CA Foundation
Accounting Live Class

Q. The Bank Pass Book of Account No. 5678 of Mrs. Rani showed an overdraft of ₹33,575 on 31st March, 20X0. Ongoing through the Pass Book, the accountant found the following:

(i) A Cheque of ₹1,080 credited in the pass book on 28th March, 20X0 being dishonoured is debited again in the pass book on 1st April, 20X0. There was no entry in the cash book about the dishonour of the cheque until 15th April, 20X0.

(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, 20X0, cheques amounting to ₹7,500 were collected on 7th April, 20X0.

(iv) Out of Cheques amounting to ₹7,800 drawn by her on 27th March, 20X0 a cheque for ₹2,500 was encashed on 3rd April, 20X0.

(v) Bankers seems to have given her wrong credit for ₹500 paid 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, 20X0.

(vii) A Bill Receivable for ₹5,200 previously dishonoured (Discount ₹200) with the Bank had been dishonoured but advice was received on 1st April, 20X0.

(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, 20X0.

Prepare Bank Reconciliation Statement as on 31st March 20X0.

(May 2018, Nov. 2020, May 2024 MTP Series I)

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Ans.

In the books of Mrs. Rani

Bank Reconciliation Statement as on 31st March, 20X0

Particulars	**(₹)**	**(₹)**
Balance as per Pass Book (Dr.) (Overdraft)		33,575
Add: Dishonour of cheque of ₹1,080 (Note)	-	
Interest collected by bank	2,800	
Cheque drawn but not encashed	2,500	
Wrong credit by Bank	500	
Rebate not entered in Cash Book	175	
Cheque deposited but omitted to be recorded in Cash Book	2,400	8,375
		41,950
Less: Cheques paid in but not collected	7,500	
Wrong debit by Bank	300	
Cheque omitted to be banked	1,000	
Bill previously discounted, dishonoured	5,200	14,000
Balance as per Cash Book (Cr.) (Overdraft)		**27,950**

Note: *Since the Pass Book was debited on 1st April, 20X0, on adjustment is required for (1) as there would be no difference as on 31st March, 20X0.*

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Q. On 30th September, 20X0, the bank account of X, according to the bank column of the Cash Book, was overdrawn to the extent of ₹4,062. On the same date the bank statement showed a credit balance of ₹20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

(i) A cheque for ₹13,14,000 deposited on 29th September, 20X0 was credited by the bank only on 3rd October, 20X0

(ii) A payment by cheque for ₹16,000 has been entered twice in the Cash Book.

(iii) On 29th September, 20X0, the bank credited an amount of ₹1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 20X0.

(iv) Bank charges amounting to ₹580 had not been entered in the Cash Book.

(v) On 6th September, 20X0, the bank credited ₹20,000 to X in error.

(vi) A bill of exchange for ₹1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 20X0 but no entry had been made in the books of X.

(vii) Cheques issued up to 30th September, 20X0 but not presented for payment up to that date totalled ₹13,26,000.

You are required:

(a) To show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 20X0.

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

(ICAI SM, Aug. 2018, Oct. 2019 MTP, Nov. 2019 RTP (Modified), Nov. 2019, May 2024 MTP Series 2)

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Ans.

(a)

Dr.	**Adjusted Cash Book (Bank Column)**				**Cr.**
Date	**Particulars**	**(₹)**	**Date**	**Particulars**	**(₹)**
20X0			20X0		
Sept. 30	To Party A/c	16,000	Sept. 30	By Balance b/d	4,062
	To Customer A/c (Direct deposit)	1,17,400		By Bank Charges	580
	To Balance c/d	11,242		By Customer A/c (B/R dishonoured)	1,40,000
		1,44,642			**1,44,642**

(b) .

Bank Reconciliation Statement as on 30.09.20X0

Particulars	**Plus Items (₹)**	**Minus Items (₹)**
Overdraft as per Cash Book (Cr.)		11,242
Cheque deposited but not credited by bank		13,14,000
Cheques issued but not presented for payment	13,26,000	
Credit by Bank erroneously on 6th September	20,000	
Overdraft as per bank statement (Dr.)		20,758
	13,46,000	**13,46,000**

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ROE

Q. Mr. Roy was unable to agree the Trial Balance last year and wrote out 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 ₹3,000.
(ii) Purchase account was over-cast by ₹10,000.
(iii) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.
(iv) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.
(v) Receipt of cash from Mr. C was posted to the debit of his account ₹500.
(vi) ₹500 due by Mr. Q was omitted to be taken to the trial balance.
(vii) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.
(viii) Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.
(ix) Mr. Roy used 10% depreciation on vehicles.

Suggest the necessary rectification entries.

(ICAI SM, July 2021, Sep. 2024 MTP Series I, Jan. 2025 RTP)

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Ans.

In the Books of Mr. Roy

Journal Entries

S. No.	Particulars		L.F.	Debit (₹)	Credit (₹)
(i)	Motor Vehicles Account	Dr.		2,700	
	To Profit and Loss Adjustment A/c				2,700
	(Purchase of scooter wrongly debited to conveyance account now rectified capitalization of ₹2,700, i.e., ₹3,000 less 10% depreciation.)				
(ii)	Suspense Account	Dr.		10,000	
	To Profit & Loss Adjustment A/c				10,000
	(Purchase Account overcast in the previous year; error now rectified.)				
(iii)	Profit & Loss Adjustment A/c	Dr.		4,000	
	To P's Account				4,000
	(Credit purchase from P ₹2,000, entered as sales last year; now rectified.)				
(iv)	B's Account	Dr.		1,000	
	To A's Account				1,000
	(Amount received from A wrongly posted to the account of B; now rectified.)				
(v)	Suspense Account	Dr.		1,000	
	To C's Account				1,000
	(₹500 received from C wrongly debited to his account; now rectified.)				
(vi)	Trade receivables	Dr.		500	
	To Suspense Account				500
	(₹500 due by Q not taken into trial balance; now rectified.)				
(vii)	R's Account	Dr.		2,000	
	To Profit & Loss Adjustment A/c				2,000
	(Sales to R omitted last year; now adjusted.)				
(viii)	Suspense Account	Dr.		198	
	To Profit & Loss Adjustment A/c				198
	(Excess posting to purchase account last year, ₹2,593, instead of ₹2,395, now adjusted.)				
(ix)	Profit & Loss Adjustment A/c	Dr.		10,898	
	To Roy's Capital Account				10,898
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account.)				
(x)	Roy's Capital Account	Dr.		10,698	
	To Suspense Account				10,698
	(Balance of Suspense Account transferred to the Capital Account.)				

Profit and Loss Adjustment Account

Dr. **(Prior Period Items)** **Cr.**

Particulars	(₹)	Particulars	(₹)
To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		**14,898**

Dr. **Suspense Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Profit & Loss Adjustment Account	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital Account (Transfer)	10,698
To Profit & Loss Adjustment Account	198		
	11,198		**11,198**

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

(i) The Sales Book has been totalled ₹100 short.

(ii) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.

(iii) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.

(iv) Furniture purchased from Gulab & Bros. ₹1,000 has been entered in Purchases Day Book.

(v) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.

Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

(ICAI SM, Nov. 2019, Dec. 2022(M))

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Ans.

(i) Without opening a suspense account:

(a) Since sales book has been cast ₹100 short, the Sales Account has been similarly credited ₹100 short. The correcting entry is to credit the Sales Account by ₹100 as "By wrong totalling of the Sales Book ₹100".

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

Particulars		Debit (₹)	Credit (₹)
Returns Inward Account To Green & Co. (Goods returned by the firm, previously omitted from the Returns Inward Book.)	Dr.	150	 150

(c) Gupta & Co. have been debited ₹250 instead of being credited. This account should now be credited by ₹500 to remove the wrong debit and to give the correct debit. The entry will be on the credit side... "By errors in posting ₹500".

(d) By this error Purchases Account has to be debited by ₹1,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Particulars		Debit (₹)	Credit (₹)
Furniture Account To Purchases Account (Correction of the mistake by which of the Furniture Account.)	Dr.	1,000	 1,000

(e) The discount of ₹15 received from Red & Black 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 Red & Black would have been debited. This entry should not be made:

Particulars		Debit (₹)	Credit (₹)
Red & Black To Discount Account (Rectification of the error by which the discount allowed by the firm was not entered in Cash Book.)	Dr.	15	 15

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹18 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be debited by the entry; "To Omission of entry in the Cash Book ₹18."

(ii) If a Suspense Account is opened:

Journal Entries

S. No.	Particulars		L.F.	Debit (₹)	Credit (₹)
(1)	Suspense Account	Dr.		100	
	To Sales Account				100
	(Being the correction arising from under-casting of Sales Day Book.)				
(2)	Return Inward Account	Dr.		150	
	To Green & Co				150
	(Being the recording of unrecorded returns.)				
(3)	Suspense Account	Dr.		500	
	To Gupta & Co.				500
	(Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹250.)				
(4)	Furniture Account	Dr.		1,000	

	To Purchases Account				1,000
	(Being the correction of recording purchase of furniture as ordinary purchases.)				
(5)	Red & black	Dr.		15	
	To Discount Account				15
	(Being the recording of discount omitted to be recorded.)				
(6)	Discount Account	Dr.		18	
	To Suspense Account				18
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly.)				

Dr.	**Suspense A/c**				**Cr.**
Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
	To Sales A/c	100		By Difference in Trial Balance	582
	To Gupta & Co.	500		(Balancing figure)	
				By Discount A/c	18
		600			**600**

Notes:

(i) *One should note that the opening balance in the Suspense Account will be equal to the difference in the trial balance.*

(ii) *If the question is silent as to whether a Suspense Account has been opened, the student should make his assumption, state it clearly and then proceed.*

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Q. M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

(i) A purchase of ₹5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹6,500. Day Book entry has also been passed incorrectly.

(ii) A sale of ₹9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹8,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹650, because discount allowed of ₹90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of ₹9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors? (May 2019 RTP)

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Ans.

Journal Proper of Suman & Co.

Rectification entries

S. No.	Particulars		Dr. (₹)	Cr. (₹)
(i)	M/s Mintu & Co. A/c	Dr.	6,500	
	To M/s Minu & Co. A/c			5,600
	To Purchases A/c			900
	(Rectification of purchase entry for ₹5,600 dated….as ₹6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c.)			
(ii)	M/s Bantu Bros. A/c	Dr.	9,800	
	To Sales A/c			900
	To M/s Bindu & Co. A/c			8,900
	(Rectification of sale entry for ₹9,800 dated ….as ₹8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c)			
(iii)	Discount Allowed A/c	Dr.	650	
	To Commission A/c			560
	To M/s Bantu Bros. A/c			90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated….)			
(iv)	M/s Bantu Bros. A/c	Dr.	9,700	
	To Bhakt & Co. A/c			9,700
	(Wrong posting for the dishonoured cheque dated…. is being rectified.)			

*Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

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Bills of Exchange

Q. Journalise the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for ₹2,500 discharged by a cash payment of ₹1,000 and a new bill for the balance plus ₹50 for interest.

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

(iii) D. Dalal retires a bill for ₹2,000 drawn on him by Katrak for ₹10 discount.

(iv) Katrak's acceptance to Patel for ₹5,000 discharged by Patel. Mody's acceptance to Katrak for a similar amount.

(ICAI SM, Nov. 2018 RTP, Oct. 2019 MTP, May 2021 RTP, Nov. 2021 RTP, June 2023)

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Ans.

In the books of K. Katrak

Journal Entries

S.NO.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bills Payable Account Dr.		2,500	
	Interest Account Dr.		50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(3 months acceptance given to Vijay for the amount.)			
(ii)	G. Gupta Dr.		4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹4,000 endorsed to M. Mehta dishonoured ₹20 paid by M. Mehta as noting charges.)			
	M. Mehta Dr.		4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta.)			
(iii)	Bank Account Dr.		1,990	
	Discount Account Dr.		10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹2,000. Allowed him a discount of ₹10.)			
(iv)	Bills Payable Account Dr.		5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier.)			

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Q. On 1st July, 20X0 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2020, Jack purchased goods worth ₹1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹9,000 in full settlement of the amount due to Harry. On 1st October, 20X0, Harry purchased goods worth ₹2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque.

Give the necessary journal entries in the books of Harry and Gorge.

(ICAI SM, May 2000)

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Ans.

In the books of Harry

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
20X0				
July 1	Gorge's Account	Dr.	1,80,000	
	To Bills payable Account			1,80,000
	(Acceptance of bill drawn by Gorge.)			
Sept. 1	Jack's Account	Dr.	1,90,000	
	To Sales Account			1,90,000
	(Sales made to Jack.)			
Sept. 1	Bills receivable Account	Dr.	1,80,000	
	Bank account	Dr.	9,000	
	Discount account	Dr.	1,000	
	To Jack's Account			1,90,000
	(Acceptance received from Jack's endorsement of bill received from Gorge for ₹1,80,000 and ₹9,000 received in full settlement of the amount due.)			
Sept. 1	Bills payable Account	Dr.	1,80,000	
	To Bills receivable Account			1,80,000
	(Own acceptance received from Jack's endorsement, cancelled.)			
Oct. 1	Purchase Account	Dr.	2,00,000	
	To Gorge's Account			2,00,000
	(Purchases made from Gorge.)			
	Gorge's Account	Dr.	20,000	
	To Bank Account			20,000
	(Amount paid to Gorge after adjusting ₹180,000 for accommodation extended to him.)			

In the books of George

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
20X0				
July 1	Purchases Account	Dr.	1,81,000	
	To Jack Account			1,81,000
	(Purchase of goods from Jack.)			
July 1	Bills Receivable Account	Dr.	1,80,000	
	To Harry Account			1,80,000
	(Acceptance by Harry of bill drawn on him.)			
July 1	Jack's account	Dr.	1,81,000	
	To Rebate Account			1,000
	To Bills Receivable Account			1,80,000
	(Harry's bill endorsed to Jack.)			
Oct. 1	Harry Account	Dr.	2,00,000	
	To Sales Account			2,00,000
	(Sales to Harry.)			
Oct. 1	Bank Account	Dr.	20,000	
	To Harry Account			20,000
	(Amount received from Gorge after adjusting ₹180,000 for accommodation extended by him.)			

Q. X draws on Y a bill of exchange for ₹30,000 on 1st April, 20X0 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹28,800. X immediately remits ₹9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹42,000 for three months which is discounted by Y for ₹40,110. Y sends ₹6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in a rupee.

Give the Journal entries in the books of X and Y. **(ICAI SM, Nov. 2020)**

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Ans.

In the books of X

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1/4/20X0	Bill's receivables A/c	Dr.		30,000	
	To Y A/c				30,000
	(Being bill of exchange drawn on Mr. Y)				
1/4/20X0	Bank A/c	Dr.		28,800	
	Discount charges A/c	Dr.		1,200	
	To Bills receivable A/c				30,000
	(Being the bills receivable discounted with the bank at a charge of ₹1,200)				
1/4/20X0	Y A/c	Dr.		10,000	
	To Bank A/c				9,600
	To Discount charges				400
	(Being the amount remitted to Y along with his share of the bank charges)				
4/7/20X0	Y A/c	Dr.		42,000	
	To Bills payable A/c				42,000
	(Being the bills draw by Y, due to non-payment of earlier bill)				
4/7/20X0	Bank A/c	Dr.		6,740	
	Discount Charges A/c	Dr.		1,260	
	To Y A/c				8,000
	(Being the amount discounted and sent it by Y to X)				
	Bills payable A/c	Dr.		42,000	
	To Y's A/c				42,000
	(Being the bill due dishonoured due to bankruptcy)				
	Y A/c	Dr.		28,000	
	To Bank A/c				14,000
	To Deficiency account				14,000
	(Being the amount due to Y discharged by payment of 50 paise in a rupee)				

In the books of Y

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1/4/20X0	X A/c	Dr.		30,000	
	To Bills payable A/c				30,000
	(Being bill of exchange accepted and sent to Mr. X)				
1/4/20X0	Bank A/c	Dr.		9,600	
	Discount charges A/c	Dr.		400	
	To X A/c				10,000
	(Being the amount received from X on account of the bills receivable.)				
4/7/20X0	Bills receivable A/c	Dr.		42,000	
	To X A/c				42,000
	(Being the bills accepted by X)				
4/7/20X0	Bank A/c	Dr.		40,110	
	Discount charges A/c	Dr.		1,890	

	To Bills receivables A/c				42,000
	(Being x acceptance discounted with bank)				
	Bills payable A/c	Dr.		30,000	
	To Bank A/c				30,000
	(being the amount met on the due date)				
	X A/c	Dr.		8,000	
	To Bank A/c				6,740
	To Discount account				1,260
	(Being the amount received and the discount debited to X)				
	X A/c	Dr.		42,000	
	To Bank A/c				42,000
	(Being X's acceptance, which was discounted dishonoured due to X's bankruptcy)				
	Bank A/c	Dr.		14,000	
	Bad debts A/c	Dr.		14,000	
	To X A/c				28,000

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Depreciation

Q. M/s. Green Channel purchased a second-hand machine on 1st January, 20X0 for ₹1,60,000. Overhauling and erection charges amounted to ₹40,000. Another machine was purchased for ₹80,000 on 1st July, 20X0.

On 1st July, 20X2, the machine installed on 1st January, 20X0 was sold for ₹1,00,000. Another machine amounted to ₹30,000 was purchased and was installed on 30th September, 20X2.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 20X3 it decided to adopt WDV method and to charge depreciation @ 15% p.a.

You are required to prepare Machinery account for the years 20X0 to 20X3.

(Nov. 2018 RTP, Nov. 2019 RTP, Nov. 2020 RTP, Nov.2004 (M), May 2022 RTP, Jan. 2025 RTP)

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Ans.

In the books of M/s. Green Channel Co.

Dr. **Machinery Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
1.1.20X0	To Bank A/c	1,60,000	31.12.20X0	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000			
			31.12.20X0	By Balance c/d (₹1,80,000 + ₹76,000)	2,56,000
1.7.20X0	To Bank A/c	80,000			
		2,80,000			**2,80,000**
1.1.20X1	To Balance b/d	2,56,000	31.12.20X1	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.20X1	By Balance c/d (₹1,60,000 + ₹68,000)	2,28,000
		2,56,000			**2,56,000**
1.1.20X2	To Balance b/d	2,28,000	1.7.20X2	By Bank A/c	1,00,000
30.9.20X2	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.20X2	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			**2,58,000**
1.1.20X3	To Balance b/d	89,250	31.12.20X3	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d	75,862.5
				(₹51,000 + ₹ 24,862.5)	
		89,250			**89,250**

Working Notes:

Book Value of machines (Straight line method)

Particulars	Machine I (₹)	Machine II (₹)	Machine III (₹)
Cost	2,00,000	80,000	30,000
Less: Depreciation for 20X0	20,000	4,000	
Written down value as on 31.12.20X0	1,80,000	76,000	
Less: Depreciation for 20X1	20,000	8,000	
Written down value as on 31.12.20X1	1,60,000	68,000	
Less: Depreciation for 20X2	10,000	8,000	750
Written down value as on 31.12.20X2	1,50,000	60,000	29,250
Less: Sale proceeds	1,00,000		
Loss on sale	**50,000**		

Q. A firm purchased second hand machinery on 1st January, 20X0 for ₹3,00,000, subsequent to which ₹60,000 and ₹40,000 were spent on its repairs and installation, respectively. On 1st July, 20X1 another machinery was purchased for ₹2,60,000. On 1st July, 20X2, the first machinery having become outdated was auctioned for ₹3,20,000 and on the same date, another machinery was purchased for ₹2,50,000. On 1st July, 20X3, the second machinery was also sold off and it fetched ₹2,30,000.
Depreciation was provided on machinery @ 10% on the original cost annually on 31st December, under the straight-line method.
Required:
Prepare the following accounts in the books of the company:
(i) Machinery Account for the years ending Dec. 31 20X0 to 20X3 and
(ii) Machinery Disposal Account. **(ICAI SM)**

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Ans.

Dr. **Machinery Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.20X0	To Bank A/c (A) – Cost	3,00,000	31.12.20X0	By Depreciation (A)	40,000
	- Repairs	60,000		By Balance c/d (A)	3,60,000
	- Installation	40,000			
		4,00,000			**4,00,000**
01.01.20X1	To Balance b/d	3,60,000	31.12.20X1	By Depreciation (A) 40,000 (B) 13,000	53,000
01.07.20X1	To Bank A/c (B)	2,60,000		By Balance c/d (A) 3,20,000 (B) 2,47,000	5,67,000
		6,20,000			**6,20,000**
01.01.20X2	To Balance b/d	5,67,000	01.07.2022	By Machinery Disposal A/c (A)	3,00,000
01.07.20X2	To Bank A/c (C)	2,50,000		By Depreciation A/c (A) 20,000 (B) 26,000 (C) 12,500	58,500
				By Balance c/d (B) 2,21,000 (C) 2,37,500	4,58,500
		8,17,000			**8,17,000**
01.01.20X3	To Balance b/d	4,58,500	01.07.20X3	By Machinery Disposal A/c (B)	2,08,000
				By Depreciation A/c	
				(B) 13,000 (C) 25,000	38,000
				By Balance c/d	2,12,500
		4,58,500			**4,58,500**

Machinery Disposal Account

Date	Particulars	(₹)	Date	Particulars	(₹)
01.07.20X2	To Machinery A/c (A)	3,00,000	01.07.20X2	By Bank A/c	3,20,000
	To Profit Loss A/c (Profit)	20,000			
		3,20,000			**3,20,000**
01.07.20X3	To Machinery A/c (B)	2,08,000	01.07.20X3	By Bank A/c	2,30,000
	To P & L A/c (Profit)	22,000			
		2,30,000			**2,30,000**

Snigdha Acharya

Q. Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹35,00,000 on 31st December 20X0. The balance in Revaluation Surplus on that date was ₹3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 20X0.

Evaluate the Impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 20X0 was:

(i) ₹37,00,000

(ii) ₹33,00,000

(iii) ₹31,00,000

Also, give the journal entries. **(ICAI SM)**

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Ans. (i) Fair Value: - ₹37,00,000

Since this is an upward revaluation and the group had a balance in revaluation surplus (i.e., there was an upward movement earlier), hence this will result in an additional credit of ₹2,00,000 to Revaluation Surplus and hence the total Revaluation Surplus balance (part of other comprehensive income in Equity) Shall increase to ₹5,00,000. The Accounting Journal entry shall be: -

Particulars		(₹)	(₹)
Property, Plant & Equipment A/c	Dr.	2,00,000	
To Revaluation Surplus A/c			2,00,000

(ii) Fair Value: - ₹33,00,000

Since this is a downward revaluation and the group had a balance in revaluation surplus (i.e., there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this Case, there is a reduction in fair value of ₹2,00,000 (35,00,000 – 33,00,000) and hence the entire amount shall be debited to Revaluation Surplus. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) Shall decrease to ₹1,00,000. The Accounting Journal entry shall be: -

Particulars		(₹)	(₹)
Revaluation Surplus A/c	Dr.	2,00,000	
To Property, Plant & Equipment A/c			2,00,000

(iii) Fair Value: - ₹31,00,000

Since this is also a downward revaluation and the group had a balance in revaluation surplus (i.e., there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c., In this case, there is a reduction in fair value of ₹4,00,000 (35,00,000 – 31,00,000) and hence the Revaluation Surplus A/c shall be debited by ₹3,00,000 and the balance ₹1,00,000 shall be debited to Profit & Loss A/c. Hence the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall become Nil, The Accounting Journal entry shall be: -

Particulars		(₹)	(₹)
Revaluation Surplus A/c Profit & Loss A/c	Dr. Dr.	3,00,000 1,00,000	
To Property, Plant & Equipment A/c			4,00,000

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Final Accounts

Q. The following are the balances as at 31st March, 20X0 extracted from the books of Mr. XYZ.

Particulars	(₹)	Particulars	(₹)
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 Expenses	3,350
Provision for discount on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at bank	3,125
Bad debts	1,100	Office Expenses	10,160
		Interest paid on loan	3,000

Additional Information:

(i) Purchases include sales return of ₹2,575 and sales include purchases return of ₹1,725.

(ii) Goods withdrawn by Mr. XYZ for own consumption ₹3,500 included in purchases.

(iii) Wages paid in the month of April for installation of plant and machinery amounting to ₹450 were included in wages account.

(iv) Free samples distributed for publicity costing ₹825.

(v) Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.

(vi) Depreciation is to be provided on plant and machinery @ 15% per annum and on furniture and fittings @ 10% per annum.

(vii) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.20X0 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, 20X0, and a Balance Sheet as on that date. Also show the rectification entries.

(May 2005, May 2018 RTP, Nov. 2019 RTP, Nov. 2021 RTP, May 2024 MTP Series III, ICAI SM)

Ans.

Rectification Entries

S. No.	Particulars		Dr. Amount (₹)	Cr. Amount (₹)
(i)	Returns inward A/c	Dr.	2,575	
	Sales A/c	Dr.	1,725	
	To Purchases A/c			2,575
	To Returns outward A/c			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified.)			
(ii)	Drawings A/c	Dr.	3,500	
	To Purchases A/c			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified.)			
(iii)	Plant and machinery v	Dr.	450	
	To Wages A/c			450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified.)			
(iv)	Advertisement expenses A/c	Dr.	825	
	To Purchases A/c			825
	(Being free samples distributed for publicity out of purchases, now rectified.)			

Trading and Profit and Loss Account of Mr. XYZ
for the year ended 31st March, 20X0

Dr. **Cr.**

	Particulars		Amount (₹)		Particulars		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 (₹80,000×100/80×100/80)		1,25,000
To	Carriage inward		1,125				
To	Wages		11,715				
To	Gross Profit c/d		1,39,535				
			3,36,000				**3,36,000**
To	Salaries		22,550	By	Gross Profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts (5% of ₹1,20,000) 6,000						
	Less: Existing provision (3,200)		2,800				
To	Provision for discount on debtors (2.5% of ₹1,14,000)						
	2,850						

	Less: Existing provision (1,375)	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit (Transferred to capital account)	83,800				
		1,39,985				**1,39,985**

Balance Sheet of Mr. XYZ as on 31st March, 20X0

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	(3,000)	17,000
	1,48,800		Furniture and fittings	10,250	
Less: Drawings	(11,500)	1,37,300	*Less*: Depreciation	(1,025)	9,225
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	(-) Provision for doubtful debts	(6,000)	
			(-) Provision for bad debts	(2,850)	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			**2,67,250**

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Q. From the following particulars extracted from the books of Ganguli, prepare Trading and Profit and Loss Account and Balance Sheet as at 31st March, 20X1 after making the necessary adjustments:

Particulars	(₹)	Particulars	(₹)
Ganguli's Capital Account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.20X0	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.20X0	25,000
Purchases	12,15,500	Furniture as on 1-4-20X0	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-20X0 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

(i) Value of stock as on 31st March, 20X1 is ₹3,93,000. This includes goods returned by customers on 31st March, 20X1 to the value of ₹15,000 for which no entry has been passed in the books.

(ii) Purchases include furniture purchased on 1st January, 20X1 for ₹10,000.

(iii) Depreciation should be provided on furniture at 10% per annum.

(iv) The loan account from Dena bank in the books of Ganguli appears as follows:

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.20X1	To Balance c/d	1,00,000	01.04.20X0	By Balance b/d	50,000
			31.03.20X1	By Bank A/c	50,000
		1,00,000			**1,00,000**

(v) Sundry debtors include ₹20,000 due from Robert and sundry creditors include ₹10,000 due to him.

(vi) Interest paid include ₹3,000 paid to Dena bank.

(vii) Interest received represents ₹1,000 from the sundry debtors and the balance on investments and deposits.

(viii) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(ix) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

(ICAI SM, Nov. 1994, May 2004)

Snigdha Acharya

Ans.

In the books of Ganguli

Trading and Profit & Loss Account for the year ended 31-3-20X1

Particulars		(₹)	Particulars		(₹)
To Opening stock		2,34,000	By Sales	14,48,000	
To Purchases	12,15,500		Less: Returns	(58,000)	13,90,000
Less: Transfer to furniture A/c	(10,000)		By Closing stock		3,93,000
Less: Returns	(29,000)	11,76,500			
To Carriage inwards		93,000			
To Gross profit c/d		2,79,500			
		17,83,000			**17,83,000**
To Salaries		46,500	By Gross profit b/d		2,79,500
To Rent		28,500	By Interest		17,250
To Advertisement		56,000	By Discount received		14,950
To Printing & stationery		17,000			
To Interest		7,500			
To Discount allowed		37,700			
To General expenses		19,600			
To Travelling expenses		11,650			
To Fire insurance premium		3,000			
To Postage & telegrams		4,350			
To Provision for doubtful debts (W.N.I)		4,750			
To Depreciation on furniture		1,150			
To Audit fees		3,500			
To Net Profit (Capital A/c transferred)		70,500			
		3,11,700			**3,11,700**

Balance Sheet as on 31-3-20X1

Liabilities		(₹)	Assets		(₹)
Capital account:			Furniture	9,000	
Balance on 1-4-X0	5,40,500		Additions during the year	10,000	
Add: Net profit	70,500			19,000	
	6,11,000			(1,150)	17,850
Less: Drawings	(50,000)	5,61,000	*Less*: Depreciation		
Loan from Dena Bank Ltd.		1,00,000	Investments		25,000
Insurance accrued on bank loan (W.N.2)		3,000	Deposits		1,50,000
Sundry creditors		64,000	Interest accrued on investment & deposits (W.N.3)		10,000
			Stock in trade		3,93,000
			Sundry debtors	95,000 (4,750)	

			Less: Provision Cash with Traders Bank Ltd. Cash in hand		90,250 40,000 1,900
		7,28,000			**7,28,000**

Working Notes:

(1) Calculation of provision for doubtful debts:

Sundry debtors as per trial balance	1,20,000
Less: Sales returns not recorded	(15,000)
	1,05,000
Less: Cancellation against sundry creditors	(10,000)
Adjusted balance of sundry debtors	95,000
Provision for doubtful debts @ 5%	**4,750**

(2) Accrued interest on bank loan:

Annual interest @12%	6,000
Less: Interest paid to Dena bank	(3,000)
Accrued interest	**3,000**

(3) Interest accrued on investments and deposits:

Annual interest on investments @ 5%	1,250
Annual interest on deposits @ 10%	15,000
	16,250
Less: Interest received on investments and deposits	(6,250)
Accrued interest	**10,000**

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Q. Mr. Mohan gives you the following trial balance and some other information:

Trial Balance as on 31st March, 20X2

Particulars	Debit (₹)	Credit (₹)
Capital		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Inventory	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables & Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,89,000	
Input CGST	10,000	
Input SGST	10,000	
Output CGST		8,000
Output SGST		8,000
Output IGST		6,000
Total	**18,53,000**	**18,53,000**

Other Information:

(i) Closing Inventory was ₹1,80,000.

(ii) Depreciate Furniture @ 10% p.a.

Required:

Prepare Trading and Profit and Loss Account for the year ended on 31.3.20X2 and Balance Sheet of Mr. Mohan as on that date. (ICAI SM)

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Ans.

In the books of Mr. Mohan

Trading Account for the year ended 31st March, 20X2

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Inventory		1,10,000	By Sales	9,70,000	
To Purchases	4,30,000		*Less*: Returns	(20,000)	9,50,000
Less: Returns	(12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross profit		5,62,000			
		11,30,000			**11,30,000**

Profit and Loss Account for the year ended 31st March, 20X2

Particulars	(₹)	Particulars	(₹)
To Depreciation	35,000	By Gross profit	5,62,000
To Salaries	2,10,000	By Discount received	9,000
To Administration expenses	1,50,000		
To Discount allowed	19,000		
To Bad debts	5,000		
To Net profit	1,52,000		
	5,71,000		**5,71,000**

Balance Sheet as at 31st March, 20X2

Liabilities		Amount	Assets		Amount
Capital	6,50,000		Furniture	3,50,000	
Add: Net profit	1,52,000	8,02,000	*Less*: Depreciation	(35,000)	3,15,000
Trade payables		1,90,000	Closing Inventory		1,80,000
Output IGST		2,000	Trade receivables		2,10,000
			Investment in Govt		
			Securities		1,00,000
			Cash in Hand and		
			Cash at Bank		1,89,000
		9,94,000			**9,94,000**

Working Note:

Summary of Output and Input GST liability (as per Trial Balance)

	OUTPUT GST (₹)	INPUT GST (₹)
IGST	6,000	
CGST	8,000	10,000
SGST	8,000	10,000

Output liability (Tax 6head)	Tax Payable	Paid through ITC			Tax paid in cash
		IGST	CGST	SGST	
IGST	6,000		2,000	2,000	2,000
CGST	8,000		8,000		
SGST	8,000			8,000	

In the above solution, it is assumed that balance IGST liability of ₹2,000 (after utilising CGST and SGST) is not paid off in cash.

Alternatively, students may assume that the balance liability of ₹2,000 is paid off in cash. Accordingly, Output IGST liability of ₹2,000 shall not appear under liability side of the balance sheet and amount of cash at bank is reported as ₹1,87,000

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Q. Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.20X0:

Particulars	**(₹)**
Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ ₹0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-contracted @ ₹0.80 per unit manufactured and @ ₹0.40 per unit of Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced – 5,00,000 units	

Required:

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.20X0.

(ICAI SM, Nov. 2019(Modified), June 2024 MTP Series 1)

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Ans.

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 30.6.2020

Particulars		**Units**	**Amount**	**Particulars**	**Units**	**Amount**
To Opening Work- in-Process		10,000	16,000	By Closing Work- in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,700,000					
Add: Purchases	8,20,000 9,90,000					
Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages – WN (1)			4,04,800			
To Direct expenses:						
Hire charges on Machinery – W.N. (3)			3,00,000			
To Indirect expenses:						
Hire charges of Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			**19,20,800**

Working Note:

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

12,000 units @ ₹ 0.40 = ₹ 4,800

₹ 4,04,800

(2) Hire charges on Machinery – 5,00,000 units @ ₹ 0.60 = ₹ 3,00,000

Q. The following is the trial balance of Mr. Pandit for the year ended 31st March, 20X1:

Trial Balance as on 31st March 20X1

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Opening Stock:		Sundry Creditors	50,000
Raw Materials	1,50,000	Purchase Returns	5,000
Finished goods	75,000	Capital	1,00,000
Purchase of Raw Materials	5,00,000	Bills Payable	24,000
Land & Building	1,00,000	Long-Term Loan	2,00,000
Loose tools	30,000	Provision for Bad Doubtful Debts	2,000
Plant & Machinery	30,000	Sales	8,50,000
Investments	25,000	Bank Overdraft	23,000
Cash in Hand	20,000		
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivables	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest paid	7,000		
Discount Allowed	3,000		
Carriage inward	15,000		
Carriage Outward	7,000		
Commission Paid	5,000		
Dividend Paid	4,000		
	12,54,000		**12,54,000**

Additional Information:

(i) Stock at the end of the year ₹1,00,000.

(ii) A provision for doubtful debts at 5% on Sundry Debtors.

(iii) Interest on Capital at 5% p.a.

(iv) Depreciation on building ₹1,000 and ₹3,000 on Machinery to be provided.

(v) Accrued commission ₹12,500.

(vi) Interest has accrued on investment ₹15,000.

(vii) Salary Outstanding ₹2,000.

(viii) Prepaid interest ₹1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 20X1. **(ICAI SM, June 2022)**

Ans.

In the books of Mr. Pandit

Manufacturing Account for the year ended 31st March, 20X1

Particulars		(₹)	Particulars	(₹)
To Opening Stock of Raw Materials		**1,50,000**	By Cost of Manufactured goods transferred to Trading A/c	8,08,000
To Purchase	5,00,000			
Less: Purchase Return	5,000	4,95,000		
To Carriage Inwards		15,000		
To Direct Wages		80,000		
To Power		30,000		
To Coal and fuel		15,000		
To Factory Rent and Rates		20,000		
To Depreciation on Machinery		3,000		
		8,08,000		**8,08,000**

Trading Account for the year ended 31st March, 20X1

Particulars	(₹)	Particulars		(₹)
To Opening Stock of finished goods	75,000	By Sales	8,50,000	
To Cost of goods transferred from Manufacturing A/c	8,08,000	*Less:* Sales Return By Closing Stock	10,000	 8,40,000 1,00,000
To Gross Profit c/d	57,000			
	9,40,000			**9,40,000**

Profit and Loss Account for the year ended 31st March 20X1

Particulars		(₹)	Particulars	(₹)
To Carriage Outward		7,000	By Gross Profit b/d	57,000
To Discount Allowed		3,000	By Accrued Commission	12,500
To Commission Paid		9,000	By Accrued Interest	15,000
To General Expenses		4,000		
To Advertisement		5,000		
To Salaries	20,000			
Add: Outstanding	2,000	22,000		
To Interest Paid	7,000			
Less: Prepaid	(1,500)	5,500		
To Provision for Bad & Doubtful Debts	2,000			
Add: Bad Debts	4,000			
Less: Old Provision for Doubtful Debts	(2,000)	4,000		
To Depreciation on Building		1,000		
To Net Profit c/d		24,000		
		84,500		**84,500**

Balance Sheet as at 31st March, 20X1

Capital and Liabilities		(₹)	Assets		(₹)
Capital	1,00,000		Plant & Machinery	30,000	
Add: Net Profit	24,000		*Less:* Depreciation	(3,000)	27,000
	1,24,000		Land & Building	1,00,000	
Less: Drawings	(20,000)	1,04,000	*Less:* Depreciation	(1,000)	99,000
Bills Payable		24,000	Furniture & Fixtures		15,000
Sundry Creditors		50,000	Investments		25,000
Salary Outstanding		2,000	Closing Stock		1,00,000
Long-Term Loans		2,00,000	Loose Tools		30,000
Bank Overdraft		23,000	Sundry Debtors	40,000	
			Less: Provision for Bad & Doubtful Debts	(2,000)	38,000
			Bills Receivable		15,000
			Accrued Commission		12,500
			Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at Bank		5,000
		4,03,000			**4,03,000**

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NPO

Q. Smith Library Society showed the following position on 31st March, 20X0:

Balance Sheet as on 31st March, 20X0

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

The receipts and payment account for the year ended on 31st March, 20X1 is given below:

Dr. **Receipts and Payment Account** **Cr.**

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

You are required to prepare Income and Expenditure Account for the year ended 31st March, 20X1 and a Balance Sheet as at 31st, March, 20X1 after making the following adjustments:

(i) Membership subscription included ₹10,000 received in advance.

(ii) Provide for outstanding rent ₹4,000 and salaries ₹3,000.

(iii) Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

(iv) 75% of the entrance fees is to be capitalized.

(v) Interest on securities is to be calculated @ 5% per annum including purchases made on 1.10.20X0 for ₹40,000.

(May 2018 RTP, Nov. 2018 MTP, May 2002, ICAI SM, June 2023)

Ans.

Smith Library Society
Income and Expenditure A/c
Dr. **for the year ended 31st March, 20X1** **Dr.**

Expenditure		**(₹)**	**Income**		**(₹)**
To Electric charges		7,200	By Entrance fee (25% of ₹ 30,000)		7,500
To Postage and stationery		5,000	By Membership subscription	2,00,000	
To Telephone charges		5,000	*Less:* Received in advance	(10,000)	1,90,000
To Rent *Add:* Outstanding	88,000 4,000	92,000	By Sale proceeds of old papers		1500
			By Hire of lecture hall		20,000
To Salaries *Add:* Outstanding	66,000 3,000	69,000	By Interest on securities	8,000	
			Add: Accrued interest (WN1)	500	8,500
To Depreciation					
Electrical fittings (1,50,000×0.10)	15,000				
Furniture (50,000×0.10) Books (4,60,000×0.10)	5,000 46,000	66,000	By Deficit - excess of expenditure over income (Balancing figure)		16,700
		2,44,200			**2,44,200**

Balance Sheet of Smith Library Society
as on 31st March, 20X1

Liabilities		**(₹)**	**Assets**		**(₹)**
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees (₹ 30,000 × 0.75)	22,500		*Less:* Depreciation	(15,000)	1,35,000
	8,15,500				
Less: Deficit	(16,700)	7,98,800	Furniture	50,000	
			Less: Depreciation	(5,000)	45,000
Outstanding expenses:					
• Rent	4,000		Books (4,00,000+60,000)	4,60,000	
• Salaries	3,000	7,000	*Less:* Depreciation	(46000)	4,14,000
Membership subscription in advance		10,000	Securities (1,50,000 + 40,000) *Add:* Accrued interest	1,90,000 500	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			**8,15,800**

Working Note:

(1) Interest on securities

Particulars		**(₹)**
Interest @ 5% per annum on ₹ 1,50,000 for full year (₹ 1,50,000×5/100)	7,500	
Interest @ 5% per annum on ₹ 40,000 for half year (₹ 40,000×5/100×1/2)	1,000	8,500
Less: Interest received during the year		(8,000)

Accrued Interest		**500**

Q. From the following data, prepare an income and expenditure account for the year ended 31st December 20X1, and balance sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account

Dr. for the year ended 31st December, 20X1 Cr.

Receipts		**(₹)**	**Payments**	**(₹)**
To Balance b/d			By Salaries (₹7,200 for 20X0)	31,200
Cash in hand	800		By Hospital equipment	17,000
Cash at bank	5,200	6,000	By Furniture purchased	6,000
To Subscriptions:			By Additions to building	50,000
For 20X0		51,00	By Printing and Stationery	2,400
For 20X1		24,500	By Diet expenses	15,600
For 20X2		2,400	By Rent and rates (₹300 for 20X2)	2,000
To Fees from sundry patients		4,800	By Electricity and water charges	2,400
To Government grant:			By Office expenses	2,000
For building		80,000	By Investments	20,000
For maintenance		20,000	By Balance c/d :	
To Donations (not to be capitalized)		8,000	Cash in hand	1,400
To Net collections from benefit show		6,000	Cash at bank	6,800
		1,56,800		**1,56,800**

Additional information:

Particulars	**(₹)**
Value of building under construction as on 31.12.20X1	1,40,000
Value of hospital equipment on 31.12.20X1	51,000
Building fund as on 1.1.20X1	80,000
Subscriptions in arrears as on 31.12.20X0	6,500
Investments in 8% Govt. securities were made on 1st July, 20X1	

(Nov. 2019 RTP, MTP Oct. 2021, Dec. 2023 RTP)

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Ans.

Income and Expenditure A/c

Dr. **for the year ended 31st December, 20X1** **Cr.**

Expenditure	(₹)	Income	(₹)
To Salaries (31,200-7,200)	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Government grants (Maintenance)	20,000
To Rent and rates (2,000-300)	1,700	By fees from sundry patients	4,800
To Printing and stationery	2,400	By Donations	8,000
To Electricity and water charges	2,400	By Benefit shows (Net collections)	6,000
To Office expenses	2,000	By Interest on investments	800
To Surplus (Balancing figure)	16,000		
	64,100		**64,100**

Balance Sheet

as on 31st December, 20X1

Liabilities		(₹)	Assets		(₹)
Capital fund	49,300		Building (Balancing figure)	90,000	
Add: Surplus (₹ 30,000 × 0.75)	16,000	65,300	*Add:* Addition	50,000	1,40,000
Building fund	80,000		Hospital equipment (Balancing figure)	34,000	
Add: Government grant	80,000	1 60,000	Add: Addition	17,000	51,000
Advance subscriptions		2,400	Furniture		6,000
			Investment – 8% Government securities		20,000
			Accrued interest (20,000×8%×6/12)		800
			Outstanding subscriptions (6,500-5,100)		1,400
			Prepaid rent		300
			Cash at bank		6,800
			Cash in hand		1,400
		2,27,700			**2,27,700**

Working Note:

Balance Sheet as on 31st December, 20X0

Liabilities	(₹)	Assets	(₹)
Building fund	80,000	Building	90,000
Outstanding salaries	7,200	Equipment	34,000
Capital fund (Balancing figure)	49,300	Outstanding subscriptions	6,500
		Cash at bank	5,200
		Cash in hand	800
	1,36,500		**1,36,500**

Q. The following was the Receipts and Payments Account of Exe Club for the year ended March 31st, 20X1:

Receipts	(₹)	Payments	(₹)
Cash in hand	100	Groundsmen's fee	750
Balance at bank as per Pass Book:		Moving Machine	1,500
Deposit account	2,230	Rent of ground	250
Current account	600	Cost of teas	250
Bank interest	30	Fares	400
Donations and subscriptions	2,600	Printing and office expenses	280
Receipts from teas	300	Repairs to equipment	500
Contribution to fares	100	Honorarium to secretary	400
Sale of equipments	80	Cash in hand	250
Net proceeds of variety entertainment	780	Balance at bank as per Pass Book:	
Donation for forth coming tournament	1,000	Deposit account Current account	3,090 150
	7,820		**7,820**

You are given the following additional information:

Particulars	1/4/20X0	31/03/20X1
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipments	800	1,750
Interest not yet entered in the Pass book		20
Bonus to groundsmen outstanding		300

For the year ended March 31st, 20X1, the honorarium to the Secretary are to be increased by a total of ₹200.

Prepare the Income and Expenditure Account for period ending 31-03-20X1 and the relevant Balance Sheet. **(ICAI SM, June 2022)**

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Ans.

Income and Expenditure A/c
Dr. **for the year ended 31st March, 20X1** **Cr.**

Expenditure		(₹)	Income		(₹)
To Groundsmen's fee		750	By Donations and Subscriptions		2,550
To Rent of ground		250	**(2,600+100-150)**		
To Fares' expenses	400				
Less: Contribution to fares	(100)	300	By Receipts from teas	300	
			Less: Expenses	(250)	50
To Printing and office expenses	280				
Add: Closing outstanding	80				
Less: Opening outstanding	(100)	260	By Net proceeds of variety entertainment		780
To Repairs to equipment	500				
Add: Closing	260		By Bank interest	30	
Less: Opening	(300)	460	*Add:* Interest due	20	50
To Depreciation on machinery					
Opening balance	800				
Add: Purchases	1,500				
	2,300				
Less: Closing balance	(1,750)				
	550				
Less: Sale	(80)	470			
To Honorarium to Secretary	400				
Add: Outstanding	200	600			
To Bonus to groundsman		300			
To Surplus **(Balancing figure)**		40			
		3,430			**3,430**

Balance Sheet
as on 31st March, 20X1

Liabilities		(₹)	**Assets**		(₹)
Capital fund	3,080		Cash in hand		250
Add: Surplus	40	3,120	Cash in Deposit A/c		3,090
			Subscription due		100
Tournament Fund (Donation)		1,000	Interest due		20
Outstanding expenses:					
Groundman bonus		300			
Printing		80	Machinery and equipment		1,750
Honorarium to secretary **(400 + 200)**		600			
Bank overdraft **(260-150)**		110			
		5,210			**5,210**

Balance Sheet
as on 1st April, 20X0

Liabilities	**(₹)**	**Assets**	**(₹)**
Capital fund **(Balancing figure)**	3,080	Cash in hand	100
Honorarium to secretary	400	Cash in deposit A/c	2,230
		Cash in current A/c **(600-300)**	300
Outstanding printing expenses	100	Subscription due	150
		Machinery	800
	3,580		**3,580**

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Incomplete Records

Q. Mr. Y keeps his books on single entry basis. On 31.3.20X1 his Balance Sheet was as follow:

Liabilities	(₹)	Assets	(₹)
Capital of Mr. Y	4,50,000	Fixed Assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills Payable	1,87,500	Debtors	2,22,000
Expenses Outstanding	67,500	Bills Receivable	90,000
		Prepaid Insurance	3,000
		Cash/Bank Balance	1,20,000
	15,75,000		**15,75,000**

(i) Following are the summary of cash and bank transactions for the year ended 31, March, 20X2:

Cash sales	1,10,70,000
Collections from debtors	22,65,000
Payments to creditors	1,12,60,500
Paid for Bills Payable	12,22,500
Sundry expenses paid	9,31,050
Drawings	3,60,000
Cash and Bank Balance as on 31.12.20X2	1,90,950

(ii) Following further details are furnished:

Gross profit on sales @ 10%	
Bills receivables during the year	6,52,500
Discount allowed to debtors	54,000
Discount received from creditors	42,000
Bills receivables endorsed to creditors	22,500
Annual fire insurance premium paid	63,800
(This amount is to be paid on 1 august every year)	
Depreciate fixed assets @ 10%	

(iii) Balance as on31.3.20X2 are as follow:

Stock in hand	9,75,000
Debtors	2,28,000
Bills Receivable	2,10,000
Bills Payable	2,10,000
Outstanding expenses	7,500

Prepare Trading, Profit and Loss Account for the year ended 31.3.20X2 and the balance sheet on that date.

(May 2007, ICAI SM, May 2013, Nov. 2019, April 2021 MTP, Jan. 2021)

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Ans.

Trading and Profit and Loss Account of Mr. Y for the year 31.3.20X1

Particulars	(₹)	Particulars	(₹)
Opening stock	9,15,000	Sales: Cash 1,10,70,000	
Purchases (W.N.5)	1,27,02,750	Credit (W.N.2) 29,77,500	1,40,47,500
Gross profit	14,04,750	Closing stock	9,75,000
	1,50,22,500		**1,50,22,500**
Expenses (W.N.6)	8,71,050	Gross profit	14,04,750
Discount allowed	54,000	Discount received	42,000
Depreciation	22,500		
Net profit	4,99,200		
	14,46,750		**14,46,750**

Balance Sheet of Mr. Y as on 31st March, 20X1

Liabilities	(₹)	Assets		(₹)
Capital 4,50,000		Fixed assets	2,25,000	
Add: Net profit 4,99,200		*Less*: Depreciation	22,500	2,02,500
Less: Drawings 3,60,000	5,89,200	Bills receivable		2,10,000
Bills payable	2,10,000	Debtors		2,28,000
Creditors	10,02,750	Prepaid insurance		3,000
Outstanding expenses	7,500	Cash on hand/bank		1,90,950
		Stock		9,75,000
	18,09,450			**1,80,9450**

Bills Receivable Account

Particulars	(₹)	Particulars	(₹)
Balance b/f	90,000	Cash (Balancing figure)	5,10,000
Debtors	6,52,500	Creditors (Bills endorsed)	22,500
		Balance c/f	2,10,000
	7,42,500		**7,42,500**

Debtors Account

Particulars	(₹)	Particulars	(₹)
Balance b/f	2,22,000	Cash/Bank	22,65,000
Credit Sales (*Balancing figure*)	29,77,500	Discount allowed	54,000
		Bills receivable	6,52,500
		Balance c/f	2,28,000
	31,99,500		**31,99,500**

Bills Payable Account

Particulars	(₹)	Particulars	(₹)
Bank	12,22,500	Balance b/f	1,87,500
Balance c/f	2,10,000	Creditor (Balancing figure)	12,45,000
	14,32,500		**14,32,500**

Creditors Account

Particulars	(₹)	Particulars	(₹)
Cash/Bank	1,12,60,500	Balance b/f	8,70,000
Discount	42,000	Purchases	1,27,02,750
B/R endorsed	22,500		
B/P	12,45,000		
Balance c/f (*Balancing figure*)	10,02,750		
	1,35,72,750		**1,35,72,750**

Stock Account

Particulars	(₹)	Particulars	(₹)
Balance b/f	9,15,000	Cost of goods sold	1,26,42,750
Purchases (Balancing	1,27,02,750	(₹1,40,47,500 × 90%)	
figure)		Balance c/d	9,75,000
	1,36,17,750		**1,36,17,750**

Expenses for the year ended 31st March, 20X2	**(₹)**
Expenses paid during the year	9,31,050
Add: Outstanding expenses as on 31.3.20X1	7500
	9,38,550
Less: Outstanding expenses as on 1.4.20X0	67,500
	8,71,050
Add: Prepaid Insurance as on 1.4.20X0	3,000
	8,74,050
Less: Prepaid Insurance as on 31.3.20X1 (9,000 x 4/12)	3,000
Expenses shown in the profit and loss account for the year ended 31.3.20X1	**8,71,050**

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Q. The books of account of Ruk Ruk Maan of Mumbai showed the following figures:

	31.3.X1 (₹)	31.3.X2 (₹)
Furnitures & fixtures	2, 60,000	2, 34,000
Stock	2, 45,000	3, 20,000
Debtors	1, 25,000	?
Cash in hand & bank	1, 10,000	?
Creditors	1,35,000	1, 90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	(₹)
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount on debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payments for bill payable	4,30,000
Drawings from domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	2,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate 25 % on sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31st march 20X2 and Balance Sheet as on that date.

(May 2010, May 2019(M), May 2020 RTP)

Snigdha Acharya short09@gmail.com

Ans.

In the books of Ruk Ruk Maan Trading & Profit & Loss Account
for the year ended 31st March, 20X2

	Particulars	(₹)		Particulars	(₹)
To	Opening stock	2,45,000	By	Sales:	
To	Purchases:			Cash	16,20,000
	Cash	6,15,000		Credit (W.N.3)	11,00,000
	Credit (W.N.2)	15,00,000	By	Closing stock	3,20,000
To	Gross profit c/d	6,80,000			
		30,40,000			**30,40,000**
To	Salaries (W.N.5)	2,37,000	By	Gross profit b/d	6,80,000
To	Rent	1,32,000	By	Discount received	32,000
To	Sundry trade expenses	81,000			
To	Discount allowed	20,000			
To	Depreciation on furniture & fixtures	26,000			
To	Net profit	2,16,000			
		7,12,000			**7,12,000**

Balance Sheet
as at 31st March, 20X2

Liabilities		(₹)	Assets	(₹)
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80000		
Outstanding salaries		20000		
		9,02,000		**9,02,000**

Working Notes:

(1) Bills Payable Account

		(₹)			(₹)
To	Cash/Bank	4,30,000	By	Balance b/d	70,000
To	Balance c/d	80,000	By	Trade creditors (Bal. fig.)	4,40,000
		5,10,000			**5,10,000**

(2) Creditors Account

		(₹)			(₹)
To	Cash/Bank	9,73,000	By	Balance b/d	1,35,000
To	Bills payable A/c (W.N.1)	4,40,000	By	Credit purchases (Bal. fig.)	15,00,000
To	Discount received	32,000			
To	Balance c/d	1,90,000			
		16,35,000			**16,35,000**

(3) Calculation of credit sales

			(₹)
Opening stock			2,45,000
Add:	Purchases		
	Cash purchases	6,15,000	

	Credit purchases	15,00,000	21,15,000
			23,60,000
Less:	Closing Stock		3,20,000
Cost of goods sold			20,40,000
Gross profit ratio on sales			25%
Total sales [₹20,40,000 × 100/75]			27,20,000
Less:	Cash sales		16,20,000
Credit sales			**11,00,000**

(4) Debtors Account

		(₹)			(₹)
To	Balance b/d	1,25,000	By	Cash/Bank	10,58,000
To	Credit sales (W.N.3)	11,00,000	By	Discount allowed	20,000
			By	Balance c/d (Bal. fig.)	1,47,000
		12,25,000			**12,25,000**

(5) Salaries

	(₹)
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2009	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2008	19,000
	2,37,000

(6) Cash / Bank Account

		(₹)			(₹)
To	Balance b/d	1,10,000	By	Cash purchases	6,15,000
To	Cash sales	16,20,000	By	Creditors	9,73,000
To	Debtors	10,58,000	By	Bills payable	4,30,000
			By	Drawings	1,20,000
			By	Salaries	2,36,000
			By	Rent	1,32,000
			By	Sundry trade expenses	81,000
			By	Balance c/d	2,01,000
		27,88,000			**27,88,000**

(7) Balance Sheet as at 31st March, 20X1

	(₹)		(₹)
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		**7,40,000**

Q. Mr. Aman keeps his book on single entry basis system. From the following information, prepare Trading and Profit and Loss Account for the year ended 31 march 20X1 and the Balance Sheet on that date:

Assets and liabilities	31.3.20X0 (₹)	31.3.20X1 (₹)
Sundry creditors	30,000	25.000
Outstanding expenses	1,000	500
Fixed assets	23,000	22,000
Stock	16,000	22,500
Cash in hand and at bank	14,000	16,000
Sundry debtors	?	36,000

Following further details are available for the current year:

Particulars	(₹)	Particulars	(₹)
Total receipts from debtors	1,30,000	Cash purchases	2,000
Return inwards	3,000	Fixed assets purchased and	
Bad debts	1,000	paid by bank	1,000
Total sales	1,50,000	Drawings by cheques	6,500
Discount received	1,500	Deposited into bank	10,000
Return outwards	1,000	Withdrawn from bank	18,500
Capital introduced (paid into	15,000	Cash in hand at the end	2,500
bank)		Paid to creditors by cheque	1,20,000
Cheques received from debtors	1,25,000	Expenses paid	20,000

(Nov. 2006, ICAI SM)

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Ans.

Trading and Profit and Loss Account for the year ended on 31st March, 20X1

		(₹)			(₹)
Opening Stock		16,000	Sales:		
Purchases:			Cash	6,500	
Cash	2,000		Credit	1,43,500	
Credit (W.N.3)	1,17,500		*Less*: Returns	3,000	1,47,000
Less: Returns	1,000	1,18,500	Closing Stock		22,500
Gross Profit		51,000			
		1,69,500			**1,69,500**
Expenses	20,000				
Add: O/s at the end	500		Gross profit b/d		35,000
	20,500		Discount received		1,500
Less: O/s at the Beginning	1,000	19,500			
Bad debts		1,000			
Depreciation		2,000			
Net Profit		14,000			
		36,500			**36,500**

Balance Sheet as on 31/03/20X1

Liabilities		(₹)	Assets		(₹)
Capital (W.N.5)	48,500		Fixed Assets	23,000	
Add: Additional Capital	15,000		*Add*: Purchased during the year	1,000	
Add: Net Profit	14,000		*Less*: Depreciation	2,000	22,000
Less: Drawings	6,500	71,000	Stock		22,500
Creditors		25,000	Cash		2,500
Outstanding Exp.		500	Bank		13,500
			Debtors		36,000
		96,500			**96,500**

Bank Account

Particulars	(₹)	Particulars	(₹)
Balance b/d (Bal. Fig.)	9,500	Fixed Assets	1,000
Capital	15,000	Drawings	6,500
Cash (contra)	10,000	Cash (contra)	18,500
Debtors	1,25,000	Creditors	1,20,000
		Balance c/d	13,500
	1,59,500		**1,59,500**

Creditors Account

Particulars	(₹)	Particulars	(₹)
Bank	1,20,000	Balance b/d	30,000
Returns	1,000	Purchase (Bal. Fig.)	1,17,500
Discount received	1,500		
Balance c/d	25,000		
	1,47,500		**1,47,500**

Debtors Account

Balance b/d (Bal. Fig.)	26,500	Cash	5,000
Sales	1,43,500	Bank	1,25,000
		Bad Debts	1,000
		Returns	3,000
		Balance c/d	36,000
	1,70,000		**1,70,000**

Opening Balance Sheet as on 31.3.20X0

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Fixed Assets	23,000
O/s Expenses	1,000	Stock	16,000
Capital (Bal. Fig.)	48,500	Cash	4,500
		Bank (W.N.2)	9,500
		Debtors (W.N.4)	26,500
	79,500		**79,500**

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Issue, Forfeiture and reissue of Shares

Q. Beautiful Co. Ltd issued 30,000 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 the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jaadu as fully paid up at a discount of ₹2 per share.
Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

(ICAI SM, July 2021, Nov. 2019, Dec. 2022(M))

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Ans.

In the books of Beautiful Co. Ltd.

Journal

Date	Particulars	(₹)	(₹)
	Equity Share Capital A/c (1,500 × ₹10) Dr.	15,000	
	Securities Premium A/c (500 × ₹2) Dr.	1,000	
	To Equity Share Allotment A/c (500 × ₹5)		2,500
	To Equity Share Call A/c (1,500 × 4)		6,000
	To Forfeited Shares A/c		7,500
	(Being forfeiture of 1,500 equity shares for non-payment of allotment and call money on 500 shares and for non-payment of call money on 1,000 shares as per Board's Resolution No... dated ...)		
	Bank A/c Dr.	10,000	
	Forfeited Shares A/c Dr.	2,500	
	To Equity Share Capital A/c		12,500
	(Being re-issue of 1250 shares @ ₹8 each as per Board's Resolution No... dated...)		
	Forfeited shares A/c Dr.	3,500	
	To Capital Reserve A/c		3,500
	(Being profit on re-issue transferred to Capital Reserve)		

Balance Sheet of Beautiful Limited as at……

Particulars	Notes No.	(₹)
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	2,99,000
Reserves and Surplus	2	62,500
Total ASSETS		**3,61,500**
Current assets		
Cash and cash equivalents (Bank)		3,61,500
Total		**3,61,500**

Notes to accounts:

S. No.	Particulars	(₹)	(₹)
(1)	**Share Capital**		
	Equity share capital		
	Issued share capital		
	30,000 Equity shares of ₹10 each	3,00,000	
	Subscribed, called up and paid up share capital		
	29,750 Equity shares of ₹10 each	2,97,500	
	Add: Forfeited shares	1,500	2,99,000
(2)	**Reserves and Surplus**		
	Securities Premium	59,000	
	Capital Reserve	3,500	
			62,500

Working Note:

(1) <u>Calculation of amount to be transferred to Capital Reserve</u>

Amount forfeited per share of Ram	₹3	Amount forfeited per share of Shyam	₹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:

Ram share (500 × ₹1)	₹500
Shyam's share (750 × ₹4)	₹3,000
Total	**₹3,500**

(2) Balance of Security Premium

Total Premium amount receivable on allotment	₹60,000
Less: Amount reversed on forfeiture	₹(1,000)
Balance remaining	**₹59,000**

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Q. 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, 20X0. 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, 20X0.

(ii) Allotment to be made on 10th July, 20X0 and a further ₹5 per share (including the premium) to be payable.

(iii) The final call for the balance to be made, and the money received by 31st March, 20X1.

Applications were received for 4,20,000 shares and were dealt with as follows:

(a) Applicants for 20,000 shares received allotment in full;

(b) Applicants for 1,00,000 shares received an allotment of one share for every two applied for and no money was returned to these applicants. The surplus on application being used to reduce the amount due on allotment;

(c) 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

(d) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush Limited.

(May 2020 RTP, May 2018, Jan. 2021 (Modified), May 2024 MTP Series-I)

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Ans.

Journal of Piyush Limited

Date 20X0	Particulars		Dr. (₹)	Cr. (₹)
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹2 per share.)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c (Note 1–Column 4)			2,60,000
	To Equity Share Allotment A/c (Note 1–Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital A/c and excess amount adjusted against allotment and refunded.)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹5 each including premium at ₹2 each as per Board's Resolution No…dated…)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received.)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹5 per share as per Board's Resolution No…dated…)			
20X1 Mar,31	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹5 each received.)			

Working Note:

Calculation for Adjustment and Refund

Cate-gory	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1× ₹2)	Amount Required on Application (2 × ₹2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	4,20,000	1,30,000	8,40,000	2,60,000	4,00,000	1,80,000	6,50,000	2,50,000

Q. Rashmi Limited issued at par 1,00,000 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. Nair who held 10,000 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 1000 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. Nair. **Give journal entries to record these transactions.**

(ICAI SM, June 2022)

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Ans.

Journal Entries

Date	Particulars		L.F	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c	Dr.		2,50,000	
	To Equity Share Application A/c (Money received on applications for 1,00,000 shares @ ₹2.50 per share.)				2,50,000
	Equity Share Application A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Transfer of application money on 1,00,000 shares to share capital.)				
	Equity Share Allotment A/c	Dr.		3,00,000	
	To Equity Share Capital A/c				3,00,000
	(Amount due on the allotment of 1,00,000 shares @ ₹3 per share.)				
	Bank A/c	Dr.		3,00,000	
	To Equity Share Allotment A/c				3,00,000
	(Allotment money received.)				
	Equity Share First Call A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being first call made due on 1,00,000 shares at ₹2 per share.)				
	Bank A/c	Dr.		2,25,000	
	To Equity Share First Call A/c				2,00,000
	To Calls in Advance A/c				25,000
	(Being first call money received along with calls in advance on 10,000 shares at ₹2.50 per share.)				
	Equity Share Final Call A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Being final call made due on 1,00,000 shares at Rs.2.50 each.)				
	Bank A/c	Dr.		2,22,500	
	Calls in Advance A/c	Dr.		25,000	
	Calls in Arrears A/c	Dr.		2,500	
	To Equity Share Final Call A/c				2,50,000
	(Being final call received for 89,000 shares and calls in advance for 10,000 shares adjusted.)				
	Interest on Calls in Advance A/c	Dr.		750	
	To Shareholders A/c				750
	(Being interest made due on calls in advance of ₹25,000 at the rate of 12% p.a.)				
	Shareholders A/c	Dr.		750	
	To Bank A/c				750
	(Being payment of interest made to shareholder.)				
	Shareholders A/c	Dr.		41.67	
	To Interest on Calls in Arrears A/c				41.67
	(Being interest on calls in arrears made due at the rate of 10%.)				
	Bank A/c	Dr.		2,541.67	
	To Calls in Arrears A/c				2,500

	To Shareholders A/c				41.67
	(Being money received from shareholder for calls in arrears and interest thereupon.)				

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Q. Amar Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹2 on application; ₹4 on allotment (including premium); ₹2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation.

(May 2024 MTP Series II)

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Ans.

Entry No.	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c	Dr.		40,000	
	To Equity Share Application A/c				40,000
	(Money received on applications for 20,000 shares @ 8/2 per share)				
2	Equity Share Application A/c	Dr.		40,000	
	To Equity Share Capital A/c				40,000
	(Transfer of application money on 20,000 shares to share capital)				
3	Equity Share Allotment A/c	Dr.		80,000	
	To Equity Share Capital A/c To Securities Premium A/c				60,000 20,000
	(Amount due on the allotment of 20,000 shares @ ₹3 per share and Securities Premium @ ₹1 per share)				
4	Bank A/c	Dr.		80,000	
	To Equity Share Allotment A/c				80,000
	(Allotment money received)				
5	Equity Share First Call A/c	Dr.		40,000	
	To Equity Share Capital A/c				40,000
	(Being first call made due on 20,000 shares at ₹2 per share)				
6	Bank A/c	Dr.		46,000	
	To Equity Share First Call A/c				40,000
	To Calls in Advance A/c				6,000
	(Being first call money received along with calls in advance on 2,000 shares at ₹3 per share)				
7	Equity Share Final Call A/c	Dr.		60,000	
	To Equity Share Capital A/c				60,000
	(Being final call made due on 20,000 shares at ₹3 each)				
8	Bank A/c	Dr.		53,100	
	Calls in Advance A/c	Dr.		6,000	
	Calls in Arrears A/c	Dr.		900	
	To Equity Share Final Call A/c				60,000
	(Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)				
9	Interest on Calls in Advance A/c	Dr.		240	
	To Shareholders A/c				240
	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)				
10	Shareholders A/c	Dr.		240	
	To Bank A/c				240
	(Being payment of interest made to shareholder)				
11	Shareholders A/c	Dr.		15	
	To Interest on Calls in Arrears A/c				15
	(Being interest on calls in arrears made due at the rate of 10%)				

12	Bank A/c	Dr.		615	
	To Calls in Arrears A/c				600
	To Shareholders A/c				15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)				
13	Shareholders A/c	Dr.		10	
	To Interest on Calls in Arrears A/c				10
	(Being interest on calls in arrears made due at the rate of 10%)				
14	Bank A/c	Dr.		310	
	To Calls in Arrears A/c				300
	To Shareholders A/c				10
	(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)				

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹6,000 × 12% × 4/12 = ₹240

Interest on Calls in Arrears = ₹600 × 10% × 3/12 = ₹15

Interest on Calls in Arrears = ₹300 × 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.

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Issue of Debentures

Q. Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

(i) To sundry persons for cash at 90% of nominal value of ₹50,00,000.

(ii) To a vendor for purchase of fixed assets worth ₹20,00,000 and ₹25,00,000 nominal value.

(iii) To the banker as collateral Security for a loan of ₹20,00,000 and ₹25,00,000 nominal value.

You are required to prepare necessary journal entries.

(May 2018 RTP, Oct. 2020 MTP (modified), Nov. 2020 (modified), May 2023 RTP)

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Ans.

In the books of Riya Company Ltd.
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each.)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No… dated…)			
(ii)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor.)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim.)			
(iii)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹ 25,00,000 as collateral security.)			

Note: *No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.*

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Q. 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.

(May 2019 RTP, Nov. 2021 RTP)

Snigdha Acharya short09@gmail.com 918777109118

Ans.

Books of Suvidha Ltd.

Journal

Particulars		**Dr.**	**Cr.**
Machinery A/c	Dr.	1,98,000	
To Hemant Ltd. (Machinery purchased.)			1,98,000
<u>Case (i) When debentures are issued at par</u>:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
<u>Case (ii) When debentures are issued at 10% discount</u>:			
Hemant Ltd.	Dr.	1,98,000	
Discount on Issue of Debentures A/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount.)			
<u>Case (iii) When debentures are issued at 10% premium</u>:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium.)			

Working Note:

(1) <u>Number of debentures issued in case of 10% discount</u>:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90
Debentures to be issued (₹ 1,98,000/90)	**2,200**

(2) <u>Number of debentures issued in case of 10% premium</u>:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	110
Debentures to be issued (₹ 1,98,000/ 110)	**1,800**

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Q. HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 20X0. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 20X0.

Calculate the amount of discount to be written-off from 20X0 to 20X5. (ICAI SM)

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Ans.

Calculation of amount of discount to be written-off

At the year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
20X0	₹ 20,00,000	5	5/15th of ₹ 1,20,000 = ₹ 40,000
20X1	₹ 16,00,000	4	4/15th of ₹ 1,20,000 = ₹ 32,000
20X2	₹ 12,00,000	3	3/15th of ₹ 1,20,000 = ₹ 24,000
20X3	₹ 8,00,000	2	2/15th of ₹ 1,20,000 = ₹ 16,000
20X4	₹ 4,00,000	1	1/15th of ₹ 1,20,000 = ₹ 8,000
	TOTAL	**15**	**₹ 1,20,000**

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Redemption od Preference Shares

Q. The Capital structure of a company consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve out of which ₹5,000, (not free for distribution as dividend) ₹10,000; Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹20,000 shall be retained in general reserve and which should not be utilised. **Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.**

(ICAI SM, March 2021 MTP, May 2020 RTP, Nov. 2021 RTP, Jan. 2021)

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Ans.

In the books of ……….

JOURNAL Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		25,000	
	To Equity Share Capital A/c				25,000
	(Being the issue of 2,500 Equity Shares of ₹10 each at a premium of Re. 1 per share as per Board's Resolution No. dated)				
	General Reserve A/c	Dr.		60,000	
	Profit & Loss A/c	Dr.		10,000	
	Investment Allowance Reserve A/c	Dr.		5,000	
	To Capital Redemption Reserve A/c				75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)				
	8% Redeemable Preference Share Capital A/c	Dr.		1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.		10,000	
	To Preference Shareholders A/c				1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Preference Shareholders A/c	Dr.		1,10,000	
	To Bank A/c				1,10,000
	(Being the amount paid on redemption of preference shares)				
	Profit & Loss A/c	Dr.		10,000	
	To Premium on Redemption of Preference Shares A/c				10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)				

Balance Sheet as at ………[Extracts]

	Particulars		Notes No.	(₹)
	EQUITY AND LIABILITIES:			
(1)	**Shareholders' funds:**			
	(a)	Share capital	1	2,25,000
	(b)	Reserves and Surplus	2	1,02,000
	ASSETS:			
(2)	**Current Assets:**			
	Cash and cash equivalents (98,000 + 25,000 – 1,10,000)			13,000

Notes to Accounts:

	Particulars	(₹)
(1)	**Share Capital**	
	22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up	**2,25,000**
(2)	**Reserves and Surplus**	
	General Reserve	20,000
	Securities Premium	2,000
	Capital Redemption Reserve	75,000
	Investment Allowance Reserve	5,000
		1,02,000

Working Note:

Calculation of number of shares to be issued for redemption of Preference Shares:

Particulars	(₹)
Face Value of shares redeemed	**₹1,00,000**
Less: Profit available for distribution as dividend:	
General Reserve: ₹(80,000-20,000)	**(₹60,000)**
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	**(₹10,000)**
Investment Allowance Reserve: (₹10,000-5,000)	(₹5,000)
	₹25,000

*Therefore, No. of shares to be issued = ₹25,000/₹10 = 2,500 shares.

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Q. The Balance Sheet of XYZ Ltd. as at 31st December, 20X1 following information:

Particulars	(₹)
✓ 50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
✓ 1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
✓ Securities Premium	5,00,000
✓ Capital Redemption Reserve	20,00,000
✓ General Reserve	50,00,000
✓ Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 20X2 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹100 each at ₹110 per share, ₹20 being payable on application, ₹35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 20X2. The money due on allotment were duly received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of **Section 55** of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the Balance Sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1. (ICAI SM, June 2016(M), Nov. 2020, June 2024)

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Ans.

JOURNAL Entries

Particulars		**L.F.**	**(₹)**	**(₹)**
8% Preference Share Final Call A/c	Dr.		15,00,000	
To 8% Preference Share Capital A/c				15,00,000
(For final call made on preference shares @ ₹30 each to make them fully paid up)				
Bank A/c	Dr.		15,00,000	
To 8% Preference Share Final Call A/c				15,00,000
(For receipt of final call money on preference shares)				
Bank A/c	Dr.		10,00,000	
To Equity Share Application A/c				10,00,000
(For receipt of application money on 50,000 equity shares @ ₹20 per share)				
Equity Share Application A/c	Dr.		10,00,000	
To Equity Share Capital A/c				10,00,000
(For capitalization of application money received)				
Equity Share Allotment A/c	Dr.		17,50,000	
To Equity Share Capital A/c				12,50,000
To Securities Premium A/c				5,00,000
(For allotment money due on 50,000 equity shares @ ₹35 per share including a premium of ₹10 per share)				
Bank A/c	Dr.		17,50,000	
To Equity Share Allotment A/c				17,50,000
(For receipt of allotment money on equity shares)				
General Reserve A/c	Dr.		27,50,000	
To Capital Redemption Reserve A/c				27,50,000
(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)				
8% Preference Share Capital A/c	Dr.		50,00,000	
Premium on Redemption of Preference Shares A/c	Dr.		2,50,000	
To Preference Shareholders A/c				52,50,000
(For amount payable to preference shareholders on redemption at 5% premium)				
Preference Shareholders A/c	Dr.		52,50,000	
To Bank A/c				52,50,000
(For amount paid to preference shareholders)				
General Reserve A/c	Dr.		2,50,000	
To Premium on Redemption A/c				2,50,000
(For writing off premium on redemption of preference shares)				

Balance Sheet (extracts):

	Particulars	**Notes No.**	**As at 31.3.20X2 (₹)**	**As at 31.12.20X1 (₹)**
	EQUITY AND LIABILITIES:			
(1)	**Shareholders' funds:**			
	(a) Share capital	**1**	1,22,50,000	1,35,00,000
	(b) Reserves and Surplus	**2**	77,50,000	75,00,000
	ASSETS:			
(2)	**Current Assets:**			
	(a) Cash & Cash Equivalents	**3**	5,00,000	15,00,000

Notes to accounts:

	Particulars	As at 31.3.20X2	As at 31.12.20X1
(1)	**Share Capital:**		
	Issued, Subscribed and Paid up:		
	1,00,000 Equity shares of ₹100 each fully paid up	1,00,00,000	1,00,00,000
	50,000 Equity shares of ₹100 each ₹45 paid up	22,50,000	-
	50,000, 8% Preference shares of ₹100 each, ₹70 called up	-	35,00,000
		1,22,50,000	**1,35,00,000**
(2)	**Reserves and Surplus:**		
	Capital Redemption Reserve	47,50,000	20,00,000
	Securities Premium	10,00,000	5,00,000
	General Reserve	20,00,000	50,00,000
		77,50,000	**75,00,000**
(3)	**Cash & Cash Equivalents:** Bank balance	5,00,000	15,00,000

Note: *Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹22,50,000 (₹10,00,000 application money plus ₹12,50,000 received on allotment towards share capital) will be considered.*

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Q. X Ltd. gives you the following information as at 31st March, 20X3:

	Particulars	(₹)
	EQUITY AND LIABILITIES:	
(1)	**Shareholders' Funds**	
	Share Capital	2,90,000
	Reserves and Surplus	48,000
(2)	**Current liabilities:**	
	Trade Payables	56,500
	ASSETS	
(1)	**Property, Plant and Equipment**	3,45,000
(2)	**Non-current investments**	18,500
(3)	**Current Assets**	
	Cash and Cash Equivalents (Bank)	31,000

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(i) To sell all the investments for ₹15,000.

(ii) To finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.

(iii) To issue minimum equity share of ₹50 each share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the Balance Sheet as on completion of the above transactions. **(ICAI SM, May 2019)**

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Ans.

JOURNAL Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		37,500	
	To Share Application A/c				37,500
	(For application money received on 750 shares @ ₹50 per share)				
	Share Application A/c	Dr.		37,500	
	To Equity Share Capital A/c				37,500
	(For disposition of application money received)				
	Preference Share Capital A/c	Dr.		65,000	
	Premium on Redemption of Preference Shares A/c	Dr.		6,500	
	To Preference Shareholders A/c				71,500
	(For amount payable on redemption of preference shares)				
	Bank A/c	Dr.		15,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.		3,500	
	To Investment A/c				18,500
	(For sale of investments at a loss of ₹3,500)				
	Profit and Loss A/c	Dr.		27,500	
	To Capital Redemption Reserve A/c				27,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., (65,000-37,500=27,500)				
	Preference Shareholders A/c	Dr.		71,500	
	To Bank A/c				71,500
	(For payment of preference shareholders)				
	Profit and Loss A/c	Dr.		6,500	
	To Premium on Redemption of Preference Shares A/c				6,500
	(For writing off premium on redemption out of profits)				

Balance Sheet (after redemption):

		Particulars	Notes No.	(₹)
	EQUITY AND LIABILITIES:			
(1)	**Shareholders' funds:**			
	(a)	Share capital	**1**	2,62,500
	(b)	Reserves and Surplus	**2**	38,000
(2)	**Current liabilities:**			
	(a)	Trade Payables		56,500
		Total		**3,57,000**
	ASSETS:			
(1)	Property, Plant and Equipment			3,45,000
(2)	Current Assets			
	(a)	Cash and cash equivalents (bank)	**3**	12,000
		Total		**3,57,000**

Notes to accounts:

	Particulars	(₹)
(1)	**Share Capital**	
	Equity Share Capital (2,25,000 + 37,500)	2,62,500
(2)	**Reserves and Surplus**	
	Capital Redemption Reserve	27,500
	Profit and Loss Account (48,000 – 6,500 – 3,500 – 27,500)	10,500
		38,000
(3)	**Cash and cash equivalents**	
	Balances with banks (31,000 + 37,500 +15,000 – 71,500)	12,000

Working Note:

	₹
Calculation of Number of Shares:	
Amount payable on redemption	71,500
Less: Sale price of investment	(15,000)
	56,500
***Less*: Available bank balance** (31,000 - 12,000)	(19,000)
Funds from fresh issue	**37,500**
No. of shares = 37,500/50 = 750 shares	

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Redemption of Debenture

Q. Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued – 2,00,000;
face value and issue price - ₹100 per debenture.

(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 – 1.5.20X1, date of allotment – 1.6.20X1. Rate of interest on debenture – 15% payable from the date of allotment, value of equity share for the purpose of conversion – ₹60 (Face Value ₹10).

(iv) Underwriting Commission – 2%.

(v) No. of debentures applied for – 1,50,000.

(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, 20X2 (including cash and bank entries).

(ICAI SM, Nov. 2021 RTP, April 2021 MTP, July 2021, Jan. 2021, Nov. 2013, Nov. 2014)

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Ans.

JOURNAL Entries in the books of Libra Ltd.

JOURNAL Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1.5.20X1	Bank A/c	Dr.		1,50,00,000	
	To Debenture Application A/c				1,50,00,000
	(Application money received on 1,50,000 debentures @ ₹100 each)				
1.6.20X1	Debenture Application A/c	Dr.		1,50,00,000	
	Underwriters A/c	Dr.		50,00,000	
	To 15% Debentures A/c				2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)				
	Underwriting Commission	Dr.		4,00,000	
	To Underwriters A/c				4,00,000
	(Commission payable to underwriters @ 2% on ₹2,00,00,000)				
	Bank A/c	Dr.		46,00,000	
	To Underwriters A/c				46,00,000
	(Amount received from underwriters in settlement of account)				
01.06.20X1	Debenture Redemption Investment A/c	Dr.		12,00,000	
	To Bank A/c				12,00,000
	(200,000 × 100 × 15% × 40%)				
	(Being Investments made for redemption purpose)				
30.9.20X1	Debenture Interest A/c	Dr.		10,00,000	
	To Bank A/c				10,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹2,00,00,000)				
31.10.20X1	15% Debentures A/c	Dr.		1,20,00,000	
	To Equity Share Capital A/c				20,00,000
	To Securities Premium A/c				1,00,00,000
	(Conversion of 60% of debentures into shares of ₹60 each with a face value of ₹10)				
31.3.20X2	Debenture Interest A/c	Dr.		7,50,000	
	To Bank A/c				7,50,000
	(Interest paid on debentures for the half year) (Refer working note below)				

Working Notes:

Calculation of Debenture Interest for the half year ended 31st March, 20X2:

Particulars	(₹)
On ₹80,00,000 for 6 months @ 15%	6,00,000
On ₹1,20,00,000 for 1 months @ 15%	1,50,000
	7,50,000

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Q. XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture–holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹10 each at a price of ₹20 per share and balance in cash. Debenture–holders amounting ₹20,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of ₹20,000 debenture holders.

(ICAI SM, Nov. 2020 RTP, March 2021 MTP, May 2010, May 2011, Nov. 2019)

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Ans.

Particulars	Number of debentures
Debenture holders opted for conversion (20,000/100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40

Redemption value of 40 debentures at a premium of 5% [40 × (100 + 5)] ₹4,200
Equity shares of ₹10 each issued on conversion [₹4,200/₹20] 210 shares

Calculation of cash to be paid:

Particulars	(₹)
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

*Redemption value of 160 debentures (160 × ₹105) *i.e.*, ₹16,800.

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Q. **The Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as at 31st March, 20X1, stood as follows:**

Particulars	Note No.	(₹)
EQUITY AND LIABILITIES		
(i) Shareholders' Funds:		
(a) Share Capital	1	50,00,000
(b) Reserves and Surplus	2	1,10,00,000
(ii) Non-Current liabilities:		
(a) Long-term borrowings	3	1,65,00,000
(iii) Current Liabilities:		
(a) Other current liabilities		1,25,00,000
Total		**4,50,00,000**
ASSETS		
(i) Non-current assets:		
(a) Property, Plant and Equipment		1,60,00,000
(b) Non-current investment	4	15,00,000
(ii) Current assets:		
(a) Cash and Cash equivalents		75,00,000
(b) Other current assets		2,00,00,000
Total		**4,50,00,000**

Notes to Accounts:

Particulars		(₹)
1. Share Capital:		
5,00,000 shares of ₹10 each fully paid		**50,00,000**
2. Reserve and Surplus:		
General Reserve	90,00,000	
Profit & Loss Account	10,00,000	
Debenture redemption reserve	10,00,000	**1,10,00,000**
3. Long term borrowings:		
13.5% convertible Debentures (1,00,000 debentures of ₹100 each)		1,00,00,000
Other loans		65,00,000
		1,65,00,000
4. Non-current investments:		
Debentures Redemption Reserve		**15,00,000**

The debentures are due for redemption on 1st July, 20X1. 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 holdings into equity shares at a predetermined price of ₹15.75 per share and the payment in cash.

Assuming that:

(i) Except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) The investments were realised at par on sale.

(iii) All the transactions are put through, without any lag, on 1st July, 20X1.

Redraft the Balance Sheet of the company as on 1st July, 20X1 after giving effect to the redemption. Show your calculations in respect of the number of equities shares to be allotted and the necessary cash payment. **(Nov. 2013, Nov. 2009)**

Ans.

Convertible Limited
Balance Sheet as at July 1, 20X1

Particulars	Note No	Figures as at the end of current reporting period (₹)
EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	60,00,000
(b) Reserves and Surplus	2	1,10,75,000
(2) Non-Current Liabilities:		
(a) Long-term borrowings- Unsecured Loans		65,00,000
(3) Current Liabilities:		
(a) Other liabilities		1,25,00,000
Total		**3,60,75,000**
ASSETS:		
(1) Non-Current assets:		
(a) Property, Plant & Equipment		1,60,00,000
(2) Current assets:		
(a) Cash and bank balances (Refer WN (iii))		75,000
(b) Other current assets		2,00,00,000
Total		**3,60,75,000**

Notes to Accounts:

Particulars		(₹)
(1) Share Capital:		
6,00,000 Equity Shares (5,00,000 + 1,00,000) of ₹10 each (Refer WN (1))		60,00,000
(2) Reserves and Surplus:		
General Reserve	90,00,000	
Profit & Loss	10,00,000	
Add: Debenture Redemption Reserve transfer	10,00,000	
	1,10,00,000	
Less: Premium on redemption of debentures (1,00,000 debentures × ₹5 per debenture)	(5,00,000)	1,05,00,000
Securities Premium		
(1,00,000 shares × 5.75) (Refer WN (i))		5,75,000
		1,10,75,000

Working Notes:

(1) Calculation of number of shares to be allotted:

Particulars	(₹)
Total number of debentures	1,00,000
Less: Number of debentures for which debenture holders did not opt for conversion	(25,000)
	75,000
20% of 75,000	15,000
Redemption value of 15,000 debentures (15,000 × 105)	**₹15,75,000**

Number of Equity Shares to be allotted:

$= \frac{15,75,000}{15.75}$ = 1,00,000 shares of ₹10 each.

(2) Calculation of cash to be paid:

Particulars	(₹)
Total number of debentures	1,00,000

Less: number of debentures to be converted into equity shares	(15,000)
Balance	85,000
Redemption value of 85,000 debentures (85,000 × ₹105)	**₹89,25,000**

(3) Cash and Bank Balance:

Particulars	(₹)
Balance before redemption	75,00,000
Add: Proceeds of investments sold	15,00,000
	90,00,000
Less: Cash paid to debenture holders	(89,25,000)
	75,000

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Bonus & Right Issue

Q.

(1) Beta Ltd. having share capital of 20,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value. Assuming all the shareholders accepted the rights issue and all money was duly received.

Pass journal entry in the books of the company.

(2) Omega Ltd. offers new shares of ₹100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹200.

You are required to calculate the (a) Ex-right value of a share; (b) Value of a right share.

(May 2021 RTP, Nov. 2020 RTP, May 2020 RTP, Nov. 2021 RTP, ICAI SM)

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Ans.

(1)

In the books of beta ltd.

Particulars	L.F.	(₹)	(₹)
Bank A/c Dr.		25,000	
To Equity share capital A/c			25,000
(For rights share issued at par value in the ratio of 1:8 equity shares due as per Board's Resolution dated)			

Working Note:

Number of Rights shares to be issued- 20,000/8×1= 2,500 shares

(2) Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares×Issue Price) / (Existing No. of shares + No. of right shares) = (₹200× 5 Shares + ₹125 × 1 Share)/ (5+1) Shares = ₹1,125 / 6 shares = ₹187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹200 – ₹187.50 = ₹12.50 per share.

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Q. Following items appear in Trial Balance of Bharat Ltd. (a listed company) as on 31st March, 20X1:

Particulars	**(₹)**
40,000 Equity shares of ₹10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus *i.e.*, credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. **Pass necessary journal entries.** **(ICAI SM, May 2014)**

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Ans.

JOURNAL Entries in the books of Bharat Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilizing various reserves as per Board's resolution dated)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalization of profit)			

Working Note:

Number of Bonus shares to be issued- (40,000 shares / 4) × 1 = 10,000 shares
Value of Bonus shares- 10,000 shares of ₹10 each = ₹1,00,000

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Q. Fitness ltd. is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹40 lakhs and the market value is ₹45 per share. The company offered to its shareholder the right to buy 2 shares at ₹12 each for every 5 shares held.

You are required to calculate:

(i) Theoretical market price per share after the right issue.

(ii) The value of right and

Percentage increase in Share Capital **(Dec. 2015)**

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Ans. (i) Calculation of Theoretical market price per share after the right issue.
Theoretical market

$$\text{Price} = \frac{no.of\ shares\ before\ right\ issue \times market\ price}{no.of\ shares\ outstanding\ before\ right\ issue} + \frac{no.of\ shares\ issued\ as\ right\ issue \times right\ issue\ price}{no.of\ share\ issued\ as\ right\ issue}$$

$$= \frac{4{,}00{,}000 \times 45 + 1{,}60{,}000 \times 12}{4{,}00{,}000 + 1{,}60{,}000} = \frac{1{,}80{,}00{,}000 + 19{,}20{,}000}{5{,}60{,}000} = \frac{1{,}99{,}20{,}000}{5{,}60{,}000} = ₹35.57$$

(ii) The value of rights = market price – theoretical market price

= 45-35.57 = 9.43

(iii) Percentage increase in share capital = $\frac{no.of\ fresh\ share\ issued}{total\ no.of\ shares\ before\ right\ issue} \times 100$

$= \frac{1{,}60{,}000}{4{,}00{,}000} \times 100 = 40\%$

Working note:

(1) No. of share outstanding at beginning
= 40,00,000/10 = 4,00,000 shares

(2) No. of shares issued as right issue
= 4,00,000 × 2/5 = 1,60,000 shares

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Introduction to Partnership Accounts

Q. A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹250,00,000. Total profits of the firm for the year ended 31st March, 20X0 were ₹9,00,00,000. **Calculate share of profits for each partner when:**

(i) Guarantee is given by firm.

(ii) Guarantee is given by A.

(iii) Guarantee is given by A and B equally. **(ICAI SM, Nov. 2022)**

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Ans.

Profit and Loss Appropriation Account

for the year ending on 31st March, 20X0

Particulars	(₹)	Particulars	(₹)
To A's Capital A/c (3/5 of ₹650,00,000)	3,90,00,000	By Profit and Loss, A/c	9,00,00,000
To B's Capital A/c (2/5 of ₹650,00,000)	2,60,00,000		
To C's Capital A/c (1/6 of ₹9,00,00,000			
or ₹25,000,000 whichever is more)	2,50,00,000		
	9,00,00,000		**9,00,00,000**

Case2.When Guarantee is given by A

Profit and Loss Appropriation Account

for the year ending on 31st March, 20X0

Particulars	(₹)	Particulars	(₹)
To A's Capital A/c (3/6 of ₹9,00,00,000) 4,50,00,000		By Profit and Loss, A/c (Net profits)	9,00,00,000
Less: Deficiency			
borne for C (1,00,00,000)	3,50,00,000		
To B's Capital A/c (2/6 of ₹9,00,00,000)	3,00,00,000		
To C's Capital A/c (1/6 of ₹9,00,00,000) 1,50,00,000			
Add: Deficiency			
Recovery from A 1,00,00,000	2,50,00,000		
	9,00,00,000		**9,00,00,000**

Case3. When Guarantee is given by A and B equally

Profit and Loss Appropriation Account

for the year ending on 31st March, 20X0

Particulars		(₹)	Particulars	(₹)
To A's Capital A/c			By Profit and Loss,	9,00,00,000
(3/6 of ₹9,00,00,000)	4,50,00,000		A/c (Net profits)	
Less: Deficiency borne				
for C (1/2 of ₹1,00,00,000)	(50,00,000)	4,00,00,000		
To B's Capital A/c				
(2/6 of ₹9,00,00,000)	3,00,00,000			
Less: Deficiency borne	(50,00,000)	2,50,00,000		
for C (1/2 of ₹1,00,00,000)				
To C's Capital A/c	1,50,00,000			
(1/6 of ₹9,00,00,000)				
Less: Deficiency				
Recovery from A	50,00,000			
Less: Deficiency				
Recovery from B	50,00,000	2,50,00,000		
		9,00,00,000		**9,00,00,000**

Q. A and B are partners sharing profits and losses in the ratio of their effective capital. They had ₹1,00,000 and ₹60,000 respectively in their Capital Accounts as on 1st January, 20X0. A introduced a further capital of ₹10,000 on 1st April, 20X0 and another ₹5,000 on 1st July, 20X0. On 30th September, 20X0 A withdrew ₹40,000.
On 1st July, 20X0, B introduced further capital of ₹30,000. The partners drew the following amounts in anticipation of profit. A drew ₹1,000 per month at the end of each month beginning from January, 20X0. B drew ₹1,000 on 30th June, and ₹5,000 on 30th September, 20X0.
12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing is 31.12.20X0.
Calculate:
(i) Profit-sharing ratio; (ii) Interest on capital; and (iii) Interest on drawings.

(ICAI SM)

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Ans. (i) Calculation of Effective Capital
For A:

Capital (₹)	Months for which capital has been used in the business	Product (₹)
1,00,000	3	3,00,000
1,10,000	3	3,30,000
1,15,000	3	3,45,000
75,000	3	2,25,000
Total		**12,00,000**

For B:

Capital (₹)	Months for which capital has been used in the business	Product (₹)
60,000	6	3,60,000
90,000	6	5,40,000
Total		**9,00,000**

So, Profit sharing ratio between A and B = 12,00,000:9,00,000 = **4:3**

(ii) Calculation of Interest on Capital

A = ₹12,00,000 × 12/100 × 1/12 = ₹12,000
B = ₹9,00,000 × 12/100 × 1/12 = ₹9,000

(iii) Calculation of Interest on Drawings

A = ₹12,000 × 10/100 × 5.5/12 = ₹550
B = ₹1,000 × 10/100 × 6/12 = ₹50
= ₹5,000 × 10/100 × 3/12 = ₹125

Case1.When Guarantee is given by firm

Profit and Loss Appropriation Account
for the year ending on 31st March, 20X0

Particulars	(₹)	Particulars	(₹)
To A's Capital A/c (3/5 of ₹650,00,000)	3,90,00,000	By Profit and Loss, A/c	9,00,00,000
To B's Capital A/c (2/5 of ₹650,00,000)	2,60,00,000		
To C's Capital A/c (1/6 of ₹9,00,00,000			
or ₹25,000,000 whichever is more)	2,50,00,000		
	9,00,00,000		**9,00,00,000**

Case2.When Guarantee is given by A

Profit and Loss Appropriation Account
for the year ending on 31st March, 20X0

Particulars		(₹)	Particulars	(₹)
To A's Capital A/c (3/6 of ₹9,00,00,000)	4,50,00,000		By Profit and Loss, A/c (Net profits)	9,00,00,000
Less: Deficiency				
borne for C	(1,00,00,000)	3,50,00,000		
To B's Capital A/c (2/6 of ₹9,00,00,000)		3,00,00,000		
To C's Capital A/c (1/6 of ₹9,00,00,000)	1,50,00,000			
Add: Deficiency				
Recovery from A	1,00,00,000	2,50,00,000		
		9,00,00,000		**9,00,00,000**

Case3. When Guarantee is given by A and B equally

Profit and Loss Appropriation Account
for the year ending on 31st March, 20X0

Particulars		(₹)	Particulars	(₹)
To A's Capital A/c			By Profit and Loss, A/c (Net profits)	9,00,00,000
(3/6 of ₹9,00,00,000)	4,50,00,000			
Less: Deficiency borne				
for C (1/2 of ₹1,00,00,000)	(50,00,000)	4,00,00,000		

To B's Capital A/c				
(2/6 of ₹9,00,00,000)	3,00,00,000			
Less: Deficiency borne	(50,00,000)	2,50,00,000		
for C (1/2 of ₹1,00,00,000)				
To C's Capital A/c	1,50,00,000			
(1/6 of ₹9,00,00,000)				
Less: Deficiency				
Recovery from A	50,00,000			
Less: Deficiency				
Recovery from B	50,00,000	2,50,00,000		
		9,00,00,000		**9,00,00,000**

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Admission of A new Partner

Q. Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2. Their Balance Sheet as on 31st March, 20X0 was as follows:

Liabilities	(₹)	Assets	(₹)
Capitals:		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, 20X0 on the following terms:

(i) He shall bring ₹1,50,000 as capital and goodwill.

(ii) He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.

(iii) Goodwill of the firm to be valued at ₹2,50,000. It was agreed that goodwill shall not appear in the books of accounts.

(iv) Land & Building is to be appreciated by 50% and inventory is revalued at ₹60,000

(v) 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.

(vi) Furniture to be reduced to ₹40,000.

(vii) After admission of Damu, Capitals of the partners are to be adjusted in their new profit sharing ratio, taking Damu's Capital as base.

You are required to prepare:

(i) Revaluation Account,

(ii) Partners' Capital Accounts

(iii) Cash and Bank Account

(iv) Balance Sheet after admission

(May 2021 RTP, May 2004, May 2024 MTP Series 2, June 2024, Sept. 2024 (M), Sept. 2024 MTP Series 2)

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Ans.

In the books of Ramu, Mamu and Damu

Revaluation A/c

Particulars	(₹)	Particulars	(₹)
To Machinery	36,000	By Building	75,000
To Bad debts	2,800		
To Reserve for Bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit on revaluation			
Ramu 15,000			
Mamu 10,000	25,000		
	75,000		**75,000**

Partner's Capital A/c s

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
To Ramu, Mamu			50,000	By Balance b/d	2,10,000	1,90,000	
To Bank (b/f)	36,000	99,000		By Bank			1,50,000
To balance c/d	2,50,000	1,50,000	1,00,000	By Damu	25,000	25,000	
(Working note)				By General reserve	36,000	24,000	
				By revaluation	15,000	10,000	
	2,86,000	**2,49,000**	**80,000**		**2,86,000**	**2,49,000**	**1,50,000**

Bank A/c

Particulars	(₹)	Particulars	(₹)
To balance c/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, 20X0 (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 40,000	
Loan from HDFC bank	25,000	Reserve for Bad debts 2,000	38,000
Trade Payables	21,000	Inventory	60,000
		Bank	39,000
	5,46,000		**5,46,000**

Working Notes:

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 × 1/5	₹ (50,000)
Amount brought in as capital	₹ 1,00,000

- Total capital of the firm based on his share 1,00,000 × 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 Closing capital of Ramu (5/10th Share) = 5,00,000 × 5/10 = 2,50,000
- Closing capital of Mamu (3/10th Share) = 5,00,000 × 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.

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Retirement of a Partner

Q. A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31.3.20X4 was as under:

Liabilities		(₹)	Assets	(₹)
Capital Accounts:			Goodwill	40,000
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry debtors	90,000
Sundry Creditors		40,000	Cash	10,000
		3,40,000		**3,40,000**

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.20X4, the terms of which were as follows:

(i) The Profit and Loss Account for the year ended 31.3.20X4, which showed a net profit of ₹42,000 was to be re-opened. B was to be credited with ₹6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit-sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April, 20X3.

(ii) Goodwill was to be valued at two years' purchase of the average profits of five years. Profits for these five years ending on 31st March were as under:

Date: 31.3.20X0	₹15,000
31.3.20X1	₹23,000
31.3.20X2	₹25,000
31.3.20X3	₹35,000
31.3.20X4	₹42,000

(iii) Fixtures are to be valued at ₹39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(iv) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to eliminate goodwill from Balance Sheet, to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be ₹3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare Capital Accounts of partners, Cash A/c and Balance Sheet of B and C after giving effect to the above arrangements on the retirement of A.

(ICAI SM, May 1998, Nov. 2002)

Ans.

Journal Entries

S. No.	Particulars		Dr. (₹)	Cr. (₹)
(1)	A's Capital Account	Dr.	21,000	
	B's Capital Account	Dr.	14,000	
	C's Capital Account	Dr.	7,000	
	To Profit and loss adjustment Account			42,000
	(Profit written back for making adjustments)			
(2)	Profit and loss adjustment Account	Dr.	6,000	
	To B's Capital Account			6,000
	(Bonus credited to B's capital Account)			
(3)	Profit and loss adjustment Account	Dr.	36,000	
	To A's Capital Account			12,000
	To B's Capital Account			
	To C's Capital Account			
	(Distribution of profits in the new ratio)			
(4)	Goodwill Account (56,000 - 40,000)	Dr.	16,000	
	Fixtures Account	Dr.	9,800	
	To Provision for bad debts Account			1,800
	To A's Capital Account			8,000
	To B's Capital Account			12,000
	To C's Capital Account			4,000
	(Revaluation of assets on A's retirement)			
(5)	B's capital Account	Dr.	44,700	
	C's capital Account	Dr.	14,900	
	To Goodwill Account			56,000
	To Provision for bad debts Account			
	(Written out goodwill and raising provision for bad debts)			
(6)	A's capital Account	Dr.	1,49,000	
	To B's Capital Account			1,49,000
	(Amount payable to A paid by B)			

Partners' Capital Accounts

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To P & L adjustment A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To Goodwill and provision for bad debts A/c	-	44,700	14,900	By P & L adjustment Account	-	6,000	-
To B's Capital A/c	1,49,000	-	-	By P & L adjustment Account	12,000	18,000	6,000
To Cash A/c	-	1,300	-	By Goodwill and fixture A/c	8,000	12,000	4,000
To Balance c/d	-	2,25,000	75,000	By A's capital A/c	-	1,49,000	-
				By Cash A/c			36,900
	1,70,000	**2,85,000**	**96,900**		**1,70,000**	**2,85,000**	**96,900**

Cash Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	10,000	By B's capital A/c	1,300
To C's capital A/c	36,900	By Balance b/d	45,600
	46,900		**46,900**

Balance Sheet of B and C
as on 31st March, 20X4 (after retirement of A)

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Accounts:			Fixtures		39,800
B	2,25,000		Stock		1,70,000
C	75,000	3,00,000	Sundry debtors	90,000	
Sundry creditors		40,000	Less: Provision for bad debts	(5,400)	84,600
			Cash		45,600
		3,40,000			**3,40,000**

Working Notes:

Calculation of goodwill:

(1) Average of last five year's profit

Year ended on	Profit (₹)
31.3.20X0	15,000
31.3.20X1	23,000
31.3.20X2	25,000
31.3.20X3	35,000
31.3.20X4	42,000
	1,40,000
Average Profit (₹1,40,000÷5)	**28,000**

(2) Goodwill at two years' purchase

₹ 28,000 × 2=₹56,000

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Q. M/s X is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The Balance Sheet of the firm as on 30th June 20X0, was as under:

Balance Sheet of M/s. X as on 30.06.20X0

Liabilities	(₹)	Assets	(₹)
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long-term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade Payables	1,93,000	Trade Receivables	1,39,000
	9,57,000		**9,57,000**

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, 20X0. For this purpose, the following adjustments are to be made:

(i) Goodwill of the firm is to be valued at ₹2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(ii) Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹25,000. Trade receivables are considered good only up to 90% of balance sheet figure. Balance be considered bad.

(iii) In the reconstituted firm, the total capital will be ₹3 lakhs, which will be contributed by A, C and D in their new profit-sharing ratio, which is 3:4:3.

(iv) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare Revaluation Account and Partners' Capital Accounts. **(ICAI SM)**

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Ans.

Revaluation Account

20X0	**Particulars**	**(₹)**	**20X0**	**Particulars**		**(₹)**
July 1	To Building	20,000	**July 1**	By Investments		
	To Plant and Machinery	57,000		(25,000 - 22,000)		**3,000**
	To Bad Debts	13,900		By Partners' Capital A/cs		
				(Loss on revaluation)		
				A (3/10)	26,370	
				B (2/10)	17,580	
				C (5/10)	43,950	87,900
		90,900				**90,900**

Partners' Capital Accounts

Particulars	**A (₹)**	**B (₹)**	**C (₹)**	**D (₹)**	**Particulars**	**A (₹)**	**B (₹)**	**C (₹)**	**D (₹)**
To Revaluation A/c	26,370	17,580	43,950	–	By Balance b/d	1,04,000	76,000	1,40,000	-
To B's and C's Capital A/cs	–	–	–	60,000	By D's Capital A/c (W.N.1)	–	40,000	20,000	–
To Investments A/c	–	25,000	–	–	By Bank A/c	12,370	–	3,950	1,50,000
To B's Loan A/c	–	73,420	–	–					
To Balance c/d (W.N. 2)	90,000	-	1,20,000	90,000					
	1,16,370	**1,16,000**	**1,63,950**	**1,50,000**		**1,16,370**	**1,16,000**	**1,63,950**	**1,50,000**

Working Note:

(1) Adjustment of goodwill

Goodwill of the firm is valued at ₹ 2 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: ₹60,000 × 2/3 = 40,000	
C: ₹60,000 ×1/3 = 20,000	**60,000**

(2) Capital of partners in the reconstituted firm:

	(₹)
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000

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Death of a Partner

Q. Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 20X4. The Balance Sheet of Firm as at 31st March 20X4 stood as:

Liabilities	(₹)	Assets		(₹)
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade Receivables	35,000	
Yedhant	75,000	*Less:* Provision for		
Zoya	75,000	doubtful debt	(2,000)	33,000
		Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			**2,82,000**

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at ₹1,75,000.

(ii) Debtors were all good, no provision is required.

(iii) Stock is valued at ₹13,500.

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 20X4, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

20X4 (₹)	20X3 (₹)	20X2 (₹)	20X1 (₹)	20X0 (₹)
25,000	20,000	22,500	35,000	28,750

You are required to Prepare:

(a) Revaluation Account

(b) Capital Accounts of the partners and

(c) Balance sheet of the firm as at 1st July 20X4. **(May 2019, May 2024 MTP Series I)**

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Ans. (i)

Revaluation Account

Particulars	(₹)	Particulars	(₹)
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		**27,000**

(ii)

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Balance b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	**87,500**	**98,125**		**1,12,500**	**87,500**	**98,125**

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

(iii)

Balance Sheet of Firm as on 1.7.20X4

Particulars	(₹)	Particulars	(₹)
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		**3,09,375**

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.20X0	28,750
31.3.20X1	35,000
31.3.20X2	22,500
31.3.20X3	20,000
31.3.20X4	25,000
Total	**1,31,250**
Average profit (₹1,31,250/5)	**26,250**

Goodwill at 1 year purchase = ₹26,250 x 1 = ₹26,250

Zoya's Share of Goodwill = ₹26,250 × 1/3 = ₹8,750 which is contributed by Monika and Yedhant in their gaining ratio.

Monika = ₹8750 × 1/2 = ₹4375

Yedhant = ₹8750 × 1/2 = ₹4375

Dissolution of Partnership Firms and LLPs

Q. A, B, C and D are sharing profits and losses in the ratio 5:5:4:2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 20X1 when their Balance Sheet was as under:

Liabilities	(₹)	Assets	(₹)
Capital: A	90,000	Building	1,20,000
B	90,000	Stock	85,500
C	-	Investments	29,000
D	35,000	Debtors	42,000
General Reserve	24,000	Cash	14,500
Trade creditors	47,000	C	15,000
Bills Payables	20,000		
	3,06,000		**3,06,000**

The following information is given to you:

(i) A cheque for ₹4,300 received from the debtor was not recorded in the books and was misappropriated by C.

(ii) Investments costing ₹5,400 were sold by C at ₹7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of ₹5,400 at ₹8,400. The rest of the creditors were paid off at a discount of 2%.

(iv) The other assets realised as follows:

Building	105% of book value
Stock	₹78,000
Investments	The rest of the investments were sold at a profit of ₹4,800.
Debtors	The rest of the debtors were realized at a discount of 12%.

(v) The bills payable was settled at a discount of ₹400.

(vi) The expenses of dissolution amounted to ₹4,900

(vii) It was found out that realization from C's private assets would only be ₹4,000.

Prepare the necessary Ledger Accounts.

(ICAI SM, Nov. 2020 RTP, Nov. 2010, Nov. 2021 MTP)

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Ans.

Realisation account

Particulars	(₹)	Particulars		(₹)
To Building	1,20,000	By Trade creditors		47,000
To Stock	85,500	By Bills payable		20,000
To Investment	29,000	By Cash		
To Debtors	42,000	Building	1,26,000	
To Cash-creditors paid (W.N.1)	37,828	Stock	78,000	
To Cash- expenses	4 900	Investments (W.N.2)	23,000	
To Cash-bills payable **(₹20,000−₹400)**	19,600	Debtors (W.N.3)	33,176	2,60,176
To Partners' Capital A/cs		By Debtors-unrecorded		4,300
A 171		By Investments- Unrecorded		7,900
B 171				
C 137				
D 69	548			
	3,39,376			**3,39,376**

Cash account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	14,500	By Realisation-creditors paid	37,828
To Realisation – assets realized		By Realisation-bills payable	19,600
Building 1,26,000		By Realisation-expenses	4,900
Stock 78,000		By Capital account	
Investments 23,000		A	90,528
Debtors 33,176	2,60,176	B	90,528
To C's capital A/c	4,000	D	35,292
	2,78,676		**2,78,676**

Partners' Capital Accounts

Particulars	A	B	C	D	Particulars	A	B	C	D
	(₹)	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)	(₹)
To Balance b/d			15,000		By Balance b/d	90,000	90,000	-	35,000
To Debtors-misappropriation			4,300		By General Reserve	7,500	7,500	6,000	3,000
To Investment-misappropriation			7,900		By Realisation Profit	171	171	137	69
To C's capital A/c (W.N.4)	7,143	7,143		2,777	By Cash A/c			4,000	
To Cash A/c/-	90,528	90,528		35,292	By A's capital A/c			7,143	
					By B;s capital A/c			7,143	
					By D's capital A/c			2,777	
	97,671	**97,671**	**27,200**	**38,069**		**97,671**	**97,671**	**27,200**	**38,069**

Working Notes:

(1) Amount paid to creditors

Particulars	**(₹)**
Book value	47,000
Less: Creditors taking over investments	(8,400)
	38,600
Less: Discount @ 2%	(772)
	37,828

(2) Amount received from sale of investments

Particulars	**(₹)**
Book value	29,000
Less: Misappropriated by C	(5,400)
	23,600
Less: Taken over by a creditor	(5,400)
	18,200
Add: Profit on sale of investments	4,800
	23,000

(3) Amount received from debtors

Particulars	**(₹)**
Book value	42,000
Less: Unrecorded receipt	(4,300)
	37,700
Less: Discount @ 12%	(4,524)
	33,176

(4) Deficiency of C

	(₹)
Balance of capital as on 31st March, 2012	15,000
Debtors-misappropriation	4,300
Investment-misappropriation	7,900
	27,200
Less: Realisation Profit	(137)
General reserve	(6,000)
Contribution from private assets	(4,000)
Net deficiency of capital	**17,063**

This deficiency of ₹17,063 in C's capital account will be shared by other partners A, B and D in their capital ratio of 90:90:35.

Accordingly,

A's share of deficiency = [17,063 × (90/215)] = 7,143

B's share of deficiency = [17,063 × (90/215)] = 7,143

D's share of deficiency =*17,063 × (35/215) = 2,777

Q. The following is the Balance Sheet of A, B, C on 31st December, 20X1 when they decided to dissolve the partnership:

Liabilities	(₹)	Assets	(₹)
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		**49,000**

The assets realized the following sums in instalments:

I	₹1,000
II	₹3,000
III	₹3,900
IV	₹6,000
V	₹20,100 (including savings)
	₹34,000

The expenses of realisation were expected to be ₹500 but ultimately amounted to ₹400 only.

Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2 : 2 : 1.

(ICAI SM, May 2024 MTP Series III, Dec. 2023, May 2024 RTP)

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Ans. First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

Statement showing Realization and Distribution of Cash Payments

Particulars	Realization (₹)	Creditors (₹)	Partners' Loan (₹)	Partners' Capitals (₹)
(1) After taking into account cash balance and amount set aside for expenses	1,000	1,000	-	-
(2)	3,000	1,000	2,000	-
(3)	3,900	-	3,000	900
(4) Including saving in expenses	6,000	-	-	6,000
	20,100	-	-	20,100
	34,000	**2,000**	**5,000**	**27,000**

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

(1) Calculation to determine the mode of distribution of ₹900

Particulars	Total (₹)	A (₹)	B (₹)	C (₹)
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining assets prove to be worthless (in their profit-sharing ratio)	(41,100)	(16,440)	(16,440)	(8,220)
	+ 900	– 1,440	+ 1,560	+ 780
Deficiency of A's capital written off against those of B and C in the ratio of their capital, 18,000:9,000 (*Garner* vs. *Murray*)			(960)	(480)
Manner in which the first ₹900 should be distributed			+ 600	+ 300

(2) Distribution of ₹6,000

Balance after making payment ofamount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining asset to be valueless (in their profitsharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	**6,000**	**960**	**3,360**	**1,680**

(3) Distribution of ₹20,100

Particulars	(₹)	(₹)	(₹)	(₹)
Balance after making payment of amount shown in step (2) *Less:* Possible loss, assuming remaining	35,100	14,040	14,040	7,020
assets to be valueless (in their profit-sharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of ₹20,100	20,100	8,040	8,040	4,020
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	**15,000**	**6,000**	**6,000**	**3,000**

Q. The firm of LMS was dissolved on 31.3.20X1, at which date its Balance Sheet stood as follows:

Liabilities	(₹)	Assets	(₹)
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital:			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at ₹1,00,000. No loss is expected on realization since fixed assets include valuable land and building.

Realizations are:

S. No.	Amount (₹)
1	5,00,000 (including cash and bank)
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'.

You are required to prepare a statement showing distribution of cash with necessary workings.

(ICAI SM)

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Ans.

In the Books of M/s LMS

Statement of Piecemeal Distribution (Under Higher Relative Capital method)

Particulars	Amount Available	Creditors	Bank Loan	L's loan	Capital A/cs		
					L	M	S
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Balance due		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
1st Installment (including cash and bank balances)	5,00,000						
Less: Liquidator's Expenses and fee	(1,00,000)						
	4,00,000						
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(4,00,000)	(1,14,286)	(2,85,714)	–	–	–	–
Balance Due	–	85,714	2,14,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Installment	15,00,000						
Less: Payment to Creditors and repayment of bank loan in full settlement	(3,00,000)	(85,714)	(2,14,286)	–	–	–	–
Balance Due	12,00,000	Nil	Nil	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)			(10,00,000)	–	–	–
Balance Due	2,00,000			-	15,00,000	10,00,000	5,00,000
Less: Payment to Mr. L towards relative higher capital (W.N. 1)	(2,00,000)				(2,00,000)	–	–
Balance Due	Nil			Nil	13,00,000	10,00,000	5,00,000
3rd Installment	15,00,000						
Less: Payment to Mr. L towards higher relative capital (W.N. 2)	(3,00,000)				(3,00,000)	–	–
Balance Due	12,00,000				10,00,000	10,00,000	5,00,000
Less: Payment to Mr. L & Mr. M towards excess capital (W.N. 1&2)	(10,00,000)				(5,00,000)	(5,00,000)	–
Balance Due	2,00,000				5,00,000	5,00,000	5,00,000
Less: Payment to all the partners equally	(2,00,000)				(66,667)	(66,667)	(66,666)
Balance due	Nil				4,33,333	4,33,333	4,33,334
4th Installment	30,00,000						
Less: Payment to all the partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Realization profit credited to Partners					5,66,667	5,66,667	5,66,666
5th Installment	30,00,000						
Less: payment to all partners equally	(30,00,000)				10,00,000	10,00,000	10,00,000
Realization profit credited to partners					**15,66,667**	**15,66,667**	**15,66,666**

Working Notes:

(1) Scheme of payment of surplus amount of ₹2,00,000 out of second Installment:

Particulars	Capital A/cs		
	L	M	S
	₹	₹	₹
Balance of capital accounts (A)	15,00,000	10,00,000	5,00,000
Profit sharing ratio	1	1	1
Capital in profit sharing ratio taking S's as base (B)	5,00,000	5,00,000	5,00,000

Excess Capital (C) = (A) – (B)	10,00,000	5,00,000	
Again repeating the process			
Profit-Sharing Ratio	1	1	
Capital in profit sharing ratio taking M's as base			
M's Excess Capital as base (D)	5,00,000	5,00,000	
Higher Relative Excess (C) – (D)	**5,00,000**		

So, Mr. L should get ₹5,00,000 first which will bring down his capital account balance from ₹15,00,000 to ₹10,00,000. Accordingly, surplus amounting to ₹2,00,000 will be paid to Mr. L towards higher relative capital.

(2) Scheme of payment of ₹15,00,000 realized in 3rd Installment:

- Payment of ₹3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M ₹5,00,000 as compared to capital of Mr. S.
- Payment of ₹5,00,000 each of Mr. L & Mr. M to discharge the higher capital.
- Balance ₹2,00,000 equally to L, M and S, i.e., ₹66,667 ₹66,667 and ₹66,666 respectively.

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