2019, rate of interest on debenture -15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion – Rs.60 (face value Rs.10)
(iv) Underwriting Commission –2%
(v) No. of debentures applied for by public –80,000
(vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2020. (Including cash and bank entries)

Answer

Journal Entries in the books of A Ltd.

Date	Particulars		Dr. Rs.	Cr. Rs.
1.5.2019	Bank A/c To Debenture Application A/c (Application money received on 80,000 debentures @ Rs.100 each)	Dr.	80,00,000	80,00,000
1.6.2019	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)	Dr. Dr.	80,00,000 20,00,000	1,00,00,000
	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on Rs. 1,00,00,000)	Dr.	2,00,000	2,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	18,00,000	18,00,000
01.06.2019	Debenture Redemption Investment A/c To Bank A/c (100,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	Dr.	6,00,000	6,00,000
30.9.2019	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on Rs. 1,00,00,000)	Dr.	5,00,000	5,00,000

31.10.2019	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)	Dr.	60,00,000	 10,00,000 50,00,000
31.3.2020	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) *(Refer working note below)*	Dr.	3,75,000	 3,75,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020 On Rs.40,00,000 for 6 months @ 15% = Rs. 3,00,000
On Rs.60,00,000 for 1 months @ 15% = Rs. 75,000
Rs. 3,75,000

#6. Illustration |July 2021, 10 Marks |

AB Limited (a listed company) recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price Rs.100 per debenture.
(ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.
(iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion Rs.60 (Face Value Rs.10).
(iv) Underwriting Commission 1%
(v) No. of debentures applied for 2,50,000.
(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

Answer

Journal Entries in the books of AB Limited

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.05.2020	Bank A/c Dr. To Debenture Application A/c (Being application money received on 2,50,000 debentures @ Rs.100/- each)	2,50,00,000	 2,50,00,000
1.06.2020	Debenture Application A/c Dr. Underwriters A/c Dr. To 8% Debentures A/c (Being allotment of 2,50,000 debentures to applicants and 50,000 debentures to underwriters)	2,50,00,000 50,00,000	 3,00,00,000

1.06.2020	Underwriting Commission A/c Dr. To Underwriters A/c Dr. (Being commission payable to underwriters @ 1% on Rs.3,00,00,000)	3,00,000	 3,00,000
1.06.2020	Bank A/c Dr. To Underwriters A/c (Being amount received from underwriters in settlement)	47,00,000	 47,00,000
1.06.2020	Debenture Redemption Investments A/c Dr. To Bank A/c (3, 00,000 x 100 x 15% x 40% - Being investments for redemption purposes)	18,00,000	 18,00,000
30.09.2020	Debenture Interest A/c Dr. To Bank (Being interest paid on debentures for 4 months @ 8% on Rs.3,00,00,000)	8,00,000	 8,00,000
30.11.2020	8% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being conversion of 60% of the debentures into shares of Rs.60 each with a face value of Rs.10/-)	1,80,00,000	 30,00,000 1,50,00,000
31.03.2021	Debenture Interest A/c Dr. To Bank A/c (Being interest paid on debentures for 6 months @ 8%)	7,20,000	 7,20,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2021

On Rs.1, 20, 00,000 for 6 months @ 8%= Rs.4,80,000
On Rs.1, 80, 00,000 for 2 months @ 8%= Rs.2,40,000
Rs.7,20,000

#7. Illustration |Dec 2021, 5 Marks |

A Company had issued 25,000, 12% Debentures of Rs.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 Rs.10 each) at a price of Rs.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.

Answer

Calculation of number of equity shares to be allotted

	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 x (100+5)]	Rs.4,20,000
Equity shares of Rs.10 each issued on conversion	
[Rs.4,20,000/ Rs.20]	21,000 shares