CA FOUNDATION

ACCOUNTING (MODULE - 1)

CA Nitin Goel

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PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Foundation exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Foundation students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly examoriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Foundation examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

BOOK FEATURES

This book, especially designed & amended for CA-Foundation aspirants, contains:

- Syllabus coverage strictly as per ICAI study Material
- All ICAI Study Material Questions
- Latest RTP & MTP Questions
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book
- Past Year Exam Questions Covered
- Elaborated Solutions

ABOUT THE AUTHOR

CA Nitin Sir is a highly accomplished individual who has attained significant achievements in the field of chartered accountancy. He has been awarded the prestigious Chartered Accountant designation with All India Ranks (AIR) at all three levels of the CA Exams, including an AIR of 9th in CPT, AIR of 7th in Intermediate, and AIR of 9th in CA Final. In addition, he is a Gold Medalist from Panjab University in Chandigarh, having been the University Topper for all three years of his B.Com degree.

Nitin Sir's academic pursuits also include a Diploma in IFRS from the ACCA Institute of Britain. His practical experience in the field comes from his tenure at ITC Ltd. where he worked for three years, providing him with a practical perspective that he shares with his students.

As an educator, Nitin Sir has made a significant impact on the field of Chartered Accountancy, having taught over 1,00,000 students in the last 10 years. His teaching methodology focuses on building strong conceptual foundations, and he has developed a comprehensive question bank and handwritten summary charts that are popular among CA students. His commitment to his students' success is evident in their consistently high scores, with many of them scoring 90+ marks in his subjects.

One of Nitin Sir's unique contributions to the field of education is his marathon revisionary videos for CA Foundation and CA Inter, which have a cumulative viewership of over 30 lakhs on social media platforms. These videos offer a comprehensive overview of the material, ensuring that students have a thorough understanding of the concepts before sitting for their exams.

Overall, Nitin Sir's achievements and contributions to the field of chartered accountancy are impressive. His academic and practical experience, coupled with his dedication to his students' success, have made him a highly respected and sought-after educator in the field.

PAPER 1: ACCOUNTING (100 MARKS)

Objective

To develop an understanding of the basic concepts and principles of accounting and apply the same in preparing financial statements and simple problem solving.

Contents

1. Theoretical Framework
   i. Meaning and Scope of Accounting.
   ii. Accounting concepts, principles and conventions.
   iii. Capital and revenue expenditure, capital and revenue receipts, contingent assets and contingent liabilities.
   iv. Accounting policies.
   v. Accounting as a measurement discipline – valuation principles, accounting estimates. Accounting Standards - concepts and objectives.

2. Accounting Process
   i. Recording accounting transactions:principles of double entry book-keeping, books of original entry - journal, subsidiary books, cash book, ledger-format, posting from journal and subsidiary books, balancing of accounts.
   ii. Preparation of trial balance.
   iii. Rectification of errors.

3. Bank Reconciliation Statement
Introduction, reasons and preparation of bank reconciliation statement.

4. Inventories
Meaning, basis and technique of inventory valuation, cost of inventory, net realizable value and record system.

5. Depreciation and Amortisation
Tangible and intangible assets-Meaning and difference, concepts, methods of computation and accounting treatment of depreciation / amortisation, change in depreciation method.

6. Bills of exchange and Promissory notes
Meaning of bills of exchange and promissory notes and their accounting treatment; accommodation bills.

7. Preparation of Final accounts of Sole Proprietors
Elements of financial statements, closing adjustment entries, trading account, profit and loss account and balance sheet of manufacturing and non-manufacturing entities.

8. Financial Statements of Not-for-Profit Organizations
Significance and preparation of receipt and payment account, income and expenditure account and balance sheet, difference between profit and loss account and income and expenditure account.

9. Accounts from Incomplete Records (excluding preparation of accounts based on ratios).

10. Partnership and LLP Accounts
    i. Final accounts of partnership firms and LLPs.
    ii. Admission, retirement and death of a partner including treatment of goodwill.
    iii. Dissolution of partnership firms and LLPs including piecemeal distribution of assets.

11. Company Accounts
    i. Definition of shares and debentures.
    ii. Issue of shares and debentures, forfeiture of shares, re-issue of forfeited shares.
    iii. Redemption of preference shares and debentures (excluding purchase and redemption of own debentures and sinking fund method).
    iv. Accounting for bonus issue and right issue.

Dear Student

Welcome to my course and I will ensure that me & my team justify the faith you have placed in us.

Accounting just like any other subject is very important from exam point of view but its importance increases being the 1st paper of CA Foundation exams and practical subject where in you can score wonderful marks.

Each Chapter is divided into two parts i.e. Assignment Questions & Practice Questions. All the assignment questions have been done in the class and practice questions you are supposed to do at home.

My module covers all the questions from ICAI module, RTP/MTPs and Past year exams so that you get everything at one place.

The key mantra to pass the exam is mastering PTC- Presentation-Time-Concept. So while studying make sure that your concepts are thoroughly revised so that it can be well presented in exam in the 3 hour time frame.

Best Wishes!

CA. Nitin Goel

Paper 1: ACCOUNTING

S. No.	Weightage	Chapters
1	5% - 10%	Theoretical Framework • Meaning and Scope of Accounting • Accounting concepts, principles and conventions • Capital & revenue expenditure, receipts. • Contingent assets and Contingent liabilities • Accounting policies • Accounting as a measurement discipline • Accounting Standards - concepts & objectives.
2	30% - 35%	Accounting Process Journal, Ledger, Subsidiary books, Cash Book, Trial balance, Rectification of errors
3		Bank Reconciliation Statement
4		Inventories
5		Depreciation and Amortisation
6		Bills of exchange and Promissory notes
7	20% - 25%	Preparation of Final accounts of Sole Proprietors
8		Financial Statements of Not-for-Profit Organizations
9		Accounts from Incomplete Records
10	15% - 20%	Partnership and LLP Accounts • Final Accounts of partnership firms and LLPs • Treatment of Goodwill • Admission of Partner • Retirement and Death of a partner • Dissolution of Firms and LLPs
11	15% - 25%	Company Accounts • Introduction to Company Accounts • Issue of Shares, forfeiture & re-issue • Issue of Debentures • Accounting for Bonus & Right issue • Redemption of Preference shares • Redemption of Debentures

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		Class Questions	10	11D.3 – 11D.6
		MCQ's & True/False		11D.7 – 11D.8
		Homework Questions	19	11D.9 – 11D.14
11E.	Redemption of Preference Shares	Concept		11E.1 – 11E.5
		Class Questions	12	11E.6 – 11E.9
		MCQ's & True/False		11E.10 – 11E.11
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11F.	Redemption of Debentures	Concept		11F.1 – 11F.2
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		MCQ's & True/False		11F.6
		Homework Questions	10	11F.7 – 11F.9
12.	Accounting Terminology	Concept		12.1 – 12.10
		True/False & Questions		12.11 – 12.13

WEIGHTAGE IN PAST YEAR EXAMS (From May 2018 to Jan 2025)

	MAY 18	NOV 18	MAY 19	NOV 19	NOV 20	JAN 21	JULY 21	DEC 21	JUNE 22	DEC 22	JUNE 23	DEC 23	JUNE 24	SEP 24	JAN 25
Theoretical Framework	4	4	4	4	4	4	4	4	4	4	4	5	4	4	4
Accounting Process	4+10	10	4	5+10	4+5	10	5+5 +10	5+5 +5	4+5	5+10	4	5	4+12 +5	4	4+5
Bank Reconciliation Statement	10	10	10	10	10	4	5	10	5	10	5	8	5	10	10
Inventories	–	–	5	5	10	5	5	4	5	–	5	4	5	5+5	5
Depreciation	–	4	10	4	5	10	4	5	10	4+5	10	5	8	5	10
Bills of Exchange	–	–	5	–	10	–	–	10	–	15	5	10		10	5
Final Accounts of Sole Proprietors	20	5	10	10+5	10+5	5	10+5	15	20	10	–	15	5	10	15
Not for Profit Organisation	–	10	10	10	10	10+10	10	10	10	10	15	12	12	10	10
Accounts from Incomplete Records	–	15	12	10	10	10	10	5	12	10	10	–	8	5	5
Partnership	10	15	10+5	10+ 15+5	10	5+10	10+5	5+10 +5	5+10 +15	5+10	5+20 +5	5+10	8+12	10+10	5+15
Company Accounts	10+5 +10	10+5 +5	10+5 +10	15+ +5+5	10+ +5+12	15+5 +12	15+5 +10	15+5	15+5	15+5	15+5 +5	15	10+15	10+15	5+15
Accounting Terminology	–	–	–	–	–	4	–	4	–	–	4	4	–	–	–

THEORETICAL FRAMEWORK

CH 1

"One second, One minute, One hour, One day, One week, One month, One year and you are one year older. Make full use of your time."

MEANING AND SCOPE OF ACCOUNTING

MEANING OF ACCOUNTING

1) **As per the American Institute of Certified Public Accountants (AICPA) –** Accounting is the art of **recording, classifying and summarizing** in a **significant manner** and in terms of **money, transactions and events** which are in part at least of **financial character**, and **interpreting** the results thereof.
2) Accounting also involves **analyzing** and interpreting financial **transactions** and **communicating** the results to the persons interested in such information.
3) **As per American Accounting Association–** Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of accounts.
4) Accounting is considered as an '**Information System**', as the function of Accounting is to provide **quantitative information**, primarily financial in nature about the business organization.

TRANSACTIONS VS EVENTS, FINANCIAL VS NON- FINANCIAL

1. **Transactions and Events:** In a business or economic scenario.

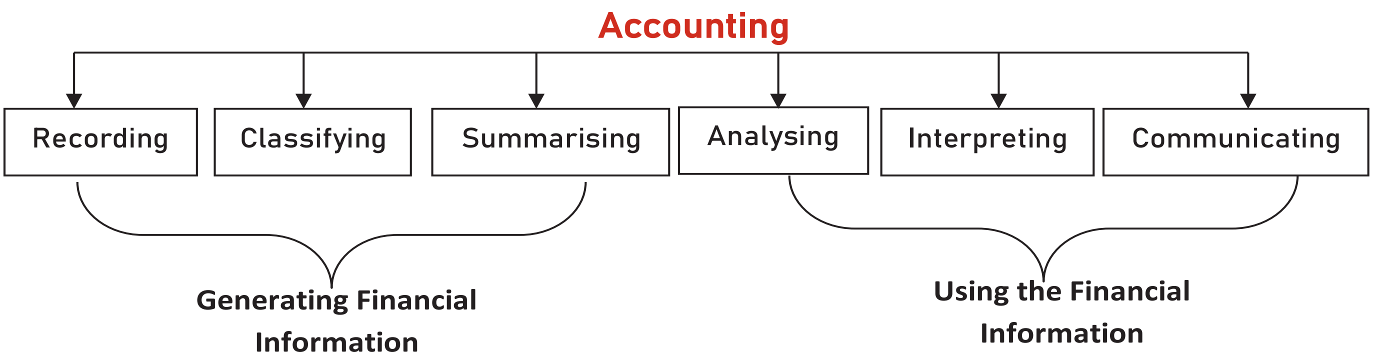
Business Activities

- **Transactions –** Performance of business Activity
  - **Thumb rule:** Human Effort is involved.
  - **For Eg.:** Purchases, Sales, Expenses paid,etc.
- **Events –** Result of Transactions.
  - **Thumb rule:** Human Effort not involved.
    It represents results.
  - **Eg**:Profits/Closing Stock are results of purchases & Sales
- Both Transaction and Event
  - **Thumb rule:** Both Human Effort & results from such effort are involved in a single activity.
  - **Eg.:** Purchase of Fixed Assets on last day of accounting year

2. **Types of Transactions – 2 Types:**

Types	Financial Transaction	Non – Financial Transaction
Meaning	When a business transaction involves a transfer of **money or moneys' worth**, then the transaction is called "Financial Transaction"	When a business transaction does not involve money or money's worth
Example	Purchase and Sale of goods, Payment of Expenses, Purchase of Assets, Goods lost by fire etc.	Quarrel between 2 Managers, Death of an employee etc.
Types	Cash and Credit Transaction	No such classification

ACCOUNTING PROCESS



Processes of Generating Financial Information (3 processes)

1. Recording:

Meaning	All business transactions which are of financial nature (i.e. expressed in terms of money) are recorded in the books of accounts.
Purpose	A businessman cannot keep in his memory all the business activities carried out by 'him. Hence, there is a need for keeping track of such activities in a separate record.
Basis of Recording	All transactions must be evidenced by supporting documents like Sales Invoice, Purchase Bill, Receipts, Pay Slip, etc. (These are called Vouchers)
Relevant A/cs Book	The Books in which primary entry is made is called "Journal", which is further sub—divided into several Subsidiary Books for Sales, Purchases, Cash & Bank, etc. according to the nature and size of the business.
Checkpoint	It is to be noted that Accounts is concerned with only FINANCIAL Transactions. Accounting will not record non—financial transactions in its books.
Example	• Salary paid to Manager will be recorded in the books of accounts. • But, good health of the Manager, even if it is of great use to the business, has no financial character and no economic value, and therefore, will not be considered in Accounting.

2. Classifying:

Meaning	Classifying involves grouping transactions of a similar nature at one place, such that information will be compressed and presented in useable form.
Purpose	While the process of recording ensures that all financial transactions are recorded, one cannot make any observations unless all the transactions are grouped together under different categories.
Basis of Recording	Classification is based on the transactions recorded in the Journal / Subsidiary Books.
Relevant A/cs Book	The book containing the classified information of transactions is called 'Ledger". Each page in the Ledger is called as "Folio". In each folio (Page No.), an individual Account Head and all transactions relating to that Account Head is recorded / posted.
Checkpoint	Ledger can be prepared only after the preparation of Journal / Subsidiary Books
Example	• At recording stage, all transactions are normally recorded chronologically (i.e. date—wise). • Assuming a businessman made 10 sale transactions (out of which 6 are on credit), paid telephone charges. Rent etc., received payments from 3 debtors in a week, it is not possible to ascertain the exact position of each item unless they are grouped as "Sales A/c, Telephone Charges A/c, Rent A/c, Debtors A/c etc."

3. Summarizing:

Meaning	This involves presentation and preparation of the classified information in a manner useful to the internal and external users of Financial Statements.
Accounts Books	It involves preparation of Trial Balance, and Financial Statements there from, viz. (i) Profit and Loss Account (used to find out profits / losses for the business), (ii) Balance Sheet (used to ascertain the financial position), and (ii) Cash Flow Statement (used to determine the factors for increase or decrease in cash & bank balances)
Basis	Summarizing is based on the classified transactions presented in Ledger

Usage of Financial Information (generated through above 3 processes)

4. Analysing:

Meaning	Analysis involves methodical classification of data given in the Financial Statements.
Nature of process	Analysis is concerned with determining the relationship between the items in the Profit and Loss Account and Balance Sheet (i.e. Ratio Analysis). Thus, it provides the basis for interpretation. Further, analysis involves comparing current year figures with the previous year figures
Basis	Financial Statements generated above in summarizing.

5. Interpreting:

Meaning	Drawing observations from the items in the financial statements and also from relationships determined in analyzing process
Purpose	The recorded financial data is analysed and interpreted in the manner that will enable the data users to make a meaningful judgment about the financial condition and profitability of the business operation.

Nature of process	Financial Statements are interpreted to explain what had happened, why it had happened and what is likely to happen under specified conditions.
Basis	Financial Statements generated in summarizing process and relationships determined in Analyzing process.
Example	Assuming the NP ratio for 2023 is 20% on sales, whereas it was 15% in 2022. After analysing different ratios it was interpreted that the profit has increased mainly due to decrease in expenses & not due to increase in sales.

6. Communicating:

Meaning	It is concerned with the transmission of summarised, analysed and interpreted information to the end user to enable them to make rational decisions.
Modes	This is done through preparation and distribution of Accounting Reports, which includes Profit and Loss Account and Balance Sheet, additional information in the form of Accounting Ratios, Graphs, Diagrams, Funds Flow Statement, etc.

EVOLUTION OF ACCOUNTING AS SOCIAL SCIENCE

Accounting finds its roots as early as around 4000 BC, where Egyptians used some form of accounting for their treasuries. The in-charge of treasuries had to send day wise reports to their superiors known as Wazirs and monthly reports were sent to kings. Babylonia, known as the city of commerce, used accounting for business to identify the losses that took place due to frauds and lack of efficiency. Greece used accounting to divide the revenues received among treasuries, maintaining receipts, payments and balance of government financial transactions. Accounting practices in India could be traced back to a period where, Kautilya, a minister in Chandragupta's kingdom wrote a book named Arthashasthra, which also described how accounting records had to be maintained

In its oldest form, accounting aided the stewards to discharge their stewardship function. The wealthy men employed stewards to manage their property; the stewards in turn rendered an account periodically of their stewardship. This ***'Stewardship Accounting' was the root of financial accounting system***.

Social Science study man as a member of society; they concern about social processes and the results and consequences of social relationships. The usefulness of accounting to society as a whole is the fundamental criterion to treat it as a social science.

OBJECTIVES OF ACCOUNTING

1. To have a **systematic record of all business transactions** which are of financial nature.
2. To know the **result of business operations** for a particular period of time. If Revenue / Income exceeds the Expenses, then it is said that the business is running profitably, but if the Expenses exceed the Revenue, then the business is operating at a loss.
3. To know the **financial position of the business**. This will help answer questions like how much Assets and Liabilities that the business has on any date. The Balance sheet is a statement of assets & liabilities of the business at a particular point of time & helps in ascertaining the financial health of business.
4. To **provide information to Users for decision making**. Accounting, as the language of business, communicates the financial result of enterprises, to various Users. Accounting aims to meet the information needs of the decision maker and help them in rational decision making.

5. To know the **solvency position**: Balance sheet also helps to know whether the business is solvent, i.e. ability to meet its liabilities in short run & in long run as and when they fall due.

Objectives of Accounting

Systematic recording of transactions	Ascertainment of results	Ascertainment of financial position	Communicating information to Users
↓	↓	↓	↓
Book-Keeping, i.e. Journal, Ledger and trial Balance	Manufacturing, Trading, Profit & Loss Account	Balance Sheet	Financial Reports

FUNCTIONS OF ACCOUNTING

(CA Foundation Jan 2025) (4 Marks)

Measurement	Accounting measures the performance of the business entity and depicts its current financial position.
Forecasting	Accounting helps in forecasting future performance and financial position of enterprise using past data.
Decision-making	Accounting provides relevant information to the Users of accounts to aid rational decision-making.
Comparison & Evaluation	Accounting assesses performance achieved in relation to targets and discloses information which plays important role in comparing & evaluating financial results.
Control	Accounting identifies weaknesses in the operational system and provides feedback regarding effectiveness of measures to rectify such weaknesses.
Government Regulation & Taxation	Accounting provides necessary information to the Government, to exercise control on the entity as well as in collection of tax revenues.

BOOK-KEEPING – MEANING AND FEATURES

Meaning	It is an activity of recording and classifying the financial data relating to business operations in a significant and orderly manner.
Objective	• Complete recording of transactions. • Ascertainment of financial effect on the business.
Features	• It is art of scientifically recording the transactions. • Recording of transactions is restricted only to that of particular enterprise • The recordings are made in a given set of books.
Advantages	• From Financial Statements, financial information is readily available to Users • Qualitative financial decisions can be taken, since information is reliable • Valuable conclusions can be drawn on comparing books of different years of the same enterprise or comparing books of same period for different enterprises. • Financial accounts of an enterprise are treated as evidence in a Court of Law.

BOOK-KEEPING V/S ACCOUNTING

(CA Foundation Sep 2024) (4 Marks)

Basis	Book-Keeping	Accounting
Scope	It is a process concerned with recording of transactions	It is a process concerned with summarising of the recorded transactions.
Stage	Book-Keeping is the primary stage. It constitutes as the base for accounting.	Accounting is the secondary stage. It constitutes as a language of the business.
Basic Objectives	To maintain systematic records of financial transactions	To ascertain net results of operations and financial position and to communicate information to the interested parties.
Financial position	Financial position of the business cannot be ascertained through book-keeping	Financial position of the business is ascertained based on the accounting reports
Financial Statements	Financial Statements do not form part of this process.	Financial statements are prepared on the basis of book-keeping records.
Managerial decision	Managerial decision cannot be taken with the help of these records.	Management can take decision on the basis of these records.
Sub-fields	There are no-sub fields for Book-Keeping	It has several sub-fields such as Financial Accounting, Management ,etc.

Note: In terms of scope, Book-Keeping < Accounting

SUB FIELDS OF ACCOUNTING

(CA Foundation Dec 2023) (5 Marks)

Financial Accounting	It covers the preparation and interpretation of financial statement (i.e. P&L Account and Balance Sheet) and communication thereof, to the user of accounts. It is historical in nature as it records transactions which has already occurred. It primarily helps in determination of the net result for an accounting period and the financial position as on a given date.
Management Accounting	It is used for internal reporting to the Management of a business unit. The different ways of grouping information and preparing reports as desired by the Managers for discharging their functions and referred to as Management Accounting.
Cost Accounting	It is the process of accounting for cost and determination of overall cost of the product or service. The study of the behavioural pattern of cost will enable to control cost.
Social Responsibility Accounting	It is concerned with accounting for social costs incurred by the enterprise and social benefits created.
Human Resource Accounting	It seeks to identify, qualify and report investments made in human resources of an organization that are not presently accounted under any conventional accounting practice.

USERS OF FINANCIAL INFORMATION

Users	Purpose
Management	For day-to-day decision-making and performance evaluation.
Investors	To analyze performance, profitability and financial position. Note: Prospective investors are interested in the track record of the company
Lenders	They are interested to know whether their loan-principal and interest will be paid back when due
Suppliers	To determine the credit worthiness of the Company.
Customers	To know general business viability before entering into long-term contracts and arrangements
Employees	To know stability, continuity & growth of the enterprises, and its ability to pay remuneration, retirement & Other benefits & to enhance career opportunities.
Government	To ensure prompt collection of Direct and Indirect Tax revenues & to evaluate performance and contribution to social objectives
Public at Large	To see whether the enterprise is making a reasonable/ substantial contribution to local economy, e.g. employment opportunities, patronage of local suppliers

RELATIONSHIP OF ACCOUNTING WITH OTHER DISCIPLINE

Auditing	Auditing process review the Financial Statements, which are the outcome of the accounting process. Thus, Auditor should have a through & sound knowledge of accounting Standards & GAAP of reviewing the Financial statement.
Economics	• Economics uses the database provided by Accounting System, for developing decision-models and for rational decision-making on the use of scarce resources. • Economic Theories have influenced the development of decision-making tools used in accounting. • However, there are differences between the Economists' and Accountants concepts of Income, Capital and Valuation of assets
Law	• Transactions and events are governed by the laws of the land like The Contract Act, Sale of Goods Act, Negotiable Instruments Act and Taxation Laws. • The entity itself is governed by specific status like Partnership Act, Companies Act, Co-operative Societies Act, which have a bearing on maintenance of account books
Mathematics	• Knowledge of arithmetic and algebra is a pre-requisite for accounting computation and measurement, e.g. Depreciation, Use of Interest and annuity tables, lease Rentals, Hire Purchase Installments etc. • Ratios, Graphs & Operation Research Models have been widely used in accounting
Management	Management relies on accounting and other data for effective decision-making. Since an accountant plays an active role in management, he understands the data requirements, so the accounting System can be designed to serve management purpose.

Statistics	In accounting many ratios and financial calculations are based on statistical methods, which help in averaging them over a period of time. Thus, Statistics is helpful in development of accounting data and in their interpretation using Pie-charts, Graphs and Trend Curve Diagram etc

LIMITATIONS OF ACCOUNTING

1. Accounting involves different assumptions and conventions on which it is based. These assumptions, by themselves become a limitation for accounting. **Hence, Accounting is considered only as an art and not as pure science.**
2. There are **different accounting policies** for the treatment of the same item, e.g. Depreciation, Valuation of Stocks, etc. This may not ensure comparability among financial statements of various firms.
3. **Certain accounting estimates** are based on the **personal judgement of the accountant** e.g. provision for doubtful debts, capital vs revenue expenditure, writing off intangible assets, etc. This may lead to the possibility of manipulation.
4. The financial position of the business as depicted by accounts is static and not dynamic i.e. it gives the position on a particular day on which it is prepared and does not predict future position.
5. **Inflation effect** is not considered in the general purpose financial statements i.e. Accounting ignores changes in some money factors
6. The **worth** of an entity may be assessed by various factors but all cannot be measured in terms of money.
7. Accounting **ignores** the real assets which cannot be measured in terms of money, i.e., Employees. There is no generally accepted formula for the valuation of Human Resources in terms of money. Financial statements consider those assets which can be expressed in monetary terms.
8. There are occasions when accounting principles conflict with each other.

ROLE OF ACCOUNTANT IN THE SOCIETY

Areas of Service

Maintenance of Books of Accounts	An accountant is able to maintain a systematic record of financial transactions in order to establish the net result of the transactions entered into during a period and to state the financial position of the concern as at a particular date
Statutory Audit	Every limited company is required to appoint a chartered accountant or a firm of chartered accountants as their auditor who are statutorily required to report each year whether in their opinion the balance sheet shows a true & fair view of the state of affairs on balance sheet date, and Profit & Loss A/c shows a true & fair view of profit or loss for the year.
Internal Audit	Now-a-days internal auditing has developed as a service to management. The internal auditor constructively contributes in improving the operational efficiency of the business through an independent review and appraisal of all business operations.

Taxation	An accountant can handle taxation matters of a business or a person and he can represent that business or person before the tax authorities and settle the tax liability under the statute prevailing. He can also assist in avoiding or reducing tax burden by proper planning of tax affairs.
Management Accounting and Consultancy Services	Accountant provides management consultancy services in the areas of management information system, expenditure control and evaluation of appraisal techniques for new investments and divestments, working capital management, corporate planning etc.
Financial Advice	Some of the areas in which accountant can render financial advice are: ➢ Investments ➢ Business Expansion ➢ Insurance ➢ Investigations ➢ Pension schemes
Other Services	Secretarial Work, Share Registration Work, Company Formation, Receiverships, Liquidations, etc

Chartered Accountant in Industry

He works with the functional departments and translates the organisation's aims in terms of financial expectations.

A qualified accountant will be able to play an important role in performing important functions of a business relating to accounting, costing and budgetary control, estimating and treasury.

Chartered Accountant in Public Sector Enterprises

It is the duty of the accountants to prepare the accounts and reports of these public corporations in such a way that they enable the general public to know how far the items appearing in the various types of records and financial statements justify their existence.

Chartered Accountant in Framing Fiscal Policies

Accountants have a positive role to play in the determination of proper fiscal policies and advancement of trade, commerce and industry. They should develop new techniques and prepare themselves for new fields of service towards their commitment to the concept of the public goods and services.

Chartered Accountant and Economic Growth

In the present times accountants should conceive their duties as broadly as the conditions might require and do not restrict them to only literal compliance of the law. Their aim should be not to allow any individual to gain at the cost of the nation. Accountants have to accept a positive role and do their best to encourage efficiency in individual business units and encourage those social objectives which form the main foundation of a welfare state.

MULTIPLE CHOICE QUESTIONS

1) Which of the following is not a subfield of accounting?
   (a) Management accounting.
   (b) Cost accounting.
   (c) Book-keeping
2) Purposes of an accounting system include all the following except
   (a) Interpret and record the effects of business transaction.
   (b) Classify the effects of transactions to facilitate the preparation of reports.
   (c) Dictate the specific types of business enterprise transactions that the enterprises may engage in.
3) Book-keeping is mainly concerned with
   (a) Recording of financial data.
   (b) Designing the systems in recording, classifying & summarizing the recorded data.
   (c) Interpreting the data for internal and external users.
4) All of the following are functions of Accounting except
   (a) Decision making.
   (b) Ledger posting.
   (c) Forecasting.
5) Financial statements are part of
   (a) Accounting.
   (b) Book-keeping.
   (c) Management Accounting.
6) Financial position of the business is ascertained on the basis of
   (a) Records prepared under book-keeping process.
   (b) Trial balance.
   (c) Balance Sheet
7) Users of accounting information include
   (a) Creditors/Suppliers
   (b) Lenders/ Customers
   (c) Both (a) and (b)
8) Financial statements do not consider
   (a) Assets expressed in monetary terms.
   (b) Liabilities expressed in monetary terms.
   (c) Assets and liabilities expressed in non-monetary terms
9) On January 1, Sohan paid rent of ₹ 5,000. This can be classified as
   (a) An event.
   (b) A transaction.
   (c) A transaction as well as an event.
10) On March 31, 2023 after sale of goods worth ₹ 2,000, he is left with the closing inventory of ₹ 10,000. This is
   (a) An event.
   (b) A transaction.
   (c) A transaction as well as an event.
11) Which of the following is not a business transaction?
   (a) Bought a machine of ₹10,000 for business
   (b) Paid towards salaries of employees ₹ 5,000
   (c) Paid son's fees from her personal bank account ₹ 8,000

12) Which qualitative characteristics of accounting information is reflected when accounting information is clearly presented?
    (a) Understandability
    (b) Relevance
    (c) Comparability

ANSWERS MCQs

1. (c) 2. (c) 3. (a) 4. (b) 5. (a) 6. (c) 7. (c) 8. (c) 9. (b) 10. (a) 11. (c) 12. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) There is no difference between book keeping and accounting, both are same.
2) Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3) Financial accounting is concerned with internal reporting to managers of business unit.
4) Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business *(Jan 2025)*
5) Summarizing is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.
6) Balance sheet shows the position of the business on the day of its preparation and not on the future date.
7) Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.
8) Accounting can be viewed as information system which has its input, processing methods & output.
9) Accounting involves communication.
10) Book keeping and accounting are not synonymous terms, they are different from each other. *(Jan 2025)*

Solution

1) **False:** Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records. Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.
2) **False**: Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3) **False**: Management accounting is concerned with internal reporting to managers of a business unit.
4) **False**: Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods
5) **False**: Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements.
6) **True**: Balance Sheet is a statement of financial position of an enterprise at a given date.
7) **True**: Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

8) **True**: Accounting is a processing system whose input is financial transaction and output is financial statement communicating various information to various interested groups.
9) **True**: Accounting starts only when there is a communication of business transactions to the accounting department. It also communicates the results obtained from arranging of data to interested parties like investors, creditors, employees etc.
10) **True**: Book-keeping and accounting are different from each other. Book-keeping is the recording phase while accounting is concerned with summarizing phase of an accounting system. Book keeping provides necessary data for accounting and accounting starts where book keeping ends.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

	Item	Descriptions
1.	**Accounting Assumptions**	(a) "Assumptions" refers to the Fundamental conditions based on which the entire accounting process is carried out. (b) In accounting there are 3 fundamental Accounting Assumptions. (c) For e.g. when a person started a particular business, we assume that the person started the business for continuing it to earn profits and not for closing it.
2.	**Accounting Principles**	(a) **Accounting Principles** refers to the set of doctrines associated with the theory and procedures of accounting. (b) They serve as an explanation of currently practices and as a **guide** for **selection of conventions or procedures where alternatives exist**. (c) Accounting principles should be- (i) based on real assumptions, (ii) simpler and easily understandable, (iii) consistently followed, (iv) informational to the Users, and (v) able to reflect future predictions.
3.	**Accounting Concepts**	(a) "Concept" means any idea or notion, which has universal application. (b) **Accounting Concepts** are the basic conditions which lay down the foundation for formulating the accounting principles. (c) They are clearly defined and supported by reasoning. Certain concepts are perceived, assumed & accepted in accounting to provide a unifying structure and internal logic to accounting process
4.	**Accounting Conventions**	(a) **Accounting Conventions** are the general procedures emerging out of usage and practice of accounting principles. (b) Conventions may **not** have universal application. (c) Denote circumstances or traditions which guide the accountants while preparing the accounting statements. (d) Further, certain conventions may be changed over a period by Accounting Bodies like ICAI, to improve quality of financial statement. (e) Eg: In India, pedestrians walk on the left side and vehicles go on the right side of the road. This is traditionally accepted practice, and everybody follows it
Concepts Vs Conventions: (a) Concepts are clearly defined & supported by reasoning while conventions may not be clearly defined. (b) Concepts support the principles whereas Conventions may contradict the principles		

Note: Above terms Concepts, Principles & Conventions are sometimes used interchangeably

LIST OF ACCOUNTING ASSUMPTIONS / CONCEPTS / CONVENTIONS

1. **Fundamental Accounting Assumptions: Only 3-** (a) Going concern, (b) Consistency and (c) Accrual. (They are also considered as part of accounting concepts)

2. Accounting Concepts:

1. Business Entity	6. Going Concern
2. Money Measurement	7. Cost
3. Accounting Period/Periodicity	8. Realization
4. Accrual	9. Dual Aspect
5. Matching	10. Consistency

3. **Accounting Conventions:** (a)Consistency (b)Full Disclosure (c)Conservatism (d)Materiality

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

1. Going Concern:

(a) The enterprise is normally viewed as Going Concern, i.e. Continuity in operation for the foreseeable future (endlessly)

(b) It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of reducing substantially its level of operations.

For Example: When we invest in shares of Reliance Company, we normally assume that the Company's operations will be continued. We do not expect the company to be closed.

Exception to Assumption: Joint Venture (Which is created for specific purpose/ period)

(c) Going concern is also considered as one of the accounting concepts.

(d) Based on Going Concern assumption becomes inappropriate (i.e. if the enterprise cannot be taken as a going concern) then assets should be valued at their Net Realizable Value. i.e. if the business is to be closed, then the assets must be valued at Market Values and not at cost.

2. Consistency:

(a) **Meaning:** Accounting principles followed by the entity shall be consistent. i.e., the same over a period of time. Frequent changes in accounting policies will distort comparison.

Example: If one year, a particular payment is treated as expense, then the assumption is that the subsequent years also it shall be treated only as an expense.

(b) **Consistency** is also considered as one of the accounting concepts.

(c) **Exception**: As per Consistency Concept, a change in an accounting policy should be made only-

- If the adoption of a different accounting policy is required by Statute, or
- For compliance with an Accounting Standard, or
- If it is considered that the change would result in a more appropriate presentation of the Financial Statement of the enterprises.

3. Accrual:

(a) Revenue and Costs are "accrued". i.e, recognized as they are earned or incurred and recorded in the financial Statement of the period to which they relate and not when money received or paid.

Example: If a sale for ₹ 10,000 is made on credit to a person in 2022 but the settlement is received in 2023. In this case ₹ 10,000 shall be treated as income in 2022 (in the year of accrual) and not in 2023. (year of receipt)

(b) Accrual is also treated as one of the Accounting Concepts.

Disclosure Requirements

If the above assumptions are followed in preparing accounts	If the above assumptions are not followed
Separate disclosure is not required, since their acceptance and use are assumed	Disclosure is necessary, specifying that the general accounting assumptions are not followed.

ACCOUNTING CONCEPTS & CONVENTIONS

BUSINESS ENTITY

1. **Meaning:** The business enterprise is a separate identity and distinct from that of its Owners or Managers. The Owner of the business and the business as such is treated as two different persons.
2. **Impact of above concept:** All transactions are classified into – (a) Business Transactions, and (b) Personal Transactions. Business transactions are recorded in the books of accounts of the business. Owner's Personal transactions are recorded in his personal book of accounts and not in the books of the business.
3. **Example**:
   (a) Mr. A is an owner of a CA firm "M/s A & Co." The profits arising from M/s A & Co. belong to Mr. A only. However, for accounting purpose, Mr. A is a different person and M/s A & Co. is a different person.
   (b) Accounting will be done only for the transactions in which M/s A & Co. is involved and not for A's personal transactions.

MONEY MEASUREMENT

1. **Meaning:** Accounting data must be quantified so that data can be aggregated and hence summarized; hence, all transactions and events should be measured in terms of money. Transactions are recorded in books of account, in the ruling currency of the country where the books of accounts are prepared.

2. **Common unit:** A common measuring unit in terms of money helps to (a) quantify data, and (b) enable determination of profit/loss and financial position. For Example the Rupee is the common unit of measurement for economic events and transactions in India. It is the legal tender used as the medium of exchange in market transactions.

3. **Criticism of Money Measurement:**
   (a) Value of Money erodes over a period of time. Future Cash Flows have a lower value than the Present Cash Flows. Hence money by itself is not a meaning full measurement base. **Example:** One kg of Onion in 2022 was ₹ 40; But the same one kg of onion in 2023 is ₹ 80. This implies that the real value of money has gone down.
   (b) Exchange value of a currency (e.g. Rupee) in relation to other currency is not constant over a time period. Hence, money does not provide a stable measurement yardstick.
   (c) Many material transactions and events are not recorded in the books of accounts just because they cannot be measured in terms of money. E.g. appointment of new Chairman for the company.

4. **Impact on Accounting:**
   (a) As per Money Measurement Concept, only those transactions which are capable of being measured in terms of money are recorded in the books of accounts, that too in the ruling currency of the country. E.g. in Rupees in India, in Dollars in USA, in Pounds in UK.
   (b) Transactions which are not in monetary terms, even if they affect the results of the business materially, are not recorded in the books of accounts.

Note: Entity & Money Measurement Concepts are basic concepts on which the other procedural concepts depend.

PERIODICITY OR ACCOUNTING PERIOD

1. **Need**: As per the Going Concern Assumption, the enterprise has an indefinite life. However, it is necessary to sub-divide such indefinite period into smaller time units for (a) measurement of performance; (b) understanding the financial position of the enterprise and (c) control over operations. Such smaller and usable time-frame for reporting purpose is called Accounting Period.
2. **Meaning**:
   (a) Hence, during the life-time of an entity, Financial Statement can be prepared in periodic intervals of time. The economic life of an enterprise is split into the periodic interval (being a financial year).
   (b) As per Periodicity Concept, the financial Statements should be prepared after every accounting/ financial period, and not at the end of the life of the entity.
   (c) Generally a period of 12 months (i.e. one year) is considered as the accounting period by most enterprises. In the corporate sector, Interim Financial Reporting is also prevalent. The length is also determined by the statute in certain cases.

   Note: Normally the term "Financial Year" refers to the period for which the accounts are prepared. it is usually taken as the period from 1st April to 31st March of the next year.
3. **Periodically Concept facilitates in-**
   (a) Comparison of financial statements of different periods.
   (b) Uniform and consistent accounting treatment for ascertaining the profit and assets of the business.
   (c) Matching periodic revenue with expenses for getting correct result of the business operations.

ACCRUAL

1. **Meaning:** "Accrual" means recognition of revenue as they are earned and the cost as they are incurred and not when money is received or paid. This concept relates to measurement of income, identifying assets and liabilities.
2. **Method**: Under Accrual Concept, all transactions and events are recognized on mercantile basis, i.e., as they are earned or incurred, and recorded in the financial statement of the period to which they relate, and not when cash is actually received or paid.
3. **As per Accrual Concept, Profits = Revenue Less Expenses**
   (a) **Revenue** = Gross Inflow of Cash, Receivables and other consideration arising in the course of ordinary activities of an enterprise from sale of goods, from rendering services, and from the use by others of enterprise's resources yielding interest, royalties and dividends.
   (b) **Expenses** = Cost relating to the operations of an accounting period, or to the revenue earned during the period, or the benefits of which do not extend beyond that period.

MATCHING

1. **Meaning**:
   (a) The performance of a business entity is measured with reference to a specific accounting period.
   (b) Hence, to determine the profits for a particular period, Revenue earned in that period should be matched with the expenses incurred for earning such revenue.

2. **Impact of Matching Concept**: As per Matching Concept
   Periodic Profit = Periodic Revenue – Matched Expenses
   From the revenue of an accounting period such expenses are deducted which are expended to generate the revenue to determine profit of that period.

3. **Nature of Income / Expenses**

Particular	Income	Expenses
Inclusions	Sales/Service rendered but money not received (Outstanding Income/Accrued Income)	Services received/ purchases made but money not paid (Outstanding Expenses /Sundry Creditors)
Exclusions	Advances received before sale/service is not income (Income received in advance)	Advance paid before purchases made/services received (Prepaid Expenses/Expenses paid in advance)

4. **Impact**: The Accrual Concept, together with Periodicity and Matching concepts, give rise to the recognition of (a) Prepaid Expenses (b) Outstanding Expenses (c) Income Receivable and (d) Income Received in advance.

COST

1. **Meaning**: As per Cost Concept, Value of asset as shown in balance sheet must be its Historical Cost, i.e. Acquisition Cost. This is the conventionally adopted measurement base for valuation of assets.

2. **Significance/Merits:**
   (a) Historical Cost is objective and free from bias.
   (b) Historical cost is easier to ascertain than Current Cost, Present Value etc.
   (c) Historical Cost represents an actual figure/out flow of resources for acquiring the asset and does not reflect a hypothetical or notional figure.

3. **Criticism**: Historical Cost is criticized on the following grounds-
   (a) Historical Cost does not reflect the true value of the assets particularly in an inflationary situation.
   (b) Financial Statement prepared on the basis of cost concept loses comparability.
   (c) Many assets (like Human Resources) do not have acquisition costs. Cost Concept fails to recognize such assets.

Note: Due to the above criticism, other measurement bases like Current Costs, Net Realizable Value, Present Value etc. are suggested.

REALISATION

1. **Meaning**: As per Realisation Concept, An asset is recorded at its Historical Cost and any change in its value should only be recognized when it is realized, i.e. at the time of its actual sale/disposal.
2. **Concept**: It emphasized that there is no certainty of income until a sale has been made and hence increase in value of the assets should not be taken into account unless it is actually realised.
3. **Criticism**: However, Realisation concept is criticized by arguing that if the value of an asset has been permanently changed, Profit or loss arising out of such change be considered to reflect true and fair financial position of the enterprise. Otherwise, accounting will become distorted and meaningless.

4. **Revaluation**: So, fixed assets may be revalued periodically. However, selective revaluation of an asset may lead to unrepresentative or misleading amounts being reported in financial statements. Hence revaluation of assets should be done on a systematic basis. for example, all machineries shall be revalued rather than a single machinery.

> **Fair Value**: Thus, the Realisation Concept is slowly being replaced by the recognition of assets at their fair market value (Fair value accounting concept). However, Accountants follow a more conservative path. They try to cover all probable losses but do not count probable gains.

DUAL ASPECT

1. **Meaning**: The Dual aspect concept is the core of double entry book-keeping
2. **Basis**: As per this concept, every transaction or event has two aspects, which have to be recorded in the books and the amounts of both the aspects are equal.
3. The possible combinations of the effect of each transaction is as under-

1st Aspect	2nd Aspect	Example
Increase in one asset	Decrease in another asset	Purchase of Machine by cash
Increase in asset	Increase in liability	Purchase of Machine on credit
Decrease in asset	Decrease in liability	Payment of Cash to Creditors
Increase in one liability	Decrease in another liability	Creditors paid from bank Overdraft

4. **Significance**: This concept give rise to the accounting equation: "CAPITAL + LIABILITIES + ASSETS". This equation can take many forms and some forms are given below

Equity (i.e. Capital) + Liabilities	=	Assets
Equity + Long term liabilities + Current liabilities	=	Fixed Assets + Current Assets
Equity + Long Term Liabilities	=	Fixed Assets + (Current Assets – Current Liabilities)
Equity + Long Term Liabilities	=	Fixed Assets + Working Capital
Equity	=	Fixed Assets + Working Capital– Long Term Liabilities
Note: Closing Capital = Opening capital (±) Profits/ (Losses) during the year (+) Additional Capital (-) Drawings (+) Interest on capital (-) Interest on drawings		

Note: Capital is otherwise called Equity. Both the sides of equations shall always tally.

FULL DISCLOSURE

1. **Meaning:** As per this concept all the events and transactions which are relevant shall be disclosed in the books of accounts and the financial statement. The events may relate to the current or the subsequent accounting periods.
2. **Purpose**: The users of the financial statements must be aware of all relevant events and transactions to understand real position of the business.
3. **Disclosure**: It means that a statement describing the event/ transaction (including the amount involved) should be added to the financial statements as a note therein. (Disclosure is not same as accounting. Accounting means Accounting Entries will be passed, whereas in disclosure a mere statement is given Journal Entry not passed.)
   Example: The legal suit filed against a company for violation of copyrights shall be disclosed as part of the financial statements though it cannot be measured accurately.

CONSERVATISM

1. **Meaning**:
   (a) Conservatism or Prudence demands that unrealized profits and gain should not be recognized in the accounts. However, provision should be made for all actual and possible losses.
   (b) The accountants should not anticipate income but should provide all possible losses.

2. **Application of Conservatism Convention:**
   (a) Choice among different methods of valuation: If there is a choice between two methods of valuing an asset, the Accountant should choose a method which leads to the lesser value, e.g. Current Assets are valued at Cost or NRV, whichever is lower
   (b) This concept prohibits Window Dressing. (It means manipulating the financial statements to make them attractive viz. inflating the profits, suppressing expenses, treating revenue expenditure as Capital expenditure etc.)

3. **Advantages**: This Concept has led to the following qualitative characteristics of Financial Statements – (a) Prudence, (b) Neutrality, and (c) Faithful representation of alternative values.

MATERIALITY

1. **Meaning:** As per Materiality Concept, all items having significant economic effect on the business should be disclosed in the financial statement.
2. Material items refer to the items in the financial statements the knowledge of which might influence the decision of the users of financial statement.
3. **Factors**: Materiality depends on the size and nature of the items or error, judged in the particular circumstances of its misstatement.
4. **Advantage**: Materiality provides a threshold or cut-off point for classifying the amounts into assets or expenses
5. **Exception**: This principle is an exception to the full disclosure principle.

SUBSTANCE OVER LEGAL FORM

1. **Meaning**: The accounting treatment and presentation in financial statements of transactions and events, should be governed by their substance and not merely by the legal form.

2. **For Example:**
   (a) Sale of Land & Buildings without Registration: If the Firm has sold its land and Building, received consideration and handed over the possession to the buyer, it should be recorded as sale of land and building this recognition cannot be postponed for mere procedural formality pending e.g registration of sale deed.
   (b) Hire Purchase-Considered as Sale: In case of an asset required on hire purchase, ownership is not transferred till last installment is paid. However, asset is shown in the books of the hire purchaser.

BASIS OF ACCOUNTING

1. **Meaning:** "Basis of Accounting" refers to the stage at which incomes and expenses are recorded in the books of accounts.

2. **Types**: There are 3 basis of Accounting- (a) Cash Basis (b) Accrual Basis and (c) Hybrid Basis.

Cash Basis	Accrual Basis (Otherwise called as Mercantile Basis)
Profit = Cash received in normal course of business (-) Cash paid in normal course of business	Profit = Revenue (earned) (-) Expenses (incurred)
Cash Receipts of any year may relate to (a) previous year (b) current year or (c) future years. No distinction is drawn for calculating profits/surplus	When cash and revenue flow at different times, it is treated as under (a) Cash received before revenue is earned = Income Received in Advance = Liability. (b) Cash received after revenue is earned = Income Receivable = Assets
Cash payments of any year may relate to – (a) previous years, (b) current year or (c) future years. No distinction is drawn for calculating profits/surplus	When cash and expense are recognized at different times, it is treated as under- (a) Cash paid before expense is incurred= Prepaid expenses = Assets. (b) Cash paid after expense is incurred = Payables / Outstanding Liabilities = Liability
Companies Act, 2013 does not permit the use of cash basis of accounting	Companies Act 2013 specifically requires the use of accrual basis of accounting

Hybrid System or Modified Accrual System: In this method, the revenue is recognized on cash basis and expenses are recognized on Accrual Basis.

QUALITATIVE CHARACTERSTICS OF FINANCIAL STATEMENTS

Financial Statements are prepared to ascertain the operating results and the financial position of the business. They should have the following features:

Relevance	Information must be relevant to the decision-making needs of the users
Reliability	Information in financial statements must be reliable, i.e. (a) free from material error and bias, and (b) can be depended upon by the user to faithfully represent the correct position
Understandability	Financial statements must be understandable to users. However, the required information should not be excluded, just because it may be complex or difficult for the users to understand.
Comparability	Information in financial statements should be comparable (both for inter-firm and intra-firm comparison). This is possible only when consistency concept is applied and accounting policies and changes therein are adequately disclosed

Materiality	All material information should be disclosed in the financial statements. Information is material if its misstatement (i.e. Omission/erroneous) could influence the economic decision of users.
Faithful Representation	Information must faithfully represent the transactions & events which it represents. It should represent the balance of assets and liabilities which can be used for analysis in good faith
Substance over from	The financial statement should reflect the substance of the transaction than the mere legal form thereof.
Neutrality	Information in financial statement must be free from bias, i.e. it should not influence the decision or judgment of the user, in order to achieve a pre-determined results or outcome.
Prudence	Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty. Hence assets and incomes should not be over-stated, and liabilities and expenses should not be under-stated.
Disclosure	All material items must be fully, fairly and adequately disclosed in the financial statements. Fullness implies nothing material should be omitted. Fairness implies true and fair view of financial statements. Adequacy implies disclosure of proper details and in a sensible manner.
Completeness	Information in financial statements must be complete within the limitations set by materiality & cost. An omission can cause information to be misleading, unreliable and irrelevant

MULTIPLE CHOICE QUESTIONS

1) All the following items are classified as fundamental accounting assumptions except
   (a) Consistency.
   (b) Business entity.
   (c) Going concern.

2) Two primary qualitative characteristics of financial statements are
   (a) Understandability and materiality.
   (b) Relevance and reliability.
   (c) Neutrality and understandability.

3) Kanika Enterprises follows written down value method of depreciating machinery year after year due to
   (a) Comparability.
   (b) Convenience.
   (c) Consistency.

4) A purchased a car for ₹ 5,00,000, making a down payment of ₹ 1,00,000 and signing a ₹ 4,00,000 bill payable due in 60 days. As a result of this transaction
   (a) Total assets increased by ₹ 5,00,000.
   (b) Total liabilities increased by ₹ 4,00,000.
   (c) Total assets increased by ₹ 4,00,000 with corresponding increase in liabilities by ₹ 4,00,000

5) Mohan purchased goods for ₹15,00,000 and sold 4/5th of the goods amounting ₹18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2023. He counted net profit as ₹ 3,50,000. Which of the accounting concept was followed by him?
   (a) Entity.
   (b) Periodicity.
   (c) Matching.

6) A businessman purchased goods for ₹ 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2023. The market value of the remaining goods was ₹ 4,00,000. He valued the closing Inventory at cost. He violated the concept of
   (a) Money measurement.
   (b) Conservatism.
   (c) Cost.

7) Capital brought in by the proprietor is an example of
   (a) Increase in asset and increase in liability.
   (b) Increase in liability and decrease in asset.
   (c) Increase in asset and decrease in liability.

8) During the life-time of an entity, accounting provides financial statements in accordance with which basic accounting concept:
   (a) Conservatism
   (b) Matching
   (c) Accounting period

9) A concept that a business enterprise will not be liquidated in the near future is known as :
   (a) Going concern
   (b) Economic entity
   (c) Monetary unit

10) Assets are held in the business for the purpose of
    (a) Resale.
    (b) Conversion into cash.
    (c) Earning revenue.

11) Revenue from sale of products, is generally, realized in the period in which
    (a) Cash is collected.
    (b) Sale is made.
    (c) Products are manufactured.

12) The concept of conservatism when applied to the balance sheet results in
    (a) Understatement of assets.
    (b) Overstatement of assets.
    (c) Overstatement of capital.

13) Decrease in the amount of trade payables results in
    (a) Increase in cash.
    (b) Decrease in bank overdraft account.
    (c) Decrease in assets.

14) The determination of expenses for an accounting period is based on the principle of
    (a) Objectivity.
    (b) Materiality.
    (c) Matching.

15) Economic life of an enterprise is split into the periodic interval to measure its performance is as per
    (a) Entity.
    (b) Matching.
    (c) Periodicity.

16) If an individual asset is increased, there will be a corresponding
    (a) Increase of another asset or increase of capital.
    (b) Decrease of another asset or increase of liability.
    (c) Decrease of specific liability or decrease of capital.

17) Purchase of machinery for cash
    (a) Decreases total assets.
    (b) Increases total assets.
    (c) Retains total assets unchanged.

18) Consider the following data pertaining to Alpha Ltd:

Cost of machinery purchased on 1st April, 2022	10,00,000
Installation charges	1,00,000
Market value as on 31st March, 2023	12,00,000

While finalizing the annual accounts, if the company values the machinery at ₹ 12,00,000. Which of the following concepts is violated by the Alpha Ltd.?
    (a) Cost.
    (b) Matching.
    (c) Accrual.

ANSWERS MCQs

1. (b) 2. (b) 3. (c) 4. (c) 5. (c) 6. (b) 7. (a) 8. (c) 9. (a) 10. (c) 11. (b) 12. (a) 13. (c) 14. (c) 15. (c) 16. (b) 17. (c) 18. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept.
2) Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.
3) Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.
4) The Conservatism Concept states that no change should be counted unless it has materialized.
5) The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.
6) The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.
7) Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
8) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. ***(Dec 2022)***
9) A concern proposes to discontinue its business from December 2020 and decides to dispose of all its plants within a period of 3 months. The Balance Sheet as on 31st December 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date. ***(Nov 2020)***
10) As per the concept of conservatism, the accountant should provide for all possible losses, but should not anticipate income. ***(June 2023)***
11) Revenues are matched with expenses in accordance with the matching principle.
12) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle. ***(Dec 2023)***
13) The concept of conservatism when applied to the balance sheet results in understatement of assets.
14) Accrual concept implies accounting on cash basis.
15) Accounting principle is general rule followed in preparation of Financial Statements.
16) In double entry accounting, all business transaction are recorded as having dual aspect.
17) Transactions and events are guides by generally accepted accounting principles
18) The value of human resources is generally shown as assets in the Balance Sheet.
19) The results and position disclosed by final accounts are not exact.
20) Matching concept is based on accrual concept. ***(Jan 2025)***

Solution

1) **False**: Under matching concept all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.
2) **True**: Since the owner invested capital, he has claim on the profits of the enterprise.
3) **False**: Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
4) **False**: The Realisation Concept also states that no change should be counted unless it has materialised.

5) **False**: The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.
6) **False**: As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements
7) **False**: Cash Basis of Accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
8) **False**: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.
9) **False**: If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.
10) **True**: Concept of conservation states that all the accountants should not anticipate income and should provide for all possible losses.
11) **True**: The matching concept involves that the revenue earned in an accounting year is matched with the expenses incurred during the same period to generate that revenue.
12) **True**: The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision.
13) **True**: Conservatism states that the accountant/entity should not anticipate any future income. However they should provide for all possible / probable losses. Use of this concept leads to understatement of income & assets.
14) **False**: Accrual concept implies accounting done on due or accrual basis. It involves the recognition of revenues and costs as they accrue irrespective of the actual receipts or payments.
15) **True**: Accounting principles suggests the rules of action, which are universally accepted by the accountants for the recording of accounting transactions.
16) **True**: In double entry book-keeping system, every transaction has a dual aspect or a twofold effect in accounting where one account is debited by an amount and the other is credited by the same.
17) **True**: Every country adopts some generally accepted accounting principles and the transactions and events are guided by those principles.
18) **False**: The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.
19) **True**: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.
20) **True**: Matching concept is based on accrual concept as it considers the occurrence of expenses and income and do not concentrate on actual inflow or outflow of cash.

CAPITAL & REVENUE EXPENDITURE AND RECEIPTS

CAPITAL EXPENDITURE VS REVENUE EXPENDITURE

Particulars	Capital Expenditure	Revenue Expenditure
Meaning	It is expenditure incurred for the purpose of- (a) Purchase/ Creation / Improvement of Fixed Assets (b) Expenses necessary for the above purchase / Creation (c) Increasing the earning capacity of business.	It is an expenditure, the benefit of which is immediately (normally within one year) exhausted in the process of earning revenue.
Period of benefit	Any expenditure incurred to provide a benefit over a long-term period is capital expenditure.	Any expenditure incurred to provide benefit during the current period is revenue expenditure.
Enhancement vs Maintenance	Capital expenditure is incurred for the purpose of increasing the capacity of the business. Alternatively, it also includes an expenditure to reduce the costs of the business	Revenue expenditure is incurred to maintain the earning capacity of the business.
Examples	Purchase of machine, car, furniture, etc.	Repairs and maintenance, salary of accounting staff, etc.
Treatment in Financial Statement	Capital Expenditure is shown as asset in Balance Sheet. Only depreciation portion is debited to P&L A/c.	Expenditure is charged fully in the Profit and Loss Account.

CRITERIA / CONSIDERATIONS FOR CAPITAL VS REVENUE

Whether an expenditure is Capital or Revenue in nature, depends upon the following factors-

Factor	Capital Expenditure if.....	Revenue Expenditure if.......
Nature of Business	Expenditure relates to purchase of a Fixed Asset (e.g. Furniture purchased by a trader).	Expenditure relates to purchase of a Current Asset (e.g. Furniture purchased by a trader dealing in furniture).
Recurring Nature	Expenditure is incurred infrequently, or once in 2-5years (e.g. purchase of assets.)	Expenditure is incurred frequently / regularly, in the normal course of business (e.g. Salary, Rent, etc.)
Purpose of Expenses	Expenditure is for acquiring / creating capital assets or increasing their productive capacity.	Expenditure is for maintaining the capital assets.
Period of Benefit	Expenditure helps to generate revenue over more than one accounting period	Expenditure helps to generate income / revenue in the current period only.
Materiality	Expenditure is material / significant.	Expenditure is not material, i.e. insignificant.

EXAMPLES FOR CAPITAL AND REVENUE EXPENDITURES

Capital Expenditure	Revenue Expenditure
1. Purchase of Fixed Asset (Land, Building, etc.) 2. Purchase of Second hand Asset (e.g. Vehicle, Furniture, etc.) 3. Overhaul Expenses to put secondhand machinery in working condition. 4. Repairing & Painting of Old Building purchased recently by the Firm. 5. Expenditure incurred to reduce working expenses / operating expenses which generate long term benefits to the entity 6. Legal Fee paid to acquire new property. 7. Licence Fee paid by Cinema Theatre to commence its business. 8. Cost of constructing Temporary Huts which were necessary for Factory Building Construction, which were demolished when the Factory was ready.	1. Expenditure for replacement of worn—out part of an existing asset. 2. Regular Advertisement Expenses in respect of products and services. 3. Expenditure on removal of stock to new site. 4. Legal Fees incurred to file suit against a Customer from whom money is due.

CAPITAL VS REVENUE RECIEPTS

Particulars	Capital Receipt	Revenue Receipt
Meaning	Capital Receipts refer to receipts other than Revenue Receipts.	Revenue Receipts are moneys received in course of normal business activities and are recurring in nature.
Example	Capital contribution by Owner, Issue of Shares /Debentures, Sale Proceeds of Fixed Assets, etc.	Sales, Interest and Other Income Received, Bad Debts Recovered, etc.
Purpose	Capital Receipts relate to specific purpose, e.g. Capital Contribution for commencing business or expanding business, Loans taken for acquiring Fixed Assets, etc.	Revenue Receipts relate to general business purpose and are not specifically identifiable to any purpose as such.
Effect on Profit	Capital Receipts do not affect profit.	Revenue Receipts have a direct impact on the profits.
Disclosure	They are shown as Liability or Reduction from the Asset in the Balance Sheet.	They are shown on the Credit Side of the Profit and Loss Account.

Question 1 *(ICAI Study Material)*

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

(1) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.

(2) Money spent to reduce working expenses is Revenue Expenditure.

(3) Legal fees to acquire property is Capital Expenditure.

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

(5) Amount spent for replacement of worn out part of machine is Capital Expenditure.
(6) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.
(7) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.
(8) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the cinema house was ready, is Capital Expenditure.

Solution:

(1) **False:** Overhaul expenses are incurred to put second-hand machinery in working condition to derive endurable long-term advantage. So it should be capitalised.
(2) **False**: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.
(3) **True**: Legal fee paid to acquire any property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
(4) **False**: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
(5) **False**: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
(6) **False**: Repairing and white washing expenses for the first time of an old building are incurred to put the building in usable condition. These are part of the cost of building. Accordingly, these are capital expenditure.
(7) **True**: Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalised. Such expenses are amortised over a period of time.
(8) **True**: Cost of temporary huts constructed which were necessary for the construction of the cinema house is part of the construction cost of the cinema house. Therefore such costs are to be capitalised

Question 2 *(ICAI Study Material)*

State with reasons whether the following are Capital or Revenue Expenditure:

(1) Expenses incurred in connection with obtaining a license for starting the factory for ₹ 10,000.
(2) ₹ 1,000 paid for removal of Inventory to a new site.
(3) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.
(4) Money paid to Mahanagar Telephone Nigam Ltd. ₹ 8,000 for installing telephone in the office.
(5) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred in the construction of temporary huts for storing building material.

Solution:

(1) Money paid ₹ 10,000 for obtaining license to start a factory is a capital expenditure. This is an item of expenditure incurred to acquire the right to carry on business.
(2) ₹ 1,000 paid for removal of Inventory to a new site is revenue expenditure. This is neither bringing enduring benefit nor enhancing the value of the asset.

(3) ₹ 5,000 spent in changing Rings and Pistons of an engine to get fuel efficiency is capital expenditure. This is an expenditure on improvement of a fixed asset. It results in increasing profit-earning capacity of the business by cost reduction.
(4) Money deposited with MTNL for installation of telephone in office is not expenditure. This is treated as an asset and the same is adjusted over a period of time against actual telephone bills.
(5) Cost of construction of building including cost of temporary huts is capital expenditure. Building is fixed asset which will generate enduring benefit to the business over more than one accounting period. Construction of temporary huts is incidental to the main construction. Such cost is also capitalised with the cost of building.

Question 3 *(ICAI Study Material)*

Best Tech Solutions buys and sells computers as a part of its business. It purchased 20 computers for resale to its customers. Cost of each computer is ₹ 20,000. It also purchased a computer costing ₹24,000 for its accountant to be able to maintain the accounting records and printing of invoices. Suggest whether above transactions qualify as capital expenditure or revenue expenditure transactions?

Solution:
Best Tech Solutions is in the business of buying and selling of computers. Any computers purchased for resale to its customers will qualify as revenue expenditure. Hence, a purchase of 20,000 x 20 = ₹4,00,000 will be a part of revenue expenditure. At the same time, the computer purchased for maintaining the records and invoicing is to be able to operate the business for a longer period of time. Therefore, the purchase of ₹24,000 qualifies as a capital expenditure. This amount will be a part of assets in the Balance Sheet.

Question 4 *(ICAI Study Material)*

State with reasons whether the below items relating to the business of AB Ltd are capital or revenue receipts?
(a) A machine with a book value of ₹ 10 lakh is sold for ₹ 12 lakh.
(b) Premium amounting to ₹ 1 Lakh received on issue of shares.
(c) An amount of ₹ 20,000 received from goods sold in cash.
(d) An amount of ₹ 5 lac received on the maturity of fixed deposit from bank. Also, an interest of ₹40,000 was received in addition to the maturity amount of the fixed deposits.

Solution:
(a) The amount of ₹ 12 lac is a capital receipt. There is a profit on sale of the machine to the extent of ₹ 2 lac (12 – 10)
(b) Premium received on issue of shares is an example of capital receipt.
(c) Amount received from cash sale is a revenue receipt.
(d) Amount received on the maturity of fixed deposit is the recovery of the deposit amount and is a capital receipt. Interest income is an example of revenue receipt.

Question 5 *(ICAI Study Material)*

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2023.
a) Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹ 1,000. The furniture was installed by own workmen, wages for this being ₹ 200.

b) Expenses in connection with obtaining a license for running the cinema worth ₹ 20,000. During the course of the year the cinema company was fined ₹ 1,000, for contravening rules. Renewal fee ₹ 2,000 for next year also paid.
c) Fire insurance, ₹ 1,000 was paid on 1st October, 2022 for one year.
d) Temporary huts were constructed costing ₹ 1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.

Point out how you would classify the above items.

Solution:

a) The total cost of the furniture should be treated as ₹ 10,200 i.e., all the amounts mentioned should be capitalised since without such expenditure the furniture would not be available for use.
b) License for running the cinema house is necessary, hence its cost should be capitalised. But the fine of ₹ 1,000 is revenue expenditure. The renewal fee for the next year is also revenue expenditure but pertains to the next year; hence, it is a prepaid expense.
c) Half of the insurance premium pertains to the year beginning on 1st April, 2023. Hence such amount should be treated as prepaid expense. The remaining amount is revenue expense for the current year.
d) Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Question 6 *(ICAI Study Material)*

State with reasons, how you would classify the following items of expenditure:

1) Overhauling expenses of ₹ 25,000 for the engine of motor car to get better fuel efficiency.
2) Inauguration expenses of ₹ 25 lacs incurred on the opening of a new manufacturing unit in an existing business.
3) Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Solution:

1) Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long-term advantage. So this expenditure should be capitalised.
2) Inauguration expenses incurred on the opening of a new unit may help to explore more customers. This expenditure is in the nature of revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.
3) The amount paid to workers on voluntary retirement is in nature of revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to defer it over future years.

Question 7 *(ICAI Study Material)*

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.
(ii) Amount received from Trade receivables during the year.
(iii) Amount spent on demolition of building to construct a bigger building on the same site.
(iv) Insurance claim received on account of machinery damaged by fire.

Solution:

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

Question 8 *(ICAI Study Material)*

Are the following expenditures capital in nature?

(i) M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was ₹ 20,000.

(ii) M/s New Delhi Financing Co. sold certain goods on installment payment basis. Five customers did not pay installments. To recover such outstanding installments, the firm spent ₹ 10,000 on account of legal expenses.

(iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent ₹ 40,000 for transportation of such machinery. The year ending is 31st Dec, 2023.

Solution:

(i) Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(ii) Expense incurred to recover installments due from customer do not increase the revenue generating capability in future. It is normal recurring expense of the business. Thus the legal expenses incurred in this case is revenue expenditure in nature.

(iii) Expenses incurred on account of transportation of fixed asset is capital expenditure in nature.

Question 9 *(RTP May 2018) / (Nov 2019) / (Nov 2020) / (Nov 2023)/(Sep 2024) (Similar)*

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exits in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution:

(i) Revenue Expenditure (ii) Capital Expenditure (iii) Revenue Expenditure if short term benefit and Capital Expenditure if long term benefit to entity (iv) Revenue Expenditure (v) Capital Expenditure

Question 10 *(RTP May 2018) (RTP May 2021) / (RTP Nov 2021)*

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

a) Complete repaint of existing building.
b) Installation of a new central heating system.
c) Repainting of a delivery van.
d) Providing drainage for a new piece of water-extraction equipment.
e) Legal fees on the acquisition of land.
f) Carriage costs on a replacement part for a piece of machinery.
g) Inauguration expenses of a new manufacturing unit in an existing Business.

Solution:

(a) Revenue Expenditure (b) Capital Expenditure (c) Revenue Expenditure (d) Capital Expenditure (e) Capital Expenditure (f) Revenue Expenditure (g) Revenue Expenditure

Question 11 (RTP May 2019)

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of machinery damaged by fire.

Solution

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

Question 12 (RTP May 2020)

Classify the following expenditures as capital or revenue expenditure.

(i) Money spent to reduce working expenses.

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

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

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

Solution

(i) Capital expenditure if long term benefit (ii) Revenue expenditure. (iii) Capital expenditure.
(iv) Revenue expenditure.

Question 13 (RTP May 2022) / (RTP Jan 2025) (Similar)

Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area.

(ii) Amount spent on painting the factory

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency

Solution

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than 1 accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building new office extension should be treated as Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

Question 14 (RTP Nov 2022)

Classify the following expenditures as capital or revenue expenditure:

(i) Expenses incurred to keep the machine in working condition.

(ii) Registration fees paid at the time of purchase of a building.

(iii) Expenses incurred for advertisement in newspaper.

(iv) Amount spent on renewal fee of patent rights.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution

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

Question 15 *(RTP May 2023)*

Classify the following expenditures as capital or revenue expenditure:

(i) Insurance claim received on account of inventory damaged by fire.

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

(iii) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery.

(iv) Dividend received from XYZ limited during the year.

Solution

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

Question 16 *(MTP Dec 2022)*

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent for replacement of a petrol driven engine by CNG kits.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Insurance claim received on account of inventory damaged by fire.

(v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

Solution

(i) Capital Expenditure. (ii) Capital Expenditure. (iii) Capital Expenditure (assuming long term benefit) (iv) Revenue Receipt. (v) Capital Expenditure.

Question 17 *(RTP June 2024)*

Classify the following receipts or expenditures as capital or revenue:

(i) Wages incurred by a factory in manufacturing a part for its plant.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) An expenditure intended to benefit the current period.

(iv) Amount paid for removal of stock to a new site.

(v) Amount received from sale of land and building by a real estate dealer

Solution

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

Question 18 *(RTP May 2025)*

Classify following either as capital or revenue expenditures or capital or revenue receipts;

(i) Dividend received from XYZ limited during the year.

(ii) Amount spent for replacement of a petrol driven engine by CNG kits.

(iii) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

(iv) Overhauling expenses of second-hand machine purchased.

(v) Insurance claim received on account of inventory damaged by fire.

(vi) Entrance fees of ₹35,000 received by society club.

Solution

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

MULTIPLE CHOICE QUESTIONS

1) Money spent ₹ 10,000 as traveling expenses of the directors on trips abroad for purchase of capital assets is
   (a) Capital expenditures
   (b) Revenue expenditures
   (c) Prepaid revenue expenditures

2) Amount of ₹ 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is
   (a) Capital expenditures
   (b) Revenue expenditures
   (c) Prepaid revenue expenditures

3) Entrance fee of ₹ 2,000 received by Ram and Shyam Social Club is
   (a) Capital receipt
   (b) Revenue receipt
   (c) Capital expenditures

4) Subsidy of ₹ 40,000 received from government for working capital by a manufacturing concern is
   (a) Capital receipt
   (b) Revenue receipt
   (c) Capital expenditures

5) Insurance claim received on account of machinery damaged completely by fire is
   (a) Capital receipt
   (b) Revenue receipt
   (c) Capital expenditures

6) Interest on investments received from UTI is
   (a) Capital receipt
   (b) Revenue receipt
   (c) Capital expenditures

7) Amount received from IDBI as a medium term loan for augmenting working capital is
   (a) Capital expenditures
   (b) Revenue expenditures
   (c) Capital receipt

8) Revenue from sale of products, ordinarily, is reported as part of the earning in the period in which
   (a) The sale is made.
   (b) The cash is collected.
   (c) The products are manufactured.

9) If repair cost is ₹ 25,000, whitewash expenses are ₹ 5,000, (both these expenses relate to presently used building) cost of extension of building is ₹ 2,50,000 and cost of improvement in electrical wiring system is ₹ 19,000; the amount to be expensed is
   (a) ₹ 2,99,000.
   (b) ₹ 44,000.
   (c) ₹ 30,000.

ANSWERS MCQs

1. (a) 2. (b) 3. (a) 4. (b) 5. (a) 6. (b) 7. (c) 8. (a) 9. (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) The nature of business is not an important criteria in separating an expenditure between capital and revenue.
2) Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.
3) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
4) Amount spent for replacement of worn out part of a machine is Capital Expenditure. *(June 2022)*
5) Legal fees to acquire property is Capital Expenditure.
6) Amount spent for the construction of temporary huts, which were necessary for construction of the cinema house and were demolished when the cinema house was ready, is Capital Expenditure. *(May 2019)*
7) Wages paid for erection of machinery are debited to Profit and Loss account.
8) Amount paid for acquiring goodwill is revenue expenditure.
9) Overhead expenses of second hand machinery purchased are revenue expenditure.
10) Motor repairs charges including replacement of certain worn out parts incurred before using a second hand car purchased recently is a capital expenditure.
11) An expenditure intended to benefit beyond the current period is revenue expenditure.
12) Expenditure which results in acquisition of a permanent asset of enduring benefit to the business is capital expenditure.
13) Wages paid to workers to produce a tool to be captively consumed is capital expenditure.
14) Expenses incurred on white-washing of factory building after every 6 months are revenue expenditure.
15) Temporary shed put up at project site to house materials is a capital expenditure.
16) Heavy advertising to introduce a new product is a capital expenditure.
17) Expenditure on renovation of a theatre which has increased the seating capacity by 10% is revenue expenditure.
18) Travelling expenses of ₹ 80,000 paid to a technician for the installation of a new machine is debited to Profit and Loss Account.
19) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
20) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure *(May 2018) / (June 2023)*
21) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. *(Nov 2018)*
22) M/s. XYZ & Co. runs a café. They renovated some of the old cabins. Because of this renovation some space was made free & number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. *(Nov 2019)*
23) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt. *(Nov 2020)*
24) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt. *(Jan 2021)*
25) Any amount spent to minimize the working expenses is revenue expenditure. *(Dec 2021)*
26) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure. *(Dec 2021)*
27) Sale of office furniture should be credited to Sales A/c.

28) Inauguration expenses of ₹ 10 lakhs incurred on the new unit in an existing business is a capital expenditure. *(Dec 2023)*
29) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure. *(Sep 2024)*

Solution

1) **False**: The nature of business is a very important criteria in separating an expenditure between capital and revenue. For example- For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
2) **False**: Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
3) **False**: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
4) **False**: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
5) **True**: Legal fee paid to acquire any property is a part of cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
6) **True**: Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised
7) **False: - It is a capital expenditure and hence should be debited to Machinery A/c.**
8) **False**: - It is a capital expenditure since it involves acquisition of an intangible asset, which is a fixed asset.
9) **False**: - Such expenses are incurred to derive long-term benefits of enduring nature. So it is a capital expenditure.
10) **True**: - As these charges were incurred to derive a long-term benefit.
11) **False**: - Revenue expenditure is that expenditure which benefits the period in which it is incurred i.e. current period.
12) **True**: - Because it will generate enduring benefits and help to generate revenue for more than one accounting period.
13) **True**: - Wages paid to workers for creating an asset to be used in business is capital expenditure.
14) **True**: - As they are incurred in the normal maintenance course of the asset.
15) **True**: - Because it is incidental to the main construction and the expenditure on it is a part of construction cost.
16) **False**: - Since it does not create any property of tangible or intangible nature
17) **False**: It is a capital expenditure as it has contributed to the revenue earning capacity of the business over more than one accounting period.
18) **False**: It is a capital expenditure since it has been incurred to put the asset in working condition.
19) **True**: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
20) **False**: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

21) **False**: Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus benefit is in form of endurable long-term advantage. So this expenditure should be capitalised.
22) **False**: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.
23) **True**: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
24) **True**: Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
25) **False**: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.
26) **True**: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.
27) **False**: It should be credited to Furniture A/c because it is a capital receipt.
28) **False**: Inauguration expenses incurred on the opening of a new unit may help to explore more customers. This expenditure is revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.
29) **False**: Overhaul expenses are incurred to put second-hand machinery in working condition to derive endurable long-term advantage. So, it should be capitalized.

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

GLOSSARY OF SIGNIFICANT TERMS

Contingency	A situation, which has not actually occurred but which is expected to happen in the near future.
Liability	Obligation to pay for any expenses / losses i.e. It represents outflow of business resources. Present financial obligation of an enterprise which arises from past events.
Probable	Chance of occurrence of an event is 50%. i.e. an event is more likely to happen
Possible	Chance of occurrence of an event is < 50% i.e. an event may or may not happen. It cannot be determined.
Present Obligation	An obligation which is probable i.e. it is more than likely that such obligation exists on the date of balance sheet is called "Present Obligation"
Possible Obligation	An obligation which is not probable i.e. on the balance date, it is not likely that such obligation may arise in future

PROVISIONS

Meaning	A Provision is "a Present Obligation, as a result of past events, which leads to probable outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made"
Features	(a) Provision is a present liability of a certain / uncertain amount. (b) Provision can be reasonably measured using a substantial degree of estimation.
Treatment	Provision should be recognized in the Books of Account.
Impact on Profits	Provision represents liability for expense/loss; So, Provision reduces the profit.
Journal Entry	**Debit** – Profit and Loss A/c Dr. **Credit** – To Provisions for Liabilities A/c
Reasoning	**Debit Aspect:** Provision is an expense / loss, which reduces the profits of the enterprise Hence, Profit and Loss A/c is debited. (Debit all expenses and losses) **Credit Aspect:** Provision is a liability payable in future. Hence, it is credited
Balance Sheet	Provision is either shown (a) on the liabilities side (or) (b) on the assets side – as a deduction from the relevant asset.
Examples	(a) Provision for Guarantees Given, when the original debtor becomes insolvent. (b) Provision for Warranties (c) Provision for Discount on Debtors (d) Provision for Bad and Doubtful Debts

CONTINGENT LIABILITY

A Possible Obligation		Present Obligation
That arises from past events and the existence of which will be confirmed only by the occurrence or non—occurrence of one or more uncertain future events not wholly within the control of the enterprise	Or	That arises from past events but is not recognized because — • it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or reliable estimate of the amount of obligation cannot be made.

Note: Possible Obligation is always a Contingent Liability, whereas Present Obligation becomes a Contingent Liability if the recognition criteria of Provision are not satisfied.

	Elements	Cases				
1.	Possible obligation	X	X	X	X	√
2.	Present obligation from past events	√	√	√	√	NA
3.	Expected outflow	√	√	X	X	NA
4.	Measurability (using substantial degree of estimation)	√	X	√	X	NA
5.	Whether: Provision(P) or Contingent Liability (CL)	P	CL	CL	CL	CL

FEATURES OF CONTINGENT LIABILITY

1. Recognition	An Enterprise should **NOT RECOGNISE** a Contingent Liability.
2. Disclosure	A Contingent Liability should be **DISCLOSED in the notes to accounts** unless possibility of outflow of a resource embodying economic benefits is remote.
3. Periodical Review	Contingent Liability should be periodically reviewed. On such review, if the character of the Contingent Liability is found to be changed and there is a probable outflow of resources, then it will be recognized as Provision and treated accordingly.
4. Impact	Contingent Liability will NOT AFFECT the profits of the concern, as it is not accounted in Books.
5. Examples	• Claims against the business, not acknowledged as debts • Guarantees given, if the principal debtor is solvent • Uncalled Liability on Partly Paid shares • Arrears of Fixed Cumulative dividends • Liability on Bills Discounted

CONTINGENT ASSETS

1. Meaning	A Contingent Asset is a POSSIBLE ASSET that arises from past events, existence of which will be confirmed only by occurrence / non-occurrence of one or more uncertain future events, not wholly within the control of the enterprise.

2. Treatment	An enterprise SHOULD NOT RECOGNISE a Contingent Asset due to CONSERVATISM Convention. Because this may result in recognition of income that may never be realized.
3. Impact	Contingent Assets will not affect the profits of the enterprise as it is not accounted in the books.
4. Certainty	If the realisation of income is certain, then it is not a Contingent Asset and the same shall be recognized in the Financial Statements.
5. Disclosure	Contingent Assets should not be disclosed in the Financial Statements but may be disclosed in the Report of the Approving Authority.
6. Examples	• Unplanned or unexpected events leading to possibility of inflow of economic benefits • Expected Gain from a legal suit. • Insurance claims for damage of a property

PRINCIPLES BEHIND PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

Nature	Principle
1. Provision	Matching Concept, Conservatism Convention
2. Contingent Liability	Full Disclosure Concept
3. Contingent Asset	Conservatism Convention

MULTIPLE CHOICE QUESTIONS

1) Contingent asset usually arises from unplanned or unexpected events that give rise to
   (a) The possibility of an inflow of economic benefits to the business entity.
   (b) The possibility of an outflow of economic benefits to the business entity.
   (c) Either (a) or (b).
2) If an inflow of economic benefits is probable then a contingent asset is disclosed
   (a) In the financial statements.
   (b) In the report of approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).
   (c) In the cash flow statement.
3) In the case of ___________, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.
   (a) Liability
   (b) Provision
   (c) Contingent liabilities
4) Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as ________.
   (a) Provision.
   (b) Liability.
   (c) Contingent liability.
5) In the financial statements, contingent liability is
   (a) Recognised.
   (b) Not recognised.
   (c) Adjusted.

ANSWERS MCQs

1. (a) 2. (b) 3. (c) 4. (a) 5. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) A contingent liability need not be disclosed in the financial statements.
2) A Provision fails to meet the recognition criteria.
3) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability. *(June 2022)*
4) When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.
5) Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.

Solution

1) **False**: A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.
2) **False**: A contingent liability fails to meet the recognition criteria.
3) **False**: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset
4) **False**: When it is probable that the firm will need to pay off the obligation, this gives rise to provision.
5) **False**: Present Financial obligation of an enterprise, which arises from past events is **termed** as liability

ACCOUNTING POLICIES

MEANING

1. **Accounting Policies refer to –** (a) The specific accounting principles and (b) the methods of applying those principles adopted by the enterprises in the preparation and presentation of financial statements.
2. **Example**: Inventory is valued at Cost or Net Realizable Value, whichever is lower. This is a principle. Cost can be determined either by First in First Out (FIFO) method or Weighted Average Cost (WAC) or other suitable methods.
3. **Need for disclosure**: Accounting Policies should be disclosed in the Financial Statements due to the following reasons-
   (a) To promote better understanding of financial Statements
   (b) To provide meaningful Inter-Firm Comparison.
   (c) To ensure compliance with Law, for example In case of Companies, disclosure is mandatory.

CHOICE OF ACCOUNTING POLICIES

1. **Alternative accounting policies:** The different circumstances in which enterprises operate and the situation of diverse and complex economic activities of the company has given rise to acceptability of alternative accounting principles & methods of applying those principles.
2. **Decision Making**: The choice of the alternatives principles & methods calls for considerable judgment by the management of the enterprises.
3. **Reduction in alternatives**: Various statements issued by ICAI, together with the measures of Governments, other regulatory agencies, etc. has reduced the number of acceptable policies can at best be reduced, not eliminated, as different enterprises operate in differing circumstances.
4. **Illustration List of areas of alternative accounting policies.**
   (a) Conversion or translation of foreign Currency items.
   (b) Treatment of – (i) Expenditure during construction.
   (c) Valuation of – (i) Inventories, (ii) Investments.

Note: Generally Companies disclose these accounting policies in the Notes of Accounting.

PRINCIPLES FOR SELECTION OF ACCOUNTING POLICIES

1. **True and Fair View:** Primary consideration in the selection of Accounting Policies is that financial statements prepared & presented should represent a true & fair view as under-

Balance sheet	Of the State of Affairs of the enterprises as on a certain date.
Profit & Loss Account	Of the Profit or Loss for the period ended on that date.

2. **Factors:** To select & apply accounting policy, the following points are considered (Secondary Consideration)

(a) Prudence	(b) Substance over form	(c) Materiality

3. **Change in Accounting Policies:** Accounting policies have to be consistent from year to year. However, change in accounting policies can be made in the following situations-
   (a) If the adoption of a different accounting policy is required by Statute, or
   (b) For compliance with an Accounting Standard, or
   (c) If it is considered that the change would result in a more appropriate presentation of the financial Statements.

DISCLOSURE OF ACCOUNTING POLICIES

1. **Disclosure of Accounting Policies**: All significant accounting policies adopted in the preparation and presentation of financial statement should be disclosed to facilitate better understanding of the financial statements.
2. **Place of Disclosure**: Disclosures should form part of the financial Statements. It should be disclosed at one place, instead of being scattered over several statements.
3. **Change in Accounting Policies**: Change in an accounting policy should be disclosed-
   (a) When such change has a material effect in the current period and
   (b) When such change is reasonably expected to have a material effect in later periods.
4. **Manner of Disclosure of change in accounting policies:**

Effect in Current Period	Expected Effect in later periods
• Impact of change on Profit/Loss & Balance Sheet items in the current period should be quantified, to the extent ascertainable. • Where quantification is not possible, either wholly or in part, the fact should be disclosed	• The fact of such change, and • The fact that it is likely to have effect in later periods. Should be appropriately disclosed in the period in which the change is adopted

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

Answer
Change in accounting policy may have a material effect on the items of financial statements. **For example,** if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.
Examples in this regard may be given as follows: "Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads."

MLTIPLE CHOICE QUESTIONS

1) A change in accounting policy is justified
   (a) To comply with accounting standard and law.
   (b) To ensure more appropriate presentation of the financial statement of enterprise.
   (c) All of the above.

2) Accounting policy for inventories of Xeta Enterprises states that inventories are valued at the lower of cost determined on weighted average basis or net realizable value. Which accounting principle is followed in adopting the above policy?
   (a) Materiality.
   (b) Prudence.
   (c) Substance over form.

3) The areas wherein different accounting policies can be adopted are
   (a) Providing depreciation.
   (b) Valuation of inventories.
   (c) Both the options

4) Selection of an inappropriate accounting policy decision may
   (a) Overstate the performance and financial position of a business entity.
   (b) Understate/overstate the performance and financial position of a business entity.
   (c) Overstate the performance of a business entity.

5) Accounting policies refer to specific accounting
   (a) Principles.
   (b) Methods of applying those principles.
   (c) Both (a) and (b).

ANSWERS MCQs

1. (c) 2. (b) 3. (b) 4. (b) 5. (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.
2) Selection of accounting policy doesn't impact financial performance and financial position of the business.
3) A change in accounting policies should be made as and when business like to show result as per their choice.
4) Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.
5) Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

Solution

1) **False**: There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies chosen by different industries under different circumstances.
2) **False**: Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.

3) **False**: A change in accounting policies should be made in the following conditions:
   (a) It is required by some statute or for compliance with an Accounting Standard.
   (b) Change would result in more appropriate presentation of financial statement.
4) **True**: An enterprise may adopt FIFO or weighted average method for inventory valuation and the method selected for valuation is called an accounting policy.
5) **False**: It could understate/overstate the performance and financial position of a business entity.

ACCOUNTING AS A MEASUREMENT DISCIPLINE - VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

ELEMENTS OF MEASUREMENT DISCIPLINE

Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit & loss.

The 3 elements of Measurement discipline and how accounting satisfies these elements are as under-

Elements / Conditions	Does Accounting satisfy the condition?
1. Identification of objects or events to be measured	Financial transactions & events are measured in accounting. Non-financial transactions, however significant are not considered
2. Selection of Standard or Scale to be used.	The ruling currency of the country is used as the basis of money measurement, in accounting, however: (a) Money is not a stable scale having universal applicability. (b) Exchange rates between different currencies are not constant.
3. Evaluation of dimension of measurement standard	Money as a valuation base loses its value over period time. Hence, it is not stable in the dimension.

Conclusion: However, Accounting is not an exact measurement discipline because accounting measures information mostly in money terms which is (a) not a stable scale. (b) Not having universal applicability and (c) not stable in dimension for comparison over time

MEASUREMENT BASES (OR VALUATION PRINCIPLES) IN ACCOUNTING

The measurement bases or valuation principles used in accounting are-

Base	Valuation Rule for	
	Assets	**Liabilities**
1. Historical cost	Cash or Cash equivalent paid at the time of acquisition	Proceeds received in exchange for the obligation or the amount of cash/ cash equivalent expected to be paid to satisfy it in the normal course of business
2. Current Cost (PURCHASE ANGLE)	Cash and cash equivalent which is to be paid if same or an equivalent asset was acquired currently	Undiscounted amounts of cash and cash equivalent that would be required to settle the obligation currently
3. Realisable Value (SALE ANGLE)	Cash or cash equivalent that could currently be obtained by selling the assets in an orderly disposal	Undiscounted amounts of cash & cash equivalent that would be required to settle obligation in normal course of business
4. Present Value	Present Discounted Value of cash inflows expected to be derived from such assets over its useful life	Present Discounted value of cash outflows expected to be required to settle the liabilities in the normal course of business

Note: Different measurement bases are used according to suitability (i.e. the situational need) to depict the true and fair view of the financial position of the reporting entity.

Example:

Mohan purchased a machinery amounting ₹ 10,00,000 on 1st April, 2005. On 31st March, 2023, similar machinery could be purchased for ₹ 20,00,000 but the realizable value of the machinery (purchased on 1.4.2005) was estimated at ₹ 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as ₹ 12,00,000.

1) The current cost of the machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.
2) The present value of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 12,00,000.
3) The historical cost of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.
4) The realizable value of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.

ACCOUNTING ESTIMATES

(a) **Meaning:** "Accounting Estimate" means an approximation of the amount of an item in the absence of a precise means of measurement.

As a result of uncertainties inherent in business activities, many financial statement items cannot be measured with precisions but can only be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

(b) Example:

- ➢ Estimate of bad debts
- ➢ Useful life and Residual value of depreciable assets
- ➢ Estimates of inventory obsolescence

(c) **Change in Accounting Estimate:** Change can occur in the following scenarios:

- ➢ As a result of new information
- ➢ As a result of more experience
- ➢ As a result of subsequent development

MULTIPLE CHOICE QUESTIONS

1) Measurement discipline deals with
   (a) Identification of objects and events.
   (b) Selection of scale.
   (c) Both (a) and (b)
2) All of the following are valuation principles except
   (a) Historical cost.
   (b) Present value.
   (c) Future value.
3) Book value of machinery on 31st March, 2023 ₹10,00,000 Market value as on 31st March, 2023 if sold ₹ 11,00,000 As on 31st March, 2023, if the company values the machinery at ₹ 11,00,000, which of the following valuation principle is being followed?
   (a) Historical Cost.
   (b) Present Value.
   (c) Realisable Value.
4) Mohan purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for ₹ 20,00,000 but the realizable value of the machinery (purchased on 1.4.2001) was estimated at ₹ 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as ₹ 12,00,000.
   (i) The current cost of the machinery is
      (a) ₹ 10,00,000.
      (b) ₹ 20,00,000.
      (c) ₹ 15,00,000.
   (ii) The present value of machinery is
      (a) ₹ 10,00,000.
      (b) ₹ 20,00,000.
      (c) ₹ 12,00,000.
   (iii) The historical cost of machinery is
      (a) ₹ 10,00,000.
      (b) ₹ 20,00,000.
      (c) ₹ 15,00,000.
   (iv) The realizable value of machinery is
      (a) ₹ 10,00,000.
      (b) ₹ 20,00,000.
      (c) ₹ 15,00,000.

ANSWERS MCQs

1. (c) 2. (c) 3. (c) 4(i). (b) 4(ii). (c) 4(iii). (a) 4(iv). (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) There are four generally accepted measurement bases. (i) Historical Cost; (ii) Current Cost; (iii) Realizable Value; (iv) Future Value.
2) Historical Cost means price paid at time acquisition.
3) As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4) At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

5) ABC purchased machinery amounting 10 Lakhs on 1st April, 2001. On 31st Mar, 23, similar machinery could be purchased for 20 Lakhs. Historical cost of machine is 20 Lakhs.
6) ABC purchased a machinery amounting 10 Lakhs on 1st April, 2001. On 31st Mar, 23, similar machinery could be purchased for ₹ 20 Lakhs. Current cost of machine is ₹ 20 Lakhs
7) Change in accounting estimate has to be given retrospective effect.
8) Current cost gives an alternative measurement base.

Solution

1) **False**: There are four generally accepted measurement bases. (i) Historical Cost; (ii) Current Cost; (iii) Realizable Value; (iv) Present Value.
2) **True**: Historical cost means the acquisition price.
3) **False**: At Realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4) **False**: Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.
5) **False**: Historical cost is ₹10,00,000.
6) **True**: Since similar machine is purchased at 20,00,000, the current cost of machine is ₹ 20,00,000
7) **False**: Change in accounting estimate has not to be given retrospective effect.
8) **True**: Generally the value of an asset is determined on the basis of cost of acquisition. Current cost is also an alternative measurement base which means Cash and cash equivalent which is to be paid if same or an equivalent asset was acquired currently.

ACCOUNTING STANDARDS

Meaning	Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body (e.g. MCA issuing AS for corporates in consultation with NACAS) covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.
Issues dealt by AS	➢ Recognition of events and transactions in financial statements. ➢ Measurement of these transactions and events. ➢ Presentation of these transactions & events in the financial statements in a manner that is meaningful and understandable to the reader. ➢ The disclosure requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent & informed business decisions.
Objectives	➢ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. ➢ To provide a standard for the diverse accounting policies and principles. ➢ To eliminate the non-comparability of financial statements. ➢ To increase/improve the reliability of the financial statements. ➢ To provide standards which are transparent for users.
Benefits	➢ Standardization of alternative accounting treatment (Reduce/eliminate the confusing variations in the accounting treatments used to prepare the financial statements) ➢ Requirement for additional disclosures. (disclosures which are not statutorily required) ➢ Comparability of financial statements.
Limitations	➢ Difficulties in making choice between different treatments. ➢ Lack of flexibilities ➢ Restricted scope (accounting standards cannot override the statute)
Formulation of AS	ICAI has constituted the Accounting Standard Board (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of AS & council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.
Process	➢ Identification of area (where standardization is required) ➢ Constitution of study groups (for research) ➢ Preparation of draft and its circulation ➢ Ascertainment of views of different bodies (like SEBI, CBDT, C&AG) ➢ Finalization of exposure draft ➢ Comments reviewed on exposure draft (public comments) ➢ Modification of the draft ➢ Issue of AS • For Non Corporate Entities by ICAI • For Corporate Entities by Central Government of India

OVERVIEW OF ACCOUNTING STANDARDS (AS) IN INDIA

AS	AS TITLE	AS	AS TITLE
1	Disclosure of Accounting Policies	16	Borrowing Costs
2	Valuation of Inventories	17	Segment Reporting
3	Cash Flow Statements	18	Related Party Disclosures
4	Events Occurring after Balance Sheet Date	19	Leases
5	Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies	20	Earnings Per Share
6	Depreciation Accounting -Withdrawn-	21	Consolidated Financial Statements (CFS)
7	Construction Contracts	22	Accounting for Taxes on Income
8	-Withdrawn-	23	Accounting for Investment in Associates in CFS
9	Revenue Recognition	24	Discontinuing Operations
10	Accounting for fixed assets Property, Plant & Equipment	25	Interims Financial Reporting
11	Effects of changes in Foreign Exchange Rates	26	Intangible assets
12	Accounting for Government Grants	27	Financial Reporting of Interest in Joint Ventures
13	Accounting for Investments	28	Impairment of assets
14	Accounting for Amalgamation	29	Provisions, Contingent Liabilities and Contingent Assets
15	Employee Benefits		

MULTIPLE CHOICE QUESTIONS

1) Accounting Standards for Non-Corporate entities in India are issued by
   (a) Central Govt.
   (b) State Govt.
   (c) Institute of Chartered Accountants of India.

2) Accounting Standards
   (a) Harmonise accounting policies.
   (b) Eliminate the non-comparability of financial statements.
   (c) Both the above.

3) It is essential to standardize the accounting principles and policies in order to ensure
   (a) Transparency.
   (b) Consistency.
   (c) Both the above.

ANSWERS MCQs

1. (c) 2. (c) 3. (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2) Accounting standards can override the statute. *(June 2024)*
3) Difficulties in making choice between different treatments is one of the benefits of accounting standards.
4) Requirements for additional disclosures is limitation of accounting standards.
5) ASB stands for Accounting standardization benchmarking.
6) There are no limitation to accounting standards.
7) Accounting Standards for non-corporate entities in India are issued by the Central Government. *(Jan 2021)*

Solution

1) **True**: Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2) **False**: Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.
3) **False**: Difficulties in making choice between different treatments is one of the limitation of accounting standard.
4) **False**: Benefits of accounting standards are:
   - Standardization of alternative accounting treatments
   - Comparability of financial statements
   - Requirements for additional disclosures
5) **False**: ASB stands for Accounting standard Board.
6) **False**: Limitations of accounting standards ▪ Difficulties in making choice between different treatments ▪ Restricted scope
7) **False**: Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

THEORY QUESTIONS

Question 1 (RTP Questions)

a) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.
b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. *(CA Foundation Nov 2018) (4 Marks)*
c) Define revenue receipts and give examples. How are these receipts treated? Explain.
d) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.
e) State the advantages of setting Accounting Standards
f) Distinguish between Money measurement concept and matching concept.
g) Explain Cash and Mercantile system of accounting.
h) Differentiate between Liability and Contingent Liability
i) Write short notes on
   (i) Fundamental Accounting Assumptions.
   (ii) Accounting conventions
   (iii) Measurement
   (iv) Going Concern Concept

Solution

a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management. Different accounting policies are frequently encountered in the areas like valuation of inventory and investments etc.

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

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for treatment of same item add to the probability of manipulations.

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

d) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items

e) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and ease in comparison

f) Distinction between Money measurement concept and matching concept

As per Money Measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In Matching concept, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

g) Cash and mercantile system:

Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually. Mercantile system of accounting is generally accepted accounting system by business entities

h) A liability is defined as the present financial obligation of an enterprise, which arises from past events. On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

i)

(i) **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

a. **Going Concern**: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

b. **Consistency**: It is assumed that accounting policies are consistent from one period to another.
c. **Accrual**: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(ii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

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

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

Question 2 *(CA Foundation May 2019) (4 Marks) / (RTP May 2023)*

Distinguish between Going Concern concept and Cost concept.

Solution

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

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

Question 3 *(CA Foundation May 18) / (Nov 19) / (Dec 22) (4 Marks) / (RTP May 20) / (Nov 23)*

Distinguish between Provision and Contingent Liability.

Solution

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

Question 4 ***(CA Foundation Nov 2020) (4 Marks) / (RTP June 2024)***

What services can a Chartered Accountant provide to the society?

Solution

The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct & indirect) and in general management problems. Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

a) Maintenance of books of accounts;
b) Statutory audit;
c) Internal Audit;
d) Taxation;
e) Management accounting and consultancy services;
f) Financial advice and financial investigations etc.
g) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Question 5 ***(CA Foundation July 2021) (4 Marks)***

Discuss the basic considerations in distinguishing between capital and revenue expenditure.

Solution

The basic considerations in distinction between capital and revenue expenditures are:

(a) **Nature of business**: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.

(b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

(c) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(d) **Effect on revenue generating capacity of business**: The expenses which help to generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.

(e) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Question 6 *(CA Foundation June 2022) (4 Marks)*

Briefly explain the following Concepts of Accounting:

(i) Money Measurement Concept
(ii) Periodicity Concept.

Solution

Money Measurement concept: As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

Periodicity concept: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

Question 7 *(CA Foundation June 2024) (4 Marks)*

(i) Define accounting policy. What are the conditions under which a company can change its accounting policy?

(ii) Explain the following:
 (1) Cash Basis of Accounting
 (2) Going Concern concept

Solution

(i) **Accounting Policy:**

(a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements; and

(b) Policies are based on various accounting concepts, principles, and conventions.

Conditions under which change takes place:

A change in accounting policies shall be made in the following conditions:

(a) It is required by some statute or for compliance with an Accounting Standard

(b) Change would result in more appropriate presentation of financial statement

(ii)

(1) **Cash Basis of Accounting** is the method of recording financial transactions, by which revenues and expenditure and assets and liabilities are reflected in the accounts in the period in which the receipts or payments are actually effected/made.

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

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Question 8 *(RTP Jan 2025)*

Distinguish between fundamental accounting assumption and accounting policies.

Solution

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

Unit 1: Basic Accounting Procedures: Journal Entries

CH 2A

"Experience are like waves, they come to you on shore of life, drag the sand from beneath your feet, but each wave makes you stand on a new base,"

DOUBLE ENTRY SYSTEM OF ACCOUNTING

1. **Origin:** Modern Accounting is based on Double Entry System which was developed in the 15th Century in Italy by Luca Pacioli, a philosopher turned mathematician. His work / treatise "Summa de Arithmetica, Geometria and Proportioni et Proportionalita" ("Everything about Arithmetic Geometry, Proportions and Proportionality"), forms the basis of present-day double entry system.
2. **Meaning**:
   (a) The Double Entry System is a system which analyses transactions and events into two aspects, as per the Dual Aspect Concept. In accounting terms, these two aspects are called Debit and Credit.
   (b) The Double Entry system recognizes and records both the aspects (i.e. Debit and Credit) of every transaction and event in a systematic manner.
3. **Significance / Advantages** *(CA Foundation Jan 2025) (5 Marks)* The Double Entry System –
   (a) Ensures arithmetical accuracy of accounting process, so that at all points of time the total of Debits equal to the sum of Credits.
   (b) Provides basis for the fundamental accounting equation, i.e. Equity + Liabilities= Assets.
   (c) Permits maintenance of accounts, in as much details as necessary, and provides a useful information system for decision -making process.
   (d) Provides smooth and effective comparison of financial information over various time periods.
   (e) Helps in ascertainment of the correct profit / loss; along with details thereof, i.e. result of operations or performance during the period.
   (f) Aids in reporting the financial position as on a particular date, i.e. Balance Sheet can be prepared.
   (g) Ensures compliance with legal requirements, e.g. Companies Act requires maintenance of -accounting records under Double-Entry System only.

ACCOUNT - MEANING

1. **Meaning**: Under the Double Entry System, the Dual Aspects (Debit and Credit) relating to each transaction under each of Assets / Liabilities / Incomes / Expenses are presented in a "T" Form. This is called as an **Account**.
2. An "Account" represents a detailed record of transactions and changes that have occurred in a particular Asset, Liability, Expenses, Loss, Gain or Capital during an accounting period.
3. The Left Hand Side of the "T" Form Account is called **Debit side (in short Dr.),** and the Right Hand Side of the Account is called **as Credit Side (in short Cr.).**
4. The terms Debit (Dr.) and Credit (Cr.) only describe the two sides of the Account. (Note: Debit and Credit does not mean unfavourable and favourable respectively.)

Model Format of an "Account"

Dr. ←→ Left Side ←→ Account ←→ Right Side ←→ Cr.

Date	Particulars	Ref.	Amount (₹)	Date	Particulars	Ref.	Amount (₹)
	Opening Bal.		XXX				XXX
			XXX		----		XXX
	----		XXX		Transactions		XXX
	Transactions		XXX		Closing Bal.		XXX
	Total		**XXXXX**		**Total**		**XXXXX**

Notes:

(a) "Ref." represents 'Reference" - The source from which the transactions are recorded in the Account.

(b) Entries on the left side are prefixed by "TO". Entries on the right side are "BY".

(c) Opening Balance will be on the left side for Debit Balance accounts. It will be on credit side for Credit Balance Accounts.

APPROACHES TO ACCOUNTING – 2 METHODS

To analyse the Dual Aspect of each transaction, the following approaches can be applied —

1. **Accounting Equation Approach:** Here, the dual aspect of each transaction is identified by reference to the impact on the basic accounting equation, i.e. Equity + Liabilities = Assets.

2. **Traditional Approach:** Each transaction is recorded in the books by reference to the rules of Debit and Credit only. These Rules are called Golden Rules of Accounting.

ACCOUNTING EQUATION APPROACH

1. **Basis**: The transactions that are to be recorded on the debit side (left side) and on the credit side (right side) depends on the nature of item for which account is to be prepared i.e. whether the account represents an Asset / Liability /Expense / Income / Capital.

2. The rules for debiting / crediting the various account types are given below
   (a) Increase in Equity / Liabilities / Incomes represent Credits, while decreases thereof are Debits.
   (b) Increase in Assets / Expenses represent Debits, while decreases thereof are Credits.

3. **Nature of Balance:** An A/c may have any ONE of the following balances - (Only one type of balance possible at a time)

"Debit Balance Account"	Total of Debit Side > Total of Credit Side
"Credit Balance Account"	Total of Credit Side > Total of Debit Side
"Nil Balance Account"	Total of Debit Side = Total of Credit Side

4. Type of Account and Nature of Balance:

Type of Account	Debit Side Records	Credit Side Records	Nature of Balance
Assets	Increases	Decreases	Debit Balance
Liabilities	Decreases	Increases	Credit Balance
Capital	Decreases	Increases	Credit Balance
Incomes	Decreases	Increases	Credit Balance
Expenses	Increases	Decreases	Debit Balance

TRADITIONAL APPROACH – GOLDEN RULES OF ACCOUNTING

1. This is commonly used method for accounting the transactions. These rules form basis for accounting.
2. **Principle:** The Golden Rules of Accounting in respect of the Double Entry System are –

Nature of Account	When Debited	When Credited
1. Personal Account	Debit the Receiver	Credit the Giver
2. Real Account	Debit What comes in	Credit What goes out
3. Nominal Account	Debit All Expenses and Losses	Credit All Incomes and Gains

ACCOUNTS

- **Personal Accounts**
  - Natural
  - Artificial (Legal)
  - Representative
- **Impersonal Accounts**
  - Real
  - Nominal

	Type of Account	Description and Examples
Personal Accounts	**Natural Personal Accounts**	All Accounts which record transactions of Natural human beings, i.e. Ram, Lakshman, Krishna, Joseph, Kabir, Debtors, Creditors etc.
	Artificial (Legal) Personal Accounts	All Accounts which record the transactions with other business entities having separate legal status for accounting purposes, i.e. Ram Industries Ltd. (Company), Government, Co-operative Societies, Clubs, etc.
	Representative Personal Accounts	All Accounts which indirectly represent persons. *For Example* Name of the Account — Indirectly represents Capital Account — Owner Outstanding Expenses — Service Provider / Supplier Prepaid Expenses — Service Provider / Supplier Accrued Incomes — Customers Pre Received Income — Customers
Impersonal Accounts	**Real Accounts**	All Accounts which record transactions relating to Assets of the Firm (but not except those covered under Personal A/c above – i.e. Debtors, Prepaid expenses etc.) *For Example*: Building, Machinery, Cash, Investments, etc.
	Nominal Accounts	All Accounts which record transactions relating to – • Incomes / Gains, e.g. Sales, Rent / Interest / Dividend / Commission Received, Profit on Sale of Fixed Assets, etc. • Expenses / Losses, e.g. Salary, Wages, Rent Paid, Insurance, Bad Debts, Depreciation, Discounts allowed, etc.

MEANING OF PROFITS / LOSSES AND FINANCIAL POSITION

1. **Profit / Losses:** The Main Purpose of a business is to achieve profits. "Profits" means Excess of Incomes over expenses. "Losses" refers to excess of Expenses over Incomes. Hence, Profits / Losses are concerned with Incomes / Gains and Expenses / Losses of the business. (Otherwise called as Operating Results)

2. **Financial Position**: It refers the wealth of the business. A business is wealthier when it has more assets and less outside liabilities. Hence, Financial Position is concerned with the assets and Liabilities of the business.

DETERMINATION OF PROFITS / LOSSES AND FINANCIAL POSITION

1. The Operating Results and Financial Position of the business can be determined through any of the following methods (a) Accounting Equation Approach (b) Traditional Approach.

2. Using Accounting Equation Approach:

Purpose	Method of Determination
Determination of Profits / Losses	Step I: Find difference between [Closing Capital – Opening Capital] Step II: If Difference > 0 = Profits; If Difference < 0 = Losses **Note**: Capital = Total Assets – Total Liabilities
Determination of Financial Position	A Statement is prepared showing all ASSETS on right side and all LIABILITIES on left side. Total of Assets and Liabilities shall be equal.

3. Using Traditional Approach: (This is the popular method)

Purpose	Method of Determination
Determination of Profits / Losses	2 Accounts –"Trading Account & Profit & Loss Account' prepared Those two accounts compare the Incomes and Expenses to ascertain the profits.
Determination of Financial Position	Balance Sheet is prepared: It is a Statement showing all ASSETS on right side and of all LIABILITIES on left side. The Total of Assets and Liabilities shall be equal.

JOURNAL - MEANING

1. Meaning:

(a) Journal is the Book of Primary Entry / Book of Original Entry.

(b) It is the Initial Accounts Book in which the transactions are **RECORDED** on their occurrence.

(c) Entry is made in this book to show which Account should be debited and which Account should be credited.

2. Features of Journal:

(a) Once a transaction happens, it is analysed to determine the Debit aspect and Credit aspect and entered in Journal.

(b) All transactions are first recorded in the Journal Book as and when they occur. Hence, the Journal is maintained in **chronological, i.e. Date -wise order**.

(c) The Journal is referred to as Subsidiary Book (as entries are posted from this book into Ledger subsequently.)

3. **Purposes of Journal:** Based on Dual Aspect Concept, every transaction has two equal aspects - Debit and Credit. Hence, it is essential to identify the accounts which are involved and to decide the accounts to be debited / credited.
4. **Journalising:** Recording entries in Journal is called "Journalising the Entries". Each entry is called as "Journal Entry".
5. **Source for recording:** The sources available for recording in the Journal are (a) Vouchers (b) Documents (c) Invoices.
   (Note: Source documents means all documents in books which contain financial records & act as evidence of transactions)
6. **The format of the Journal is as under** –

Date	Particulars	Ledger Folio (LF)	Debit Amt (₹)	Credit Amt (₹)
(1)	(2)	(3)	(4)	(5)
31.01.23	Cash A/c Dr.	100	10,000	
	To X A/c	250		10,000
	(Being Cash received from X			

Narration

Cash A/c is in 100th Page in Ledger

EQUAL

7. **Types of Journal Entries**:

Type	Meaning
Simple Journal Entry	One Debit and One Credit present for equal amount
Compound Journal Entry	It is a journal entry which contains one debit and two or more credits / two or more debits and one credit/ two or more debits and credits.

8. Advantages of Journal:

(a) Since Journal is maintained in chronological, i.e. date wise order, complete information on day-to-day transactions can be obtained.

(b) Journal forms the basis for posting the entries into the Ledger subsequently.

(c) Narration to Journal Entries provides explanation for the nature and purpose of transaction.

9. **Subsidiary Books**: In certain cases, instead of Journal, Subsidiary Books are maintained.

ACCOUNTING FOR GST

Introduction to GST

Goods and Services Tax (GST) is a comprehensive Indirect Tax* which has subsumed multiple Indirect Taxes in India such as State Value added Tax (VAT) which was levied on sale of goods, Excise Duty, which was levied on manufacture or production of goods, Service Tax which was levied on provision of services etc. GST is a single tax on the supply of goods and services, right from the manufacturer to consumer.

** An indirect tax is a tax whose incidence is borne by the consumers who ultimately consume the product or service. The immediate liability to pay the tax may fall upon another person such as a manufacturer or provider of service or seller of goods, but the same is collected from the person purchasing the goods (recipient of goods or services).*

Salient features of GST

a) GST is levied on supply i.e., manufacture or sale of goods and provision of services. In other words, supply is taxable event which own its occurrence creates or attracts the liability to pay tax.

b) Under GST, tax is levied only on the value added at each stage of the supply chain.

c) GST is a destination-based consumption tax, i.e. the tax is levied at the place where the goods or services are consumed, rather than the place where they are produced.

d) There is no tax on tax or cascading of taxes under GST system.

e) Under GST, there is a harmonization of laws, procedures and rates of tax across the country.

Types of Taxes under GST

Before going through the types of taxes under GST, it is important to understand the concept of intra-State supply and inter-State supply under GST which determines the type of tax to be charged by the supplier. The Concept of intra-state supply & inter-state supply depends upon on the location of the supplier & place of supply (place where goods/services are consumed. As a general rule, where the location of the supplier and the place of supply of goods or services are in the same State/Union territory, it is treated as **intra-State supply** of goods or services respectively.

Similarly, where the location of the supplier and the place of supply of goods or services are in (i) two different States or (ii) two different Union Territories or (iii) a State and a Union territory, it is treated as **inter-State supply** of goods or services respectively.

GST has a dual aspect with the Centre and States simultaneously levying on a common tax base. There are three main components of GST which are:

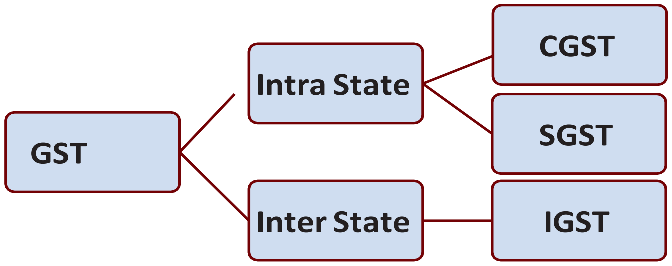
a) **Central Goods and Service Tax (CGST)** is levied and collected by the Centre on the "Intra - State" supply of goods and services.

b) **State Goods and Services Tax (SGST)** is levied and collected by the State Governments (including Union Territories with legislature, for example Delhi, Pondicherry, Jammu and Kashmir) on "Intra state" supply of goods and services

c) **Union Territory Goods and Service Tax (UTGST)** is levied and collected by Union Territories without Legislatures [i.e. Andaman and Nicobar Islands, Lakshadweep, Ladakh, Dadra and Nagar Haveli & Daman and Diu and Chandigarh] on "intra-state" supply of goods and services.

d) **Integrated Goods and services tax (IGST):** It is the GST levied on the "inter state" supply of goods and services and is collected by the Centre. IGST is equivalent to the sum total of CGST and SGST.

GST is a "Consumption Based Tax" i.e. the tax is received by the State in which the goods or services are consumed & not by the state in which the goods and services are manufactured.



Input and Output GST

The tax paid by the recipient on procurement of goods /services is called Input tax. An entity at each stage is permitted to avail credit of GST paid on the purchase of goods and /or availment of services and can set off this credit against the GST payable on the goods and/or services supplied by him. Thus, the final consumer bears the GST charged in the supply chain, with set-off benefits at all the previous stages. Hence, the tax will be levied only on the value added, which results in avoiding double taxation.

For example, if tax payable by a manufacturer on the output, i.e. final product is ₹750 and he has already paid tax on ₹500 on input, i.e. purchases, then he can claim 'Input Credit' of ₹500 and he needs to deposit only ₹250 in cash.

Output tax means the GST charged on supply of goods or services made by a supplier.

Input tax means the credit of Input tax already paid.

Utilisation of Input Tax Credit under GST

Tax credit of CGST, SGST and IGST can be utilized in the following manner:

- **Utilization of IGST Credit:** IGST credit has to be first utilized against IGST liability and if any balance is still available, the same can be utilized against CGST or/and SGST in any order and in any proportion.
- **Utilization of CGST Credit:** CGST credit has to be first utilized against CGST liability and if any balance is available, same can be utilized against IGST. However, CGST credit cannot be utilized against SGST.
- **Utilization of SGST Credit:** SGST credit has to be first utilized against SGST liability and if any balance is available, same can be utilized against IGST. However, SGST credit cannot be utilized against CGST.

	Input GST (credit can be availed, hence asset)	Output GST (charged to the consumer, payable by the supplier, hence liability)
Nature	At the time of purchases of goods (including fixed assets) or services, Input GST A/c (CGST & SGST or IGST) is debited.	At the time of sale of goods/assets or supply of services, Output GST A/c (CGST & SGST or IGST) is credited.
Intra-state transaction	CGST paid is debited to "Input CGST A/c" & SGST paid is debited to Input SGST".	CGST charged is credited to "Output CGST A/c" and SGST charged is credited to "Output SGST A/c "
Inter-state transaction	IGST paid is debited to "Input IGST A/c".	IGST charged is credited to "Output IGST A/c"

Reversal of GST	Input GST paid at the time of purchase are reversed in the following situations: • Purchases Return • Drawings • Goods distributed as free samples • Goods lost in fire or theft. • Input tax credit of supplies which are not allowed to be availed by recipient.	Output GST charged is reversed when the goods are returned by the purchaser (Sales Return)
Utilization of Input tax credit	Input GST A/c is credited when tax is paid by utilizing input tax.	

Double entry book-keeping with GST

The Double entry book-keeping records need to show the GST values separately so that the purchases, expenses and sales are posted net i.e. without the addition of GST.

Journal entry in case of Purchase of Goods or services

Purchases A/c	Dr.	Net Amount (excluding GST)	
Input GST A/c	Dr.	Amount of GST	
To Account Payable/Creditors			Gross Amount (including GST)

Journal entry in case of Sales of Goods or services

Account Receivable/Debtors A/c	Dr.	Gross Amount (including GST)	
To Sales A/c			Net Amount (excluding GST)
To Output GST			Amount of GST

Journal entry in case of Utilization of Input Tax Credit towards payment of Output Tax

Output CGST A/c Dr.	Amount of GST liability
Output SGST A/c Dr.	Amount of GST liability
Output IGST A/c Dr.	Amount of GST liability
To Input CGST A/c	Amount of output GST liability paid utilizing Input CGST
To Input SGST A/c	Amount of output GST liability paid utilizing Input SGST
To Input IGST A/c	Amount of output GST liability paid utilizing Input IGST

ASSIGNMENT QUESTIONS

Question 1 - *(ICAI Study Material)* Pg no.______

Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

2023 April		(₹ in 000)
1.	R started business with	5,000
2.	He purchased furniture for	1,200
3.	Paid salary to his clerk	1,100
4.	Paid rent	1,150
5.	Received interest	2,000

Solution

2023 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (₹ in 000)	Credit (₹ in 000)
1.	₹ 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	5,000
2.	Purchased furniture for ₹ 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	1,200
3.	Paid ₹ 1,100 salary to employee	Salary & Bank	Expense Asset	Increased Decreased	1,100	1,100
4.	Paid Rent ₹ 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	1,150
5.	Received interest ₹ 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	2,000

Question 2 *(ICAI Study Material)* Pg no.______

Make accounting equation from following information available at the beginning of accounting period:

Particulars	(₹ in 000)
Capital	51,000
Loan	11,500
Trade payables	5,700
Fixed Assets	12,800
Inventory	22,600
Trade receivables	17,500
Cash and Bank	15,300

At the end of the accounting period the balances appear as follows:

Particulars	(₹ in 000)
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720
Inventory	22,900
Trade receivables	17,500
Cash and Bank	15,600

(a) Reset the equation and find out profit.

(b) Prepare Balance Sheet at the end of the accounting period.

Question 3 *(ICAI Study Material)/(RTP May 2018)/(May 2021)/(Nov 2022) (Similar)* **Pg no.______**

Prepare Journal Entries for the following transactions in the books of Gamma Bros.

a) Employees had taken inventory worth ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
b) Wages paid for erection of Machinery ₹ 18,000
c) Income tax liability of proprietor ₹ 17,000 was paid out of petty cash.
d) Purchase of goods from Naveen of the list price of ₹ 2,00,000. He allowed 10% trade discount, ₹ 5,000 cash discount was also allowed for quick payment.

Question 4 *(ICAI Study Material)* **Pg no.______**

Mr. Dravid has provided following details related to his financials. Find out the missing figures:

Particulars	(₹ in 000)
Profits earned during the year	5,000
Assets at the beginning of year	A
Liabilities at the beginning of year	12,000
Assets at the end of the year	B
Liabilities at the end of the year	C
Closing capital	35,000
Total liabilities including capital at the end of the year	50,000

Question 5 *(RTP Nov 2018)/(Nov 2019)/(Nov 2020)/(May 2023)/(Jan 2025) (Similar)* **Pg no.______**

Pass journal entry in each of the following cases.

a) A running business purchased by Mohan with following assets & liabilities: Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.
b) Goods distributed by way of free samples, ₹ 1,000.
c) Rahim became insolvent & could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Question 6 *(ICAI Study Material)* **Pg no.______**

Journalise the following transactions in the books of Mr. Rohit:

i. Purchased goods from Sahil for ₹ 50,000 plus CGST and SGST @ 9% each.
ii. Purchased goods from Sam for ₹ 40,000 at a trade discount of 10% plus CGST and SGST @ 9% each. ₹ 20,000 was paid immediately and balance payable after 3 months.
iii. Goods costing ₹ 20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.
iv. Paid rent to Gagandeep for ₹ 30,000 plus CGST and SGST @ 6% each.
v. Goods costing ₹ 5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.
vi. Purchased furniture for ₹ 44,800 including IGST @ 12%.
vii. Purchased machinery from M/s Symphony industries for ₹ 1,40,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately and balance to be paid after two months.

Solution

In the books of Mr. Rohit

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Purchases A/c	Dr.		50,000	
	Input CGST A/c (50,000 x 9%)	Dr.		4,500	
	Input SGST A/c (50,000 x 9%)	Dr.		4,500	
	To Sahil's A/c				59,000

	(Being goods purchased from Sahil, CGST and SGST paid @ 9% each)			
(ii)	Purchases A/c (40,000 x 90%) Dr.		36,000	
	Input CGST A/c (36,000 x 9%) Dr.		3,240	
	Input SGST A/c (36,000 x 9%) Dr.		3,240	
	To Sam's A/c			22,480
	To Bank A/c			20,000
	(Being goods purchased from Sam, CGST and SGST payable @ 9% each)			
(iii)	Drawings A/c* Dr.		23,600	
	To Purchase A/c			20,000
	To Input CGST A/c (20,000 x 9%)			1,800
	To Input SGST A/c (20,000 x 9%)			1,800
	(Being goods withdrawn for personal use and input GST and input SGST debited at the time of purchase reversed)			
(iv)	Rent A/c Dr.		30,000	
	Input CGST A/c (30,000 x 6%) Dr.		1,800	
	Input SGST A/c (30,000 x 6%) Dr.		1,800	
	To Gagandeep A/c			33,600
	(Being rent paid to Gagandeep)			
(v)	Sam's A/c Dr.		5,310	
	To Purchases Return A/c ** (5,000 – 10% trade Discount)			4,500
	To Input CGST A/c (4,500 x 9%)			405
	To Input SGST A/c (4,500 x 9%)			405
	(Being goods returned to Sam and input CGST & SGST debited at the time of purchases reversed)			
(vi)	Furniture A/c (WN 1) Dr.		40,000	
	Input IGST A/c Dr.		4,800	
	To Bank A/c			44,800
	(Being furniture purchased paid IGST @ 12%)			
(vii)	Machinery A/c Dr.		1,40,000	
	Input CGST A/c (1,40,000 x 9%) Dr.		12,600	
	Input SGST A/c (1,40,000 x 9%) Dr.		12,600	
	To Bank A/c			1,00,000
	To Symphony Industries			65,200
	(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)			

* The input tax availed earlier is reversed, because these goods are 'consumed' by Mr. Rohit himself. Since he cannot 'sell' goods to himself and charged output tax, the input tax thereon is reversed, since in this case Mr. Rohit himself is the ultimate consumer of those goods.

** Since goods are returned to the supplier, the input tax credit availed earlier on those goods is to be reversed, since these goods are no longer available to be sold.

Working Note:

1. Furniture purchased is including IGST @ 12%. So, value of furniture excluding IGST = ₹ 44,800 × 100/112 = ₹ 40,000. IGST = ₹ 40,000 × 12% = ₹ 4,800.

Question 7 *(ICAI Study Material)* **Pg no.______**

Journalise the following transactions in the books of Ms. Nidhi traders for the month of July, 2022

3 Sold Goods for ₹ 50,000, charged CGST and SGST @ 6% each.
4 Sold goods to Surjeet for ₹ 28,000 including CGST and SGST @ 6% each.
5 Received ₹ 25,200 from Surjeet in full settlement of his account of ₹ 28,000.
6 Sold goods to Kapil for ₹ 30,000 charged IGST @ 12%. Received ₹ 12,000 immediately and balance to be received after one month.
10 Kapil was allowed rebate of ₹ 5,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.
12 Sold goods to Manpreet for ₹ 1,00,000 at trade discount of 20% and charged IGST @ 12%
13 Goods of list price ₹ 20,000 returned by Manpreet.
17 Received commission of ₹ 15,000, charged CGST and SGST @ 6% each.

Solution

In the Books of Ms. Nidhi
Journal

July 2022	Particulars	L.F.	Dr. (₹)	Cr. (₹)
3	Bank A/c Dr.		56,000	
	To Sales A/c			50,000
	To Output CGST A/c			3,000
	To Output SGST A/c			3,000
	(Being goods sold for cash, charged CGST and SGST @ 6% each)			
4	Surjeet's A/c Dr.		28,000	
	To Sales A/c			25,000
	To Output CGST A/c			1,500
	To Output SGST A/c			1,500
	(Being goods sold to Surjeet, charged CGST and SGST @ 6% each)(refer W.N.)			
5	Bank A/c Dr.		25,200	
	Discount Allowed A/c Dr.		2,800	
	To Surjeet A/c			28,000
	(Being amount received from Surjeet in full settlement of ₹ 28,000 after allowing him discount of ₹ 2,800)			
6	Bank A/c Dr.		12,000	
	Kapil's A/c Dr.		21,600	
	To Sales A/c			30,000
	To Output IGST A/c			3,600
	(Being goods sold to Kapil, charged IGST @ 12% and received ₹ 12,000 in cash and balance receivable after one month)			
10	Rebate A/c * Dr.		5,000	
	Output IGST A/c Dr.		600	
	To Kapil's A/c			5,600
	(Being rebate allowed on goods sold to Kapil, Output IGST charged at the time of sales, now reversed)			

12	Manpreet's A/c Dr.		89,600	
	To Sales A/c (1,00,000 x 80%)			80,000
	To Output IGST A/c (80,000 x 12%)			9,600
	(Being goods sold to Manpreet at trade discount of 20% and charged IGST @ 12%)			
13	Sales Return A/c Dr.		16,000	
	Output IGST A/c Dr.		1,920	
	To Manpreet A/c			17,920
	(Being goods returned by Manpreet and Output IGST charged at the time of sales now reversed)			
17	Cash A/c Dr.		16,800	
	To Commission A/c			15,000
	To Output CGST A/c (15,000 x 6%)			900
	To Output SGST A/c (15,000 x 6%)			900
	(Being commission received charged CGST and SGST @ 6% each)			

*Since rebate is on account of defective goods which cannot be sold/utilized further by Kapil, the output GST charged thereon is also reversed. This treatment is like that of Sales Return. If rebate was on account of other reasons (such as prompt payment), Output IGST would not be reversed.

Working Note:
Goods sold to Surjeet is including CGST and SGST @ 6% each. So, sales excluding CGST and SGST = ₹ 28,000 × 100/112 = ₹ 25,000. CGST and SGST = ₹ 25,000 × 6% = ₹ 1,500 each.

Question 8 *(ICAI Study Material)* Pg no.______

Record the following transactions in a Journal, assuming CGST and SGST@ 6% each.
(i) Sold goods to Mukesh at the list price of ₹ 50,000 less 20% trade discount.
(ii) Sold goods to Mukesh at the list price of ₹ 1,00,000 less 20% trade discount and 5% cash discount.
(iii) Sold goods to Mukesh at the list price of ₹ 1,50,000 less 20% trade discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

Solution

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Mukesh A/c Dr.		44,800	
	To Sales A/c			40,000
	To Output CGST A/c			2,400
	To Output SGST A/c			2,400
	(Being goods sold to Mukesh at a trade discount of 20% charged CGST and SGST @ 6% each)			
(ii)	Discount Allowed A/c Dr.		4,000	
	Bank A/c Dr.		85,600	
	To Sales A/c			80,000
	To Output CGST A/c			4,800
	To Output SGST A/c			4,800
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount, charged CGST and SGST @ 6% each)*			

(iii)	Bank A/c Dr.		60,480	
	Cash A/c Dr.		20,160	
	Mukesh's A/c (refer W. N.) Dr.		53,760	
	To Sales A/c (1,50,000 x 80%)			1,20,000
	To Output CGST A/c (1,20,000 x 6%)			7,200
	To Output SGST A/c (1,20,000 x 6%)			7,200
	(Being goods sold to Mukesh at a trade discount of 20% and received 60%, charged CGST and SGST @ 6% each)			

Note: After allowing cash discount of ₹ 4,000 (₹ 80,000 × 5%), the balance of ₹ 85,600 is received. Since discount is on account of prompt payment, output CGST and SGST is computed on value determine after deducting trade discount.

Working Note: After allowing trade discount of ₹ 30,000 on ₹ 1,50,000 = ₹ 1,20,000, 60% of the balance amount i.e. ₹ 1,34,400 (₹ 1,20,000 + 12% GST ₹ 14,400) is paid in cash and by cheque.
Hence, the amount paid in cash and cheque = ₹ 1,34,400 × 60% = 80,640.
Amount paid by cheque = ₹ 80,640 × 3/4 = ₹ 60,480
Amount paid in cash = ₹ 80,640 x 1/4 = 20,160
Mukesh's A/c = (₹ 1,20,000 + ₹ 14,400– ₹ 60,480 – ₹ 20,160) = ₹ 53,760

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The rent paid to landlord is credited to
   a) Landlord's account
   b) Rent account
   c) Cash account

2) In case of a debt becoming bad, the amount should be credited to
   a) Trade receivables account
   b) Bad debts account
   c) Cash account

3) A Ltd. has a ₹ 35,000 account receivable from Mohan. On January 22, Mohan makes a partial payment of ₹ 21,000 to A Ltd. The journal entry made on January 22 by A Ltd. to record this transaction includes:
   a) A credit to the cash received account of ₹ 21,000
   b) A credit to the Accounts receivable account of ₹ 21,000
   c) A debit to the cash account of ₹ 14,000

4) Which financial statement represents the accounting equation – Assets = Liabilities + Owner's equity:
   a) Income Statement
   b) Statement of Cash flows
   c) Balance Sheet.

5) Which account is the odd one out?
   a) Office furniture & Equipment.
   b) Freehold land and Buildings.
   c) Inventory of materials.

6) The debts written off as bad, if recovered subsequently are
   a) Credited to Bad Debts Recovered Account
   b) Credited to Trade receivables Account.
   c) Debited to Profit and Loss Account.

7) In Double Entry System of Book-keeping every business transaction affects:
   a) Two accounts
   b) Two sides of the same account.
   c) The same account on two different dates.

8) A sale of goods to Ram for cash should be debited to:
   a) Ram
   b) Cash
   c) Sales

ANSWERS MCQs

1. (c) 2. (a) 3. (b) 4. (c) 5. (c) 6. (a) 7. (a) 8. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) In Accounting Equation Approach, Equity + Long Term Liabilities = Fixed Assets + Current Assets – Current Liabilities
2) In the Traditional Approach, a debtor becomes receiver.
3) The rule of nominal account states that all expenses & losses are recorded on credit side.
4) Journal Proper is also called subsidiary book.
5) Capital account has a debit balance.
6) Purchase account is a nominal account.
7) All the personal & real account are recorded in P&L Acc.
8) Asset side of balance sheet contains all the personal & nominal accounts.
9) Capital account is personal account.
10) Journal is also known as book of original entry.
11) Patent Rights is in the nature of Nominal Account.
12) Goodwill is not a fictitious asset.
13) Goodwill is a current asset.
14) Outstanding expenditure is a nominal account.
15) Patent Right is in the nature of Real Account.
16) The return of goods by a customer should be debited to Return Outward Account.
17) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to purchase account.
18) Rent paid account is a Nominal Account whereas, Rent received account is a Real Account.
19) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
20) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash – Current Liabilities

Solution

1) **True**: As per modern accounting equation approach-it is the basic formula in the accounting process.
2) **True**: In the traditional approach, a debtor becomes receiver.
3) **False**: The rule of nominal account states that all expenses & losses are recorded on debit side
4) **True**: It is one of the books where in the transactions not entered in other books are entered in this book
5) **False**: Capital account has a credit balance
6) **True**: As it is considered as an expense.
7) **False**: All the personal & real accounts are recorded in balance sheet
8) **False**: Asset side of balance sheet contains all the personal & real accounts
9) **True**: As it in the name of the proprietor who is bringing in the capital to the business
10) **True**: As the transactions are entered first in this book as a first hand record.
11) **False: –** It is a Real A/c because it is an intangible asset.
12) **True**: – Goodwill is an intangible asset.
13) **False**: – Goodwill is a fixed asset and is in the nature of Real A/c. It is not a fictitious asset but an intangible asset.
14) **False**: – It is a personal account as it represents a liability due to some person.
15) **True**: – It is an intangible asset and is in the nature of Real account.
16) **False**: – It is debited to Return Inwards A/c.
17) **True**: – Goods taken by the proprietor for personal use should be debited to Drawings Account and Credited to Purchase Account.

18) **False**: - Rent is an either income or expense so it is a nominal account whether it is received or receivable or paid or payables.
19) **False**: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
20) **False**: The right hand side of the equation includes cash twice – once as part of current assets and another separately. The basic accounting equation is Equity + Long Term Liabilities = Fixed Assets + Current Assets – Current Liabilities

SHORT NOTE ON CLASSIFICATION OF ACCOUNTS

Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies broad categories, which are as follows:

1) **Assets**: These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.
2) **Liabilities**: These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.
3) **Capital**: It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.
   - Expenses: These represents those accounts which show the amount spent or even lost in carrying on operations.
   - Incomes: These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

1) **Personal Accounts:** These accounts relate to persons, institutions, debtors or creditors.
2) **Impersonal Accounts:** These represent accounts which are not personal. These can be further sub-divided as follows:
   - Real Accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc.
   - Nominal accounts: These accounts relate to expenses, losses, gains, revenues etc.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Analyse transactions of M/s Sahil & Co. for the month of March, 2023 on the basis of double entry system by adopting the following approaches:

(A) Accounting Equation Approach (B) Traditional Approach.

Transactions for the month of March, 2023 were as follows (figures are in '000):

1. Sahil introduced capital through bank of ₹ 4,000.
2. Cash withdrawn from the City Bank ₹ 200.
3. Loan of ₹ 500 taken from Mr. Y.
4. Salaries paid for the month of March, 2023, ₹ 300 and ₹ 100 is still payable for the month of March, 2023.
5. Furniture purchased ₹ 500.

What conclusions one can draw from the above analysis?

Question 2 *(ICAI Study Material)* Pg no.______

Journalise the following transactions. Also state the nature of each account involved.

1) December 1, 2023, Ajit started business with capital ₹ 4,00,000
2) December 3, he withdrew cash for business from the Bank ₹ 2,000.
3) December 5, he purchased goods making payment through bank ₹ 15,000.
4) December 8, he sold goods ₹ 16,000 and received payment through bank.
5) December 10, he purchased furniture and paid by cheque ₹ 2,500.
6) December 12, he sold goods to Arvind ₹ 2,400.
7) December 14, he purchased goods from Amrit ₹ 10,000.
8) December 15, he returned goods to Amrit ₹ 500.
9) December 16, he received from Arvind ₹ 2,300 in full settlement.
10) December 18, he withdrew goods for personal use ₹ 1,000.
11) December 20, he withdrew cash from business for personal use ₹ 2,000.
12) December 24, he paid telephone charges ₹ 110.
13) December 26, amount paid to Amrit in full settlement ₹ 9,450.
14) December 31, paid for stationery ₹ 200, rent ₹5,000 and salaries to staff ₹ 2,000 from bank
15) December 31, goods distributed by way of free samples ₹ 2,000.

Question 3 *(ICAI Study Material)* Pg no.______

Show classification of following Accounts under traditional & accounting equation approach: (a) Building; (b) Purchases; (c) Sales; (d) Bank Fixed Deposit; (e) Rent; (f) Rent Outstanding; (g) Cash; (h) Adjusted Purchases; (i) Closing Inventory; (j) Investments; (k) Trade receivables; (l) GST Payable, (m) Discount Allowed; (n) Bad Debts; (o) Capital; (p) Drawings; (q) Interest Receivable account; (r) Rent received in advance account; (s) Prepaid salary account; (t) Bad debts recovered account; (u) Depreciation account, (v) Personal income-tax account.

Question 4 *(ICAI Study Material)* Pg no.______

Transactions of Ramesh for April are given below. Journalise them.

2023	Particulars	Amount
April 1	Ramesh started business with	10,00,000
April 3	Bought goods for cash	50,000
April 5	Drew cash from bank	10,000
April 13	Sold to Krishna- goods on credit	1,50,000
April 20	Bought from Shyam goods on credit	2,25,000

April 24	Received from Krishna Allowed him discount	1,45,000 5,000
April 28	Paid Shyam cash Discount allowed	2,15,000 10,000
April 30	Cash sales for the month	8,00,000
	Paid Rent	50,000
	Paid Salary	1,00,000

Question 5 *(ICAI Study Material)* Pg no.______

Calculate the missing amount for the following

	Assets	Liabilities	Capital
(a)	15,00,000	2,50,000	?
(b)	?	1,50,000	75,000
(c)	14,50,000	?	13,75,000
(d)	57,00,000	-2,80,000	?

Question 6 *(ICAI Study Material)* Pg no.______

Show the effect of increase = (+), decrease = (-) and no change = (0) on the assets:

a. Purchased office furniture, payment to be made next month.
b. Collected cash for repair services
c. Goods sold on credit.
d. Withdrawal of cash by the owner for personal use.
e. Hired an employee as sales manager of the north wing.
f. Returned goods worth ₹ 50,000.
g. One of our debtor agreed to pay his dues to Mr. C who is a creditor of the company with the same amount being due to him.
h. Entered into an agreement with Mehta & Co. to purchase all raw materials from their company from next year.

Also give reasons for your answers.

Question 7 *(ICAI Study Material)* Pg no.______

Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2023. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during year	1,00,000

Additional Information: During year sales of ₹ 15,55,000 was made of which ₹ 15,00,000 have been received.

Question 8 Pg no.______

Find out the profit for the year through accounting equation approach:-

Particulars	31.03.2020	31.03.2021
Capital	1,00,000	?
12% Bank Loan	1,00,000	1,00,000
Trade Payables	75,000	70,000

Fixed Assets	1,25,000	1,10,000
Trade Receivables	75,000	80,000
Inventory	70,000	80,000
Cash & Bank	5,000	6,000

Question 9 *(RTP May 2022) / (RTP Sep 2024)* Pg no.______

You are required to pass necessary journal entries in the books of Kewal:

a) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.
b) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000
c) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.
d) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.
e) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.
f) Purchased second hand machinery from Jawahar Industries for ₹3,00,000 plus CGST and SGST @6% each. Paid 1,00,000 immediately by cheque and balance to be paid after two months.

Question 10 *(RTP May 2023)* Pg no.______

Write a short note on Journal.

Question 11 *(CA Foundation June 2023) (5 Marks)* Pg no.______

What are the importance of Journal?

Question 12 *(RTP June 2024)* Pg no.______

Journalise the following transactions in the books of Gopal Traders:

2023	
April,5	Discounted a bill of exchange of ₹20,000 at 2% through bank.
April,8	Sold goods to Malik costing ₹ 20,000 at 25% above cost less trade discount of 10% plus CGST and SGST @ 6%.
April,10	Purchased goods from trends industries for ₹ 8,000 plus CGST and SGST @6% each.
April,16	Received ₹5,800 form Amar Singh in full settlement of his account for ₹ 6,000.
April,19	Goods given as charity costing ₹800, sale price ₹1,000. CGST and SGST @6% each was paid at the time of purchase of such goods.
April,23	Received ₹510 from Ganesh on his account for ₹600.
April,25	Interest on loan from Akash ₹1,000 due but not paid.

Question 13 *(CA Foundation June 2024) (4 Marks) / (ICAI Study Material) (Sim.)* Pg no.______

Pass journal entries for the following transactions in the books of Mr. Kapil:

(i) Purchased goods from Sonu for ₹ 1,50,000 at a trade discount of 10% plus CGST and SGST@ 6% each.
(ii) Sold goods to Mohit for ₹ 50,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.
(iii) Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each.
(iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

Question 14 (RTP May 2025) Pg no.______

Prepare Journal Entries for the following transactions in the books of Harpreet

(i) Customer's cheque for ₹ 4,000 returned dishonoured for insufficient funds in his accounts. The customer had availed a cash discount of ₹ 400.

(ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.

(iii) Defective goods worth ₹ 5,000 are sold for 3,000.

(iv) Purchase of goods from Sunny of the list price of ₹ 20,000. He allowed 5% trade discount, ₹ 200 cash discount was also allowed for quick payment.

(v) Purchased goods from Sarah industries for ₹ 50,000 plus CGST and SGST@6% each.

(vi) Goods given as charity costing ₹ 1,600, sale price ₹ 2,000. CGST and SGST @ 6% each was paid at the time of purchase of such goods

Unit 2: LEDGERS

CH 2B

The 4 Look- Look Back and get experience, Look Forward and see hope!, Look Around and find reality!, Look Within and find confidence!"

MEANING

Meaning:

It is an Account Book which contains all Account Heads, which are opened in Journal/ Subsidiary Books

Significance:

Ledger helps to identify the list of transactions under a particular Account Head & also show the Balances in each of ledger accounts. This helps in ascertaining the status of that Account. **For example**: Cash Account contains all transactions involving cash. Hence, by looking at the cash account, the reader can find out the sources from which cash is received and also the reasons for use of such cash. It also shows cash balance in the business on a specified date.

Other Names for Ledger:

Principal Book	Debit and Credit aspect of each transaction is recorded here and constitute basis for preparation of Trial Balance & Final Accounts.
Secondary Book of Entry	It is the second stage in the Accounting Process.
Book of Final Entry	The Ledger is the Final Destination of all transactions.

Source of Ledger:

- The Entries in the Journal/ Subsidiary Books forms the basis for preparation of ledger.
- Without passing an entry in the Journal/Subsidiary Books, an entry cannot appear in ledger.
- Transactions in the ledger are recorded in an analytical order.

POSTING

Posting: The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.

Rules Regarding Posting of Entries in Ledger *(RTP Nov 2019/Nov 2023)*

a) Separate account is opened in ledger book for each account and entries from journal posted to respective account accordingly.
b) It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
c) The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Model Format of a Ledger "Account"

Dr. Cr.

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
	Opening Balance		XXX		By- Transactions		XXX
	To- Transactions		XXX				XXX
			XXX				XXX
			XXX		Closing Balance		XXX
	Total		**XXXX**		**Total**		**XXXX**

Description of the format of Ledger Account:

a) Separate Account is opened in the ledger Book for each Account Type, e.g. Capital, Machinery, Furniture, Loan, Sales, Purchases, Rent, Salary, Commission, Electricity, Discount received etc.
b) Every Ledger Account has two sides- (i) LHS = Debit Side, and (ii) RHS= Credit side.
c) Ledger Posting is done based on the A/c to be debited & credited as per the Journal Entry.
d) Entries on the left side are prefixed by "TO". Entries on the right side are prefixed with "BY".
e) The Colum (Journal Folio) is used to indicate the Page number in the Journal Book where the relevant journal entry is found. This is used to track & trace the entry in Journal Book.
f) Opening Balance will be on written on the left side for debit balance accounts. It will be on written on the credit side for credit balance accounts.

Ledger Accounts are broadly classified into (a) Assets (b) Liabilities (c) Incomes (d) Expenses

BALANCING OF LEDGER ACCOUNT

Meaning:

A Ledger has two sides viz. Debit and Credit. Balancing is the process by which, we find out which side is higher.

To ascertain the balance in any Account, we obtain the amount total of each side and ascertain the difference. That difference is called the Ledger Account Balance

Significance:

After all transactions are posted from Journal to Ledger, the two side totals are compared and difference is found out. This helps to know the status of each of the ledger accounts.

Nature of Balances (at the end of the period):

(Balance at the end of the period is called as Closing Balance)

Situation	Nature of Balance	Written in Ledger A/c as	Written on-
Dr. Total > Cr. Total	Debit Balance	By balance c/d	Credit Side (RHS)
Cr. Total > Dr. Total	Credit Balance	To balance c/d	Debit Side (LHS)
Note: The Closing Balance is ascertained and is written on the side whose total is lower			

Closing Balances = Opening Balances: Closing Balances at the end of one period become the opening Balances for the next period. Hence, the closing balances in ledger are Brought Forward to the next period as follows:

If Cl. Bal. = Op. Bal. is	Written in Ledger as	Written on	Points to be noted
Debit Balance	To Balance b/d	Debit Side (LHS)	Assets Accounts (e.g. Furniture, Stock, etc.). have Dr. Balance
Credit Balance	By Balance b/d	Credit Side (RHS)	Liability Accounts (e.g. Capital, loan, Debentures, etc.) have Cr. Balance

Note: "b/d" = "brought down/brought forward". "c/d" = "carried down/carried forward".

Important Note in Balancing

- However, during the accounting period, the above method of balancing is applicable for all types of accounts.
- At the end of the accounting period the balances in Real and Personal Accounts are shown in Balance sheet.
- Nominal Accounts are not balanced in the above manner; the total of the Nominal Account (i.e. Income/Gain or Expenses/Loss) is transferred to Trading or Profit & Loss Account.
- Hence, Opening Balances for the next accounting period will arise only for Assets and Liabilities.

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2023.

April 1	Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.
April 4	Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.
April 5	Mr. S sold to Mr. H goods prices at ₹ 30,000.
April 17	Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹15,000.
April 18	Mr. S rejected 10% of Mr. R's goods of 4th April.
April 19	Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.
April 22	Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹ 20,000 was by cheque).
April 26	R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made
April 29	Close H's Account to record the fact that all except ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt.
April 30	Balance R's Account.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
   a) Posting
   b) Purchase
   c) Balancing of an account

2) The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
   a) Posting
   b) Purchase
   c) Balancing of an account

3) Journal and ledger records transactions in
   a) A chronological order and analytical order respectively.
   b) An analytical order and chronological order respectively.
   c) A chronological order only

4) Ledger book is popularly known as
   a) Secondary book of accounts
   b) Principal book of accounts
   c) Subsidiary book of accounts

5) At the end of the accounting year all the nominal accounts of the ledger book are
   a) Balanced but not transferred to profit and loss account
   b) Not balanced and also the balance is not transferred to the profit and loss account
   c) Not balanced and their balance is transferred to the profit and loss account.

ANSWERS MCQs

1. (a) 2. (c) 3. (a) 4. (b) 5. (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Ledger is also known as the principal book of accounts. ***(Jan 2025)***
2) Cash account has a debit balance.
3) Posting is the process of transferring the accounts from ledger to journal.
4) At the end of the accounting year, all the nominal accounts of the ledger book are balanced. ***(June 2022)***
5) Ledger records the transactions in a chronological order.
6) If the total debit side is greater than the total of credit side, we get a credit balance as opening balance.
7) Ledger accounts of assets will always be debited when they are increased.
8) The Balance of an account is always known by the side which is shorter.
9) Ledger is also known as book of primary entry.
10) Nominal Accounts are balanced at the end of the accounting year. ***(Sep 2024)***

Solution

1) **True:** Since it classifies all the amounts related to a particular account & then it is used as the base for preparing the Trial Balance, a ledger is also known as the principal book of accounts.
2) **True:** Being an asset under the modern equation approach, cash account has a debit balance.
3) **False:** Posting is the process of transferring the balances from journal to ledger
4) **False:** At the end of accounting year, all the nominal accounts of the ledger book are totalled and transferred to Trading/P&L Account
5) **False:** Ledger records the transactions in Analytical order, but journal records the transactions in a chronological order.
6) **False:** If the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
7) **True:** The increase to an asset shall be debited since the original balance is also debit.
8) **False: -** The balance of an account is known by the side which is larger/higher.
9) **False:** Ledger is also known as book of secondary entry.
10) **False: -** The balances of Nominal Accounts are transferred to Trading/ Profit & Loss A/c. They are not balanced.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

Prepare the ledger accounts on the basis of following transactions in the books of a trader.
Debit Balances on January 1, 2023:
Cash in Hand ₹ 8,000, Cash at Bank ₹ 25,000, Inventory of Goods ₹ 20,000, Building ₹ 10,000.
Trade receivables: Vijay ₹ 2,000 and Madhu ₹ 2,000.
Credit Balances on January 1, 2023:
Trade payables: Anand ₹ 5,000, Kapil ₹ 7,000, Capital ₹ 55,000
Following were further transactions in the month of January, 2023:

Jan. 1	Purchased goods worth ₹ 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.
Jan. 4	Received ₹ 1,980 from Vijay and allowed him ₹ 20 as discount.
Jan. 8	Purchased plant from Mukesh for ₹5,000 and paid ₹100 as cartage for bringing the plant to the factory and another ₹200 as installation charges.
Jan. 12	Sold goods to Rahim on credit ₹ 600
Jan. 15	Rahim became insolvent and could pay only 50 paise in a rupee.
Jan. 18	Sold goods to Ram for cash ₹1,000.

Question 2 (ICAI Study Material) Pg no.______

Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.

1. X started business with a capital of ₹ 20,000
2. He purchased goods from Y on credit ₹ 4,000
3. He paid cash to Y ₹ 2,000
4. He sold goods to Z ₹ 4,000
5. He received cash from Z ₹ 6,000
6. He further purchased goods from Y ₹ 4,000
7. He paid cash to Y ₹ 2,000
8. He further sold goods to Z ₹ 4,000
9. He received cash from Z ₹ 2,000

Question 3 (ICAI Study Material) Pg no.______

Prepare the Stationary Account for the month of Jan 2023 duly balanced off from the following details:

2023		Amount
Jan. 1	Inventory of Stationary	480
Jan 5	Purchase of Stationary by cheque	800
Jan 15	Purchase of Stationary on credit from Five star stationary mart	1,280

Question 4 (CA Foundation Dec 2021) (5 Marks) Pg no.______

Discuss the following:
(i) What do you mean by principal books of accounts?
(ii) What are the rules of posting of journal entries into the Leger?

Unit 3: TRIAL BALANCE

CH 2C

"Confident walking is more successful than confused running. Follow no one but learn from everyone."

MEANING AND PURPOSE OF TRIAL BALANCE

1. **Meaning:** Trial Balance is a **statement** which lists down the **debit and credit balances** of all accounts, as **at a particular date** under two **separate columns.**
2. **Features:**
   (a) Trial Balance is a statement and not an Account.
   (b) The Totals of all Debit Balances and Credit Balances will be equal.
   (c) It has **two columns – Debit Column and Credit Column.**
   (d) It is the third stage in the Accounting Process
   (e) Trial Balance can be prepared **on any day of accounting period.** It shows balances on that date.
3. **Objectives / Advantages:** Third phase in accounting process, i.e. preparation of Trial Balance
   (a) Ledger itself may be referred to only when further details are required in respect of that Account.
   (b) Serves as a **check on Arithmetical Accuracy of books**, since **Debit and Credit Totals must agree.**
   (c) Provides basis of preparation of Final Accounts, i.e. Financial Statements – P&L A/c & Balance Sheet.
4. **Source for Trial Balance:** Ledger Accounts
5. **Limitations:** Mere tallying / agreement of Trial Balance is not a conclusive proof of arithmetical accuracy. The Trial Balance may still tally with the following errors –
   (a) Complete omission of a transaction either in journalizing or in ledger posting therefrom,
   (b) Entry is posted twice in the ledger.
   (c) Recording of a transaction at a wrong amount,
   (d) Debiting or Crediting correctly in the Ledger, but in the wrong account head,
   (e) Compensating Errors, i.e. errors whose effects nullify each other.

FORMAT OF TRIAL BALANCE

1. **Methods of preparation of Trial Balance:** Trial Balance may be prepared as under –

Method	What is written in Trial Balance?	Remarks
(a) Total Method	The **Total of Debit & Credit Side of each Ledger Account** is recorded in the Trial Balance, in the respective columns.	**Merit:** Time taken to balance each Ledger A/c is saved. **Demerit:** Not useful for preparation of Final Accounts.
(b) Balances Method	Here, only the balance in each Ledger A/c is recorded in Trial Balance. Some accounts may have Dr. Balance while others have Cr. Balance.	**Most popularly used method** since it helps in preparation of Final Accounts / Financial Statements

(c) Total & Balances Method	This is a combination of above 2 methods. Both Totals and Balances are indicated in separate columns in Trial Balance.	Not regularly used.

2. Format of Trial Balance:

Particulars (i.e. Name of Account)	Ledger Folio	Dr, Amt (₹)	Cr. Amt (₹)
(1)	(2)	(3)	(4)

Notes:

- In Column 1, Name of the Ledger A/c is given, e.g. Capital, Machinery, Sales, Purchases, Bank, etc.
- In Column 2, the Page Number of the Ledger is given for tracking and tracing purposes.
- In Column 3 & 4, – (a) the Dr. and Cr. Totals of the Ledger A/c are given (in Total Method), and (b) the balances of each Ledger A/c are given (in Balances Method). Under Total and Balances Method, additional columns are added, to indicate Totals and Balances separately.

FEATURES OF TRIAL BALANCE :- DR. TOTAL = CR. TOTAL

1. The total of Debit Balances is equal to the total of Credit Balances at a particular point of time. The balances are tallied in this statement to assess whether the Fundamental Accounting Equation is satisfied or not.
2. Both the totals match due to the following reasons:
   (a) Trial Balance is prepared based on Ledger Accounts. Entries are made in each ledger accounts based on Journal.
   (b) Each Journal Entry contains two aspects of equal amount – Debit and Credit.
   (c) Hence, where there is a debit to a particular account for a specified amount, there will also be a credit for the same amount in another Account.
   (d) This leads to the equality of debit balance and credit balance.

Important Notes in preparing Trial Balance

- Accounts with Nil balance will not be shown in the Trial Balance.
- All Accounts with balances, i.e. whether Real, Personal or Nominal, will be shown in Trial Balance.
- Accounts relating to – (a) Assets (b) Expenses (c) Losses (d) Drawings have Dr. Balance.
- Accounts relating to – (a) Capital (b) Liabilities (c) Incomes (d) Gains have Cr. Balance.
- If the Trial Balance does not agree, it may be tallied by transferring the difference of Debit or Credit to an Account known as Suspense Account. This is a temporary account opened to proceed further and to prepare the Financial Statements in a timely manner. [Such a Trial Balance may be called as Adjusted Trial Balance.]

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2022. You are required to prepare the Trial Balance by the Total Amount Method.

Dr. **Cash Account** Cr.

Particulars	₹	Particulars	₹
To Capital A/c	10,000	By Furniture A/c	3,000
To Ram's A/c	25,000	By Salaries A/c	2,500
To Cash Sales	500	By Shyam's A/c	21,000
		By Cash Purchases	1,000
		By Capital A/c	500
		By Balance c/d	7,500
	35,500		**35,500**

Dr. **Furniture Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c	3,000	By Balance c/d	3,000
	3,000		**3,000**

Dr. **Salaries Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c	2,500	By Balance c/d	2,500
	2,500		**2,500**

Dr. **Shyam's Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c	21,000	By Purchases A/c (Credit Purchase)	25,000
To Purchase Returns A/c	500		
To Balance c/d	3,500		–
	25,000		**25,000**

Dr. **Purchases Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c (Cash Purchases)	1,000	By Balance c/d	26,000
To Sundries as per Purchases Book (Credit Purchases)	25,000		
	26,000		**26,000**

Dr. **Purchases Returns Account** Cr.

Particulars	₹	Particulars	₹
To Balance c/d	500	By Sundries as per Purchases Return Book	500
	500		**500**

Dr. **Ram's Account** Cr.

Particulars	₹	Particulars	₹
To Sales A/c (Credit Sales)	30,000	By Sales Returns A/c	100
		By Cash A/c	25,000
		By Balance c/d	4,900
	30,000		**30,000**

Dr. Sales Account Cr.

Particulars	₹	Particulars	₹
To Balance c/d	30,500	By Cash A/c (Cash Sales)	500
		By Sundries as per Sales Book (Credit Sales)	30,000
	30,500		**30,500**

Dr. Sales Returns Account Cr.

Particulars	₹	Particulars	₹
To Sundries as per Sales Returns Book	100	By Balance c/d	100
	100		**100**

Dr. Capital Account Cr.

Particulars	₹	Particulars	₹
To Cash A/c	500	By Cash A/c	10,000
To Balance c/d	9,500		
	10,000		**10,000**

Solution

Trial Balance of X and Co. as at 31.03.2022

S. No.	Name of Account	Total Debit ₹	Total Credit ₹
1.	Cash A/c	35,500	28,000
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c	21,500	25,000
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	30,000	25,100
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c	500	10,000
		1,19,100	**1,19,100**

Question 2 ***(ICAI Study Material)*** ***Pg no.______***

Taking the same information as given in Question 1, prepare Trial Balance by Balance Method.

Solution

Trial Balance of X and Co. as at 31.03.2022

S. No.	Name of Account	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c	7,500	
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c		3,500
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	4,900	
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c		9,500
		44,000	**44,000**

Question 3 (CA Foundation Nov 2019) (5 Marks) / (ICAI Study Material) (Similar) Pg no.______

An inexperienced bookkeeper has drawn up Trial Balance for the year ended 31st March 2023.

	Dr. Balance	Cr. Balance
Provision For Doubtful Debts	250	
Bank Overdraft	1,654	
Capital		4,591
Trade payables		1,637
Trade receivables	2,983	
Discount Received	252	
Discount Allowed		733
Drawings	1,200	
Office Furniture	2,155	
General Expenses		829
Purchases	10,923	
Returns Inward		330
Rent & Rates	314	
Salaries	2,520	
Sales		16,882
Inventory	2,418	
Provision for Dep. on Furniture	364	
	25,033	**25,002**

Draw 'Corrected' Trial Balance, debiting or crediting any residual errors to Suspense Account.

Question 4 (ICAI Study Material) Pg no.______

The following trial balance as on 31st March, 2022 was drawn from the books of fintech traders:

	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Building		60,000	-
Machinery		17,000	-
Return Outward		2,600	-
Bad Debts		2,800	-
Cash		400	-
Discount Received		3,000	-
Bank Overdraft		10,000	-
Creditors		50,000	-
Purchases		1,00,000	-
Capital		-	73,600
Fixtures		-	5,600
Sales		-	1,04,000
Debtors		-	60,000
Interest Received		-	2,600
Input CGST A/c		-	3,000
Input SGST A/c		-	3,000
Input IGST A/c		-	4,800
Output CGST A/c		5,400	-
Output SGST A/c		5,400	-
Total		**2,56,600**	**2,56,600**

Even though the debit and credit sides agree, the trial Balance contains certain errors. Check the accuracy of trial balance.

Solution

Corrected Trial Balance of Fintech traders as on 31st March, 2022

	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Building		60,000	–
Machinery		17,000	–
Return Outward		–	2,600
Bad Debts		2,800	–
Cash		400	–
Discount Received		–	3,000
Bank Overdraft		–	10,000
Creditors		–	50,000
Purchases		1,00,000	–
Capital		–	73,600
Fixtures		5,600	–
Sales		–	1,04,000
Debtors		60,000	–
Interest Received		–	2,600
Input CGST A/c		3,000	–
Input SGST A/c		3,000	–
Input IGST A/c		4,800	–
Output CGST A/c		–	5,400
Output SGST A/c		–	5,400
		2,56,600	**2,56,600**

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) A trial balance will not balance if _________
   a) Correct journal entry is posted twice.
   b) The purchase on credit basis is debited to purchases and credited to cash.
   c) ₹ 500 cash payment to creditor is debited to Trade payables for ₹ 50 and credited to cash as ₹ 500.

2) ₹ 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance __________
   a) The debit total will be greater by ₹ 3,000 than the credit total.
   b) The debit total will be greater by ₹ 1,500 than the credit total.
   c) Subject to other entries being correct the total will agree.

3) After the preparation of ledgers, the next step is the preparation of _________
   a) Trading accounts
   b) Trial balance
   c) Profit and loss account

4) After preparing the trial balance the accountant finds that the total of debit side is short by ₹ 1,500. This difference will be _________
   a) Credited to suspense account
   b) Debited to suspense account
   c) Adjusted to any of the debit balance account

5)

S.No.	Account heads	Debit (₹)	Credit (₹)
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	**12,500**	**17,500**

The difference in trial balance is due to ____________________________
   a) Wrong placing of sales account
   b) Wrong placing of salaries account
   c) Wrong placing of miscellaneous expenses account

ANSWERS MCQs

1. (c) 2. (a) 3. (b) 4. (b) 5. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Preparing trial balance is the third phase of accounting process.
2) Trial balance forms a base for the preparation of Financial statements.
3) Agreement of trial balance is a conclusive proof of accuracy.
4) A trial balance will tally in case of compensating errors.
5) A trial balance can find the missing entry from the journal.
6) Suspense account opened in a trial balance is a permanent account.
7) The balance of purchase return account has a credit balance.

8) Trial Balance is prepared after preparing the Profit and Loss A/c.
9) The Trial Balance checks the honesty of the book-keeper.
10) The Trial Balance ensures the arithmetical accuracy of the books.
11) Trial Balance is an absolute proof of the accuracy of the books of accounts.
12) Rectification of errors are necessary to tally the trial balance.
13) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.
14) The rationale behind the opening of a suspense account is to tally the trial balance

Solution

1) **True:** Trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.
2) **True:** Based on trial balance only, we can prepare financial statement.
3) **False:** Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trial balance
4) **True:** Since compensating errors cancel out of due to their compensating nature of amounts, hence the trial balance tallies.
5) **False:** A trial balance cannot find the missing entry from the journal
6) **False:** Suspense account opened in a trial balance is a temporary account
7) **True:** The balance of purchase return account has a credit balance. As purchases are debited, any returns shall be credited (treated in opposite way)
8) **False:** Trial Balance is prepared before Profit & Loss A/c because all ledger balances are put on trial to ascertain the maintenance of debit and credit equality.
9) **False:** The trial balance helps to establish the arithmetical accuracy of ledger books.
10) **True:** The trial balance helps to establish the arithmetical accuracy of ledger balances.
11) **False:** Equal balance of trial balance is not a proof of complete accuracy e.g. trial balance cannot detect error of principle, compensating error etc.
12) **False:** There is no need to rectify the error in order to tally the trial balance. Trial Balance can be tallied by debiting or crediting the difference amount to the suspense account.
13) **False**: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.
14) **False**: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements

OBJECTIVES OF PREPARING TRIAL BALANCE

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

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2023

Account Head	₹
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

Question 2 *(ICAI Study Material)* Pg no.______

One of your clients, Mr. Singhania has asked you to finalize his accounts for the year ended 31st March, 2023. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance	Cr. Balance
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2022)		264
Rent and rates	463	
Sales return		98
	5,454	**5,454**

The closing inventory on 31st March, 2023 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

Question 3 *(CA Foundation Dec 2021) (5 Marks) / (RTP May 2025) (Similar)* Pg no.______

From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2023:

Particulars	Amount	Particulars	Amount
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1st April 2022	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in Hand	100
Cash at bank	10,100	Motor Cycle	34,600
Stock on 31st March, 2023	20,500		

Question 4 *(CA Foundation June 2022) (4 Marks)* Pg no.______

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

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

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

Unit 4: SUBSIDIARY BOOKS

CH 2D

"If you translate every mistake of your life into a positive one, You will never be a prisoner of your past, but a designer of your future."

MEANING & ADVANTAGES

1. Meaning:

(a) "Subsidiary Books" refer to Specific Purpose Books maintained for recording Specific Business transactions.

(b) The special transactions of each type are listed in the respective books. There is NO Journal Entry. From each Subsidiary Book, the total of transactions for each period (e.g. a month), are posted into Ledger.

(c) These books are also called as "Books of Original" or "Books of Prime Entry".

2. Need for Subsidiary Books:

(a) When transactions are few in number, they are journalized individually in one Journal Book, but when transactions are many, it is inconvenient to record all the transactions in one Journal Book.

(b) To avoid the Journal Book from becoming bulky & voluminous, the Journal Book is sub -divided into Subsidiary Books.

(c) Each Subsidiary Book records a specific type of transaction. Purpose for which separate books will be prepared are identified based on volume & importance of such purposes.

3. Advantages of Subsidiary Books *(RTP May 20) / (CA Foundation July 21 & June 24) (5 Marks)*

(a) **Information Management:** Since a separate register / book is kept for each class of transaction, information relating to each class will be available at one place.

(b) **Division of Work:** The accounting work may be divided amongst a number of clerks since there will be separate books for recording various transactions.

(c) **Specialization:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it.

(d) **Saving of time:** Various accounting processes can be undertaken simultaneously because of use of number of books. This will lead to the work being completed quickly.

(e) **Control/Facility in Checking**: When the Trial Balance does not agree, the location of the error(s) is facilitated by the existence of separate books. Further, the possibility of errors and frauds will be checked by the use of various Subsidiary Books.

Financial Books

Principal Books	**Subsidiary Books**
1. Ledger 2. Cash Book (See Note below) • Simple Cash Book (Cash Column only) • Cash and Bank Book (2 -Column) • Cash Book with Discount Column • Cash Book with Bank & Discount Columns (3 -Column)	1. Purchases Book 2. Sales Book 3. Purchase Returns Book 4. Sales Returns Book 5. Cash Book 6. Bills Receivable Book 7. Bills Payable Book 8. Journal Proper

Note: The Cash Book is both a Principal Book (since Debit and Credit Aspects are involved therein), as well as a Subsidiary (since all Cash and Bank transactions are first recorded therein).

The various types of Subsidiary Books for recording specific types of transactions are.

Journal	Purpose
(a) Purchases Book	To record transactions relating to Credit Purchases
(b) Sales Book	To record transactions relating to Credit Sales
(c) Purchases Return Book	To record transactions relating to Purchase Returns made to Suppliers. (cash is not involved).
(d) Sales Return Book	To record transactions relating to Sales Returns made by Customers. (cash is not involved)
(e) Cash Book	To record Cash, Bank and Discount transactions.
(f) Bills Receivable Book	To record transactions in respect of Bills Receivable. (i.e. Promissory Notes, Bills of Exchange from Debtors / other parties)
(g) Bills Payable Book	To record transactions in respect of Bills Payable, (i.e. Promissory Notes, Bills of Exchange issued to Creditors / other parties)
(h) Journal Proper	To record other transactions for which no specific book is maintained. Note: The format of Journal & Journal Proper is same.

PURCHASES AND SALES BOOK - FEATURES

Book	Purchase Book	Sales Book
1. Purpose / Inclusions	To record all Credit Purchases of goods and materials.	To record all Credit Sales of goods and materials.
2. Omissions /Exclusions	(a) Cash Purchases are not recorded. These are recorded in Cash Book (b) Credit Purchases of Capital Assets e.g. Machinery, Furniture, etc. are not recorded. They are recorded in Journal Proper.	(a) Cash Sales are not recorded here. These are recorded in Cash Book. (b) Credit Sales of Capital Assets, e.g. Machinery, Furniture etc, are not recorded. They are recorded in Journal Proper.
3. Entry in Subsidiary Book	Individual items of Credit Purchases are posted in this book along with the date & amount. Trade Discount if any, is reduced, and only the net amount is recorded in the Purchases Book.	Individual items of Credit Sales are posted in this book along with the date & amount. Trade Discount if any, is reduced, & only net amount is recorded in the Sales Book.
4. Source	Purchase Invoice is base document	Sales Invoice is base document
5. Posting in Parties Ledger A/c	Suppliers' / Creditors' A/c will be credited for the amount of credit purchases as "By Purchases A/c". This posting is on individual basis.	Customers' / Debtors' A/c will be debited for the amount of credit sales as "To Sales A/c". This posting is on individual basis.
6. Posting in Purchase/ Sale A/c	Total of Purchases Book is posted to the debit side of Purchases A/c as "To Sundries as per Purchases Book".	Total of Sales Book is posted to credit side of Sales A/c as "By Sundries as per Sales Book".

Note - Recording of Sales Tax/GST: In both Purchases and Sales Book, separate amount columns may be used to record Sales Tax/GST on Purchases (Credit Available) and Sales Tax/GST on Sales (Tax Payable), so that they can be reconciled and settled at the end of every period (say, a month).

Format of Purchase Book

Date	Supplier Name	L.F.	Inv. No.	Qty	Gross Amount	Trade Discount	Net Value	Tax	Total Value
22.01.2023	Ravi (Note)	-	315	2,000 kgs	26,000	1,000	25,000	2,000	27,000
	TOTAL			xxx	XXXXX	XXXXX	XXXXX	xxx	XXXXX

(Note: It represents purchases of 2000 kgs on credit from Ravi on 22.01.2023 for ₹ 27,000 including Sales Tax.)

Format of Sales Book

Date	Customer Name	L.F.	Inv. No.	Qty	Gross Amount	Trade Discount	Net Value	Tax	Total Value
15.01.2023	Ramesh (Note)		251	500 kgs	61,500	1,500	60,000	3,200	63,200
	TOTAL			xxx	XXXXX	XXXXX	XXXXX	xxx	XXXXX

(Note: It represents sale of 500 kgs on credit to Ramesh on 15.01.2023 for 63,200 including Sales Tax)

PURCHASE RETURNS AND SALES RETURNS BOOKS - FEATURES

Book	Purchase Returns Book (also called Returns Outward Book)	Sales Returns Book (also called Returns Inward Book)
1. Purpose / Inclusions	When goods / materials earlier purchased on credit are returned by the Firm to the Supplier, they are recorded in Purchase Returns book.	When goods / materials earlier sold on credit are returned to the Firm by the Customer they are recorded in Sales Returns book.
2. Omissions / Exclusions	• Goods returned to supplier & cash received • Fixed Assets returned to supplier • Goods earlier purchased for Cash	• Goods received from the buyer & cash paid • Fixed Assets received back. • Goods earlier sold for cash
3. Entry in Subsidiary Book	Individual items of Purchases Returns are posted in this book along with the date and amount.	Individual items of Sales Returns are posted in this book along with the date and amount.
4. Source	Debit Note	Credit Note
5. Posting in Parties Ledger A/c	Suppliers' / Creditors' A/c will be debited for the amount of purchase returns as "To Purchase Returns A/c". This posting is on individual basis.	Customers' / Debtors' A/c will be credited for the amount of sales returns as "By Sales Return' A/c". This posting is on individual basis.
6. Posting in A/c	Total of Purchases Returns Book is posted in credit side of Purchases Returns A/c as "By Sundries as per Purchase Returns Book".	Total of Sales Returns Book is posted in the debit side of Sales Returns A/c as "To Sundries as per Sales Returns Book".
7. Format	Format is the same as Purchases Book, except that Debit Note will appear instead of Invoice.	Format is the same as Sales Book, except that Credit Note will appear instead of Invoice.

TRADE DISCOUNT VS CASH DISCOUNT

1. **Trade Discount:**
   (a) Trade Discount refers to reduction in price offered by the seller for HIGHER QUANTITY of purchases.
   (b) It is allowed as deduction from List Price. (Trade Discount = % of discount x List Price)
   (c) The price after deducting the trade discount is called Invoice Price.
   (d) Trade Discount is not recorded in Accounts Books. i.e. directly Invoice Price itself is recorded in Accounts Books.

2. **Cash Discount:**
   (a) Cash Discount refers to reduction in AMOUNT DUE offered by seller if payment is received before due date.
   (b) It is sometimes technically referred as "2/10 net 30". This implies 2% cash discount is allowed if payment is made within in 10 days. Otherwise payment has to be made within 30 days from date of sale.
   (c) Cash Discount is recorded in Accounts Books. i.e. It is an Expense for the seller / Income for the buyer.
   (d) It is recorded in the books under the head "Discount allowed" (for Supplier) / "Discount Received (for Buyer).
   (e) Cash Discount = % of discount x Amount actually payable (Invoice Price)

3. **Example:**
   Goods worth 5,000 sold by Lakshman @ 10% trade discount and @ 1% cash discount on payment within 10 days. Lakshman received payment from debtor within 7 days. Calculate the amount payable

<table>
<tr><th>Particulars</th><th>₹</th><th>Books of Seller</th><th>Books of Buyer</th></tr>
<tr><td>List Price</td><td>5,000</td><td>Not Passed</td><td>Not Passed</td></tr>
<tr><td>Less: Trade Discount @ 10% of ₹ 5,000</td><td>(500)</td><td>Not Passed</td><td>Not Passed</td></tr>
<tr><td>Invoice Price - Amount recorded as Sales</td><td>4,500</td><td>Debtor A/c Dr. 4,500
To Sales 4,500</td><td>Purchases A/c Dr. 4,500
To Creditor 4,500</td></tr>
<tr><td>Less: Cash Discount @ 1% of Z 4,500</td><td>45</td><td rowspan="2">Cash A/c Dr. 4,455
Discount All. Dr. 45
To Debtors 4,500</td><td rowspan="2">Creditor A/c Dr. 4,500
To Disc. Recd. 45
To Cash 4,455</td></tr>
<tr><td>Net Amount received, if payment made in 7 days</td><td>4,455</td></tr>
<tr><td colspan="4">Note: If Subsidiary Books are maintained - Books of Seller
• During Sales - Lakshman records only 4,500 as sales in his "Sales Book".
• During Settlement - Lakshman records 45 as expense under "Discount Allowed" along with receipt of 4,455
• In the Books of buyer, Purchases is recorded for 4,500 and "Discount received" recorded for Z 45</td></tr>
</table>

JOURNAL PROPER - FEATURES

1. **Significance**: "Journal Proper" is used to record those transactions which cannot be recorded in-any-of-the Specific Subsidiary Books.
2. **Features:**
   (a) Journal Proper is a Residuary Subsidiary Book to record the residuary transactions.
   (b) The format of Journal is exactly similar to the format of a normal Journal Book
3. **Transactions recorded in Journal Proper:**
   (i) Opening Entries
   - Opening balances of assets and liabilities are brought forward from the previous accounting period by passing opening entries. Journal Entry for recording–

Particulars	Debit	Credit
Assets A/c Dr.	XXX	
To Liabilities A/c		XXX
To Capital A/c		XXX

(ii) Closing Entries: At the end of the year Trading Account and Profit & Loss Account are prepared to determine the profits / losses of the business. All nominal account balances must be transferred to the above accounts. Such entries are called Closing entries.

- For transferring Expenses / Losses to Trading Account / Profit and Loss A/c -
  Trading Account / Profit and Loss Account Dr.
  To Expenses A/c / Losses A/c
- For transferring Incomes / Gains to Trading Account / Profit and Loss A/c -
  Incomes A/c / Gains A/c Dr.
  To Trading A/c / Profit & Loss A/c

(iii) Rectification entries: Entries passed to rectify the errors occurred during the accounting process.

(iv) Transfer Entries: If some amount is to be transferred from one account to another account, the transfer will be made through a Journal Entry.
E.g: When goods purchased 80,000 are used for construction of building, then transfer entry has to be made for transferring 80,000 from Purchase A/c to Building A/c.

(v) Adjusting Entries: Adjusting entries refer to entries passed to adjust the incomes / expenses for the current period, to ensure that only current year's incomes and expenses are matched. Hence, entries passed for the following purposes are called "Adjusting Entries". It includes Outstanding Expenses, Prepaid Expenses, Accrued Income & Income Received in Advance etc.

(vi) Miscellaneous Entries:

- Introduction of capital in kind i.e. motor car / goods introduced as capital.
- Credit Purchase of Fixed assets,
- Entries on dishonour of Bills Receivable,
- Entries for Discount received / allowed, if double column Cash Book is prepared without Discount columns.
- On an amount becoming irrecoverable, because of the customer becoming insolvent
- Effects of accidents like loss of property by fire

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* **Pg no.______**

Enter the following transactions in Purchase Book & post them into Ledger

2023

April 4 Purchased from Ajay Enterprises, Delhi
100 Doz. Rexona Hawai Chappal @ ₹120 per doz.
200 Doz. Palki Leather Chappal @ ₹300 per Doz.
Less : Trade discount @ 10%
Freight charged ₹150.

April 15 Purchased from Balaji Traders, Delhi
50 doz. Max Shoes @ ₹400 per doz.
100 pair Sports Shoes. @ ₹140 per pair.
Less : Trade discount @ 10%.
Freight charged ₹200

April 28 Purchased from Tripti Industries, Bahadurgarh
40 pair leather shoes @ ₹400 per pair
100 doz. Rosy Hawai Chappal @ ₹180 per doz.
Less : Trade discount @ 10%.
Freight charged ₹100.

Question 2 *(RTP Jan 2025)* **Pg no.______**

Prepare Sales Book of M/s. Alpha of Kanpur for March, 2024

- Mar. 5 Sold to M/s. ABC 10 pieces of Chairs @ ₹ 5,000/- each less Trade Discount 5%.
- Mar.12 Sold to M/s. PQR 25 pieces of Tables @₹ 2,000/- each less Trade Discount 10%.
- Mar.18 Sold to M/s. MTB 5 pieces of Recliner Chairs @ ₹ 11000/- each less Trade Discount 10%. Payment received through cash.
- Mar.28 Sold to M/s. LMS 50 pieces of cupboards @ ₹ 10,000/- each less Trade Discount 20%.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) In Purchases Book the record is in respect of ___________________________
   (a) Cash purchase of goods.
   (b) Credit purchase of goods dealt in.
   (c) All purchases of goods.

2) The Sales Returns Book records ___________________________
   (a) The return of goods purchased.
   (b) Return of anything purchased.
   (c) Return of goods sold.

3) The Sales Book ___________________________
   (a) Is a part of journal.
   (b) Is a part of the ledger.
   (c) Is a part of the balance sheet.

4) The weekly or monthly total of the Purchase Book is ___________________________
   (a) Posted to the debit of the Purchases Account.
   (b) Posted to the debit of the Sales Account.
   (c) Posted to the credit of the Purchases Account.

5) The total of the Sales Book is posted to ___________________________
   (a) Credit of the Sales Account.
   (b) Credit of the Purchases Account.
   (c) Credit of the Capital Account.

6) In which book of original entry, will you record an allowance of ₹50 was offered for an early payment of cash of ₹1,050 ___________________________.
   (a) Sales Book
   (b) Cash Book
   (c) Journal Proper (General Journal)

7) A second hand motor car was purchased on credit from B Brothers for ₹10,000 will be recorded in ______
   (a) Journal Proper (General Journal)
   (b) Sales Book
   (c) Cash Book
   (d) Purchase Book

8) In which book of original entry, will you record a bills receivable of ₹1,000, which was received from a debtor in full settlement for a claim of ₹1,100, is dishonoured _______
   (a) Purchases Return Book
   (b) Bills Receivable Book
   (c) Journal Proper (General Journal)

ANSWERS MCQs

1. (b) 2. (c) 3. (a) 4. (a) 5. (a) 6. (b) 7. (a) 8. (c)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Transactions recorded in the purchase book include only purchases of goods on credit transactions.
2) Transactions regarding the purchase of fixed asset are recorded in the purchase book
3) Cash Sales are recorded in the Sales book
4) Subsidiary books are also known as the books of original entry
5) Bill receivable book is a subsidiary book
6) Return inward book is also known as purchase return book
7) Purchase of second hand machinery will be recorded in purchase book
8) Total of sales return book may be posted to the debit side of sales account
9) If the sales are on frequent basis, the transactions are recorded in the sales book.
10) Purchase Book records all purchases of goods.
11) The Purchase Day Book is a part of the Ledger.
12) The Sales Day Book is a part of the ledger.
13) Purchase Books records all the credit purchase of goods.
14) The sales-Book is kept to record both cash and credit sales. *(Jan 2021)*
15) The debit notes issued are used to prepare Sales Return Book.
16) Closing entries are recorded in journal proper.
17) Where subsidiary books are maintained journal is not required.
18) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment. *(Nov 2019)*
19) Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.
20) Bills receivable and bills payable books are type of subsidiary books.

Solution

1) **True**: Since cash purchases are taken to the cash book, it is only credit transactions that are recorded in the purchases book.
2) **False**: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchase of goods are recorded in it
3) **False**: Credit sales are recorded in the sales book
4) **True**: They are maintained as an alternate to journal
5) **True**: Bill receivable book is one of the subsidiary book
6) **False**: Return inward book is also known as sales return book
7) **False**: Purchase of second hand machinery will not be recorded in purchase book
8) **True**: Since sales return book is reduction from the total sales value, it is debited in the sales account
9) **True**: When there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.
10) **False: -** It records only credit purchases of goods.
11) **False: -** It is a book of original entry so it is a part of the journal.
12) **False:** - Sales Day Book is a book of original entry and hence it is part of journal.
13) **True**: - It records all the credit purchases of goods and materials to be used by the factory.
14) **False**: - Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

15) **False**: – The source document for this book is credit note. When goods are received along with the debit note, the seller acknowledges the same by sending the credit note to the customer. The debit notes issued are used to prepare purchases return book.
16) **True**: – As these entries cover the items of the account which cannot be closed by any corresponding debit or credit.
17) **False**: – Journal is required even when subsidiary books are maintained. This is so because many entries such as opening and closing entry, rectification entry etc. are recorded in journal.
18) **False**: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment. It refers to reduction in price offered by the seller for higher quantity of purchases.
19) **True**: Trade discount is to be deducted from total value of ₹75,800. Amount paid in cash includes cash purchases & only credit purchase will be shown in the purchases book 36,005 (72,010 x 50%)
20) **True**: Yes they are types of subsidiary books which is alternate to the journals.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

The Rough Book of M/s. Narain & Co. contains the following:
Feb 2023

1. Purchased from Brown & Co. on credit:
   5 gross pencils @ ₹100 per gross,
   1 gross registers @ ₹ 240 per doz.
   Less : Trade Discount @ 10%
1. Purchased for cash from the Stationery Mart;
   10 gross exercise books @ ₹ 300 per doz.
2. Purchased computer for office use from M/s. office
   Goods Co. on credit for ₹ 30,000.
3. Purchased on credit from The Paper Co.
   5 reams of white paper @ ₹100 per ream.
   10 reams of ruled paper @ ₹150 per ream.
   Less : Trade Discount @ 10%
4. Purchased one dozen gel pens @ ₹15 each from
   M/s. Verma Bros. on credit.

Make out the Purchase Book of M/s. Narain & Co (1 Gross =12 Dozen)

Question 2 (ICAI Study Material) / (RTP June 2024) (Similar) Pg no.______

The following are some of the transactions of M/s Kishore & Sons of the year 2023 as per their Book. Make out their Sales Book.
Sold to M/s. Gupta & Verma on credit:
30 shirts @ ₹ 800 per shirt.
20 trousers @ ₹1,000 per trouser.
Less: Trade Discount @ 10%
Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.
Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.
Sold 13 shirts to Cheap Stores @ ₹750 each for cash.
Sold on credit to M/s. Mathur & Jain.
100 shirts @ ₹750 per shirt
10 overcoats @ ₹5,000 per overcoat.
Less: Trade Discount @ 10%

Question 3 (ICAI Study Material) Pg no.______

Post the following into the ledger

Returns Outward Book

Date 2023	Particulars	L.F.	Details	Amount
Nov. 20	Rajindra Prakash & Sons One 36" Usha Ceiling Fan Less: Trade Discount @ 10%		 200.00 (20.00)	 180.00
Nov. 30	Modern Electric Company			100.00
				280.00

Question 4 (ICAI Study Material) / (RTP May 2019)/(Nov 2020)/(Nov 2022) (Similar) Pg no.______

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer:

Date	Debit Note No	Particulars
04.01.2023	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 1,000.
09.01.2023		Garg Mills, Kota – accepted the return of goods (which were purchased for cash) from us – 5 Kota sarees @ ₹ 400.
16.01.2023	102	Returned to Mittal Mills, Bangalore – 5 silk sarees @ ₹2,600.
30.01.2023		Returned one computer (being defective) @ ₹35,000 to B & Co.

Question 5 *(ICAI Study Material)* Pg no.______

Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi & post into ledger.

Jan 2023

2 Sold to M/s Ajanta Electricals, Delhi 5 pieces of Ovens @₹6000 each less Trade disc. @ 10%

8 Sold to M/s Electronics Plaza, 10 pieces of Tablets @ ₹ 8000 each less trade discount 5%.

15 Sold to M/s Haryana Traders, 5 pieces of Juicers @ ₹3500 each less trade discount @ 10%

Question 6 *(CA Foundation Nov 2020) (4 Marks)* Pg no.______

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

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

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

(c) Sold 15 shirts to Aman @ ₹ 750 each for cash.

Question 7 *(CA Foundation July 2021) (5 Marks)* Pg no.______

From the following information prepare the Purchase Book of Mis. Shyam & Company:

(a) Purchased from Red & Company on credit:
    10 pairs of black shoes.@ ₹ 800 per Pair.
    5 pairs of brown shoes @ 900 per pair
    Less: Trade Discount @ 10%

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

(c) Purchased from Blue & Company in cash:
    5 pairs of black shoes @ ₹ 700 per pair
    15 pairs of brown shoes@ ₹ 100 per pair
    Less: Trade Discount @ 15%

Question 8 *(CA Foundation June 2023) (4 Marks)* Pg no.______

Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:

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

Question 9 – **(CA Foundation Jan 2025) (4 Marks)** Pg no.______

From the following transactions, prepare the Sales Return Book of Kay and Co., a readymade garments dealer:

Date	Particulars
06/12/2024	Return received from Aar Store 30 shirts @ ₹ 300/- and 15 trousers @ ₹ 500/- each Less: Trade Discount @8%
12/12/2024	Modern tailors returned 10 frocks (which were sold for cash) @ ₹ 200/- each.
16/12/2024	Return received from Tulip Store – 12 T-shirts @ ₹ 100/- each. Less: Trade Discount @10%.

Unit 5: CASH BOOK

CH 2E

"If you want to enjoy anything, always think today is the first day, But if you want to achieve anything, always think today is the last day."

MEANING AND FEATURES

1. **Meaning of Cash Book:** Cash Book is one of the Subsidiary Books which directly records transactions involving cash. Hence, it groups together all cash related transactions.
2. **Features**:
   (a) **Subsidiary Book**: On the occurrence of cash transactions, they are recorded in Cash Book directly. Hence, no Journal Entry is passed. From cash book, the other aspect of the same transaction is posted to Ledger Accounts.
   (b) **Principal Book:** The Cash Book itself serves as an Account since the balances are entered in the Trial Balance directly. Hence, the Cash Book is part of the Ledger also and should also be regarded as a Principal Book. The format of cash book is also in the form of a ledger account.
   (c) The Cash Book is thus both a Subsidiary Book and a Principal Book
3. **Various types of Cash Book:** The main Cash Book may be of three types —
   (a) **Simple Cash Book** — Having Cash Column only on both sides.
   (b) **Two Column Cash Book** — Having Cash and Discount Columns / Cash and Bank Columns on both sides
   (c) **Three Column Cash Book** — Having Cash, Bank and Discount columns on both sides.

Certain enterprises maintain "Petty Cash Book" on imprest basis, which is purely a Subsidiary Book.

4. Debit and Credit Aspects:
   (a) Debit Side of Cash Book is for recording Receipts of Cash / Cheques (by way of Capital introduced, Loans taken, Cash Sales, Collection from Debtors, Income by way of Interest / Rent etc. received, Bad Debts recovered, Sale of Fixed Assets or Investments, etc.)
   (b) Credit Side of Cash Book is for recording Payments of Cash / Cheques (by way of Drawings, Loans repaid, Cash Purchases, Payment to Creditors, Expenses like Salary, Rent, Advertisement paid, Purchase of Fixed Assets or Investments, etc.)

SIMPLE CASH BOOK

1. **Meaning**: Simple Cash Book is also called as Single Column Cash Book. It appears like an ordinary Ledger Account with one amount column on each side.
2. **Contents**: Dr. Side is for recording all Cash Receipts while Cr. Side is for recording all Cash Payments.
3. The difference between Debit and Credit side (i.e. Closing Balance) is written as "By balance c/d" on the credit side of the Cash Book. [Note: Cash balance cannot be negative, i.e. Cash Payments cannot exceed Cash Receipts]
4. The Closing Balance of this period will be brought forward to the subsequent period by writing as "To Balance b/d" on debit Side of the Cash Book in the next period.

5. Format of Single Column Cash Book:

Dr. Cash Book for the period ended Cr.

Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount
Beginning	To Balance b/d		XXX	During the month	By Payments		XXX
During the month	To Receipts		XXXX	Month End	By Balance c/d		XXX
	Total		**XXXX**		**Total**		**XXXX**

[**Note**: There is no Journal Entry passed for recording in Cash Book. One aspect involving cash is directly recorded in Cash Book & another aspect is directly recorded in relevant ledger A/c]

DOUBLE COLUMN CASH BOOK

1. **Meaning**: Double Column Cash Book has two amount columns on both side, i.e. two each on Dr. and Cr. Side.
2. **Types**: Double Column Cash Book may be maintained in any of the following ways —

Type of Double Column	Dr. Side is for recording	Cr. Side is for recording
(a) Cash & Bank Columns	Cash and Bank Receipts	Cash and Bank Payments
(b) Cash & Discount Columns	Cash Receipts & Discount Allowed to Customers /Debtors	Cash Payments & Discount Received from Suppliers/Creditors

Notes:
1. If Cash and Bank Columns are maintained in Cash Book, then discount transactions are recorded in Journal Proper
2. If Cash and Discount Columns are maintained in Cash Book, then bank transactions are recorded in Journal Proper

3. Nature of Accounts / Columns:

Column	Nature	Closing Balance
Cash	Cash Column represents Cash Account.	• Cash balance cannot be negative, since cash payments cannot exceed receipts. This column will always have Dr. balance. Closing Balance is written on the credit side as "By balance c/d".
Bank	Bank Column represents Bank Account.	• If Dr. Side > Cr. Side, it means there is a favourable Bank Balance, written on the credit side as "By balance c/d". • If Cr. Side > Dr. Side, it means that there is an Overdraft balance, written on the debit side as "To balance c/d".
Discount	Discount Column represents Discount Allowed/Received.	• Discount Columns are not balanced. They are totaled and entered in the Discount Account in the Ledger. • Total of Discount Column on the Receipts Side (i.e. Dr. Side) shows total Discount Allowed to Customers. • Total of Discount Column on Payments Side (i.e. Cr. Side) shows total Discount Received from Suppliers.

Notes:

(a) Cash/Bank is account since they have debit & credit columns on both sides of cash book

(b) However, discount allowed and discount received are not accounts as they do not have columns on both sides. For discount allowed, one column exists on debit side and for discount received one column exists on credit side. Hence, a separate ledger account is to be opened for Discount Received/ Discount allowed in the ledger.

4. Format of Two—Column Cash Book:

(a) Cash and Discount Columns

Date	Receipts	L.F.	Discount allowed	Cash	Date	Payments	L.F.	Discount Received	Cash
	To Bal. b/d			xxx		By Payments			xxxx
	To Receipts			xxxx		By Creditors		xx	xxxx
	To Debtors		xx	xxxx		By Bal. c/d			xxx
	Total		**xx**	**xxxx**		**Total**		**xx**	**xxxx**

(b) Cash and Bank Columns

Date	Receipts	L.F.	Bank	Cash	Date	Payments	L.F.	Bank	Cash
	To Bal. b/d		xxx	xxx		By Bal. b/d		xxx	N.A.
	To Receipts		xxxx	xxxx		By Payments		xxxx	xxxx
	To Debtors			xxxx		By Creditors		xxxx	xxxx
	To Bal. c/d		xxx	N.A.		By Bal. c/d		xxx	xxx
	Total		**xxxx**	**xxxx**		**Total**		**xxxx**	**xxxx**

Note: Opening / Closing Balances of bank may be debit or credit balance. Both debit and credit balance cannot exist at the same time. However, for cash, it's always debit balance only.

TRIPLE COLUMN CASH BOOK

1. **Meaning**: Three Column Cash Book has three amount columns on both sides i.e. Cash, Bank and Discount amounts.
   [Note: The principles for recording are the same as for Two Column Cash Book as described in the previous question.]
2. **Format**:

Date	Receipts	L.F.	Discount allowed	Bank	Cash	Date	Payments	L.F.	Discount Received	Bank	Cash

3. **Advantages**:
   (a) Cash and Bank Accounts are prepared simultaneously, so there is saving in time.
   (b) Information regarding Cash in Hand and Bank Balances can be obtained simultaneously.
   (c) If there are two or more Bank Accounts, the Firm can introduce multi -column Cash Book, one each for the various Bank Accounts.

CONTRA ENTRY

1. **Meaning:** Inter -Column transactions, i.e. Cash deposited into Bank, Cash withdrawn from Bank for business etc. are recorded on both Dr. and Cr. sides of the same Cash Book in appropriate columns. They are called "Contra Entries".
2. **Need**: Contra Entries arise in two -Column Cash Book (with Cash and Bank Columns) or Three- Column Cash Book.
3. **Treatment**: In case of Contra Entries, the amount is entered in Bank Column & Cash Column on the appropriate (Dr. or Cr) sides. Such entries will be marked as "C" in the Ledger Folio Column to indicate that these are contra transactions and no further posting is required.

Transaction	In Bank Column	In Cash Column
Cash deposited into Bank	Debit Bank Column of Cash Book	Credit Cash Column of Cash Book
Cash withdrawn from Bank	Credit Bank Column of Cash Book	Debit Cash Column of Cash Book
Note: *Cash withdrawn from bank for personal purposes will be treated as drawings and is not a contra entry. Credit Bank Column of Cash Book; Debit Drawings A/c*		

PETTY CASH BOOK AND IMPREST SYSTEM

1. **Meaning:** Petty Cash Book is used to maintain the record of all petty cash expenses, i.e. expenses of small amount say upto ₹ 100, e.g. Auto Fare, Postage Stamps purchase Minor Repairs, etc. Petty Cash balance is an asset for the business and shown directly on the assets side of the balance sheet under "Cash Balances".
2. **Purposes / Advantages:**
   (a) Saving of time of the Chief Cashier.
   (b) Saving in labour in writing up the Cash Book and posting into the Ledger, and
   (c) Effective Control over small payments.
3. **Format**:

ANALYTICAL PETTY CASH BOOK

Receipts ₹	Date	Voucher Number	Particulars	Total Payments ₹	Expense 1 ₹	Expense 2 ₹	Expense 3 ₹	Expense 4 ₹

Note: Generally, a "Sundries" Column is provided on right side, which is analysed at the end of the month or week.

4. **Imprest System:** The Petty Cashier is entrusted with a certain amount of Cash, say ₹ 500 to pay petty expenses during a period, say a week. After that week, the Petty Cashier submits a statement of expenses paid by him, e.g. ₹ 430, which will be reimbursed to him by the Main Cashier. Thus, the Petty Cashier will have 500 again with him (₹ 70 Petty Cash in Hand + ₹ 430 Reimbursement received), to meet expenses during the next week. This reimbursement system is called Imprest System.

SALE THROUGH CREDIT / DEBIT CARDS

1. **Card Contents:** Credit Card / Debit Card issued by a Bank is a small plastic card containing – (a) Name of the Cardholder (b) Card Number (16 digit Number), c) Date of Issue, (d) Date of Expiry, and (e) Magnetic Strip at the back.

2. **Debit vs Credit Card:** In a Credit Card, the Cardholder can buy now & pay later, whereas in a Debit Card, the Cardholder has to pay earlier (i.e. have a minimum balance in his account) in order to buy now. Nowadays, ATM Card issued by a Bank can also be used as Debit Card

3. **Parties involved:**
   (a) Cardholder (Who buys goods using a Credit / Debit Card)
   (b) Merchant (Who sells goods to a customer using a Credit / Debit Card)
   (c) Issuing Bank (A bank who has issued a card to Cardholder Eg: ICICI Bank)
   (d) Acquiring Bank (A bank with whom the merchant has an account Eg: HSBC Bank)
   (e) Member Service Provider (Visa / Master)

Note: The bank issuing Card, charges commission for each such transaction, which varies between 1% to 4% & is debited to Seller/merchant bank account

4. **Accounting Entries in the books of the Merchant:**

For recording Sales	For recording Commission charged by Bank
Bank Account Dr. To Sales Account	Commission Account Dr. To Bank Account Commission charged by the bank treated as selling expense

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2023	Particulars	Amount
Jan. 1	Ravi commences business with Cash	20,000
Jan. 3	He paid into Current A/c	19,000
Jan. 4	He received cheque from Kirti & Co. on account	600
Jan. 7	He pays in bank Kirti & Co.'s cheque	600
Jan. 10	He pays Rattan & Co. by cheque and is allowed discount ₹ 20	330
Jan. 12	Tripathi & Co. pays into his Bank A/c	475
Jan. 15	He receives cheque from Warshi and allows him discount ₹ 35	450
Jan. 20	He receives cash ₹ 75 and cheque ₹ 100 for cash sale	-
Jan. 25	He pays into Bank, including cheques received on 15th and 20th	1,000
Jan. 27	He pays for cash purchase	275
Jan. 30	He pays sundry expenses in cash	50

Question 2 *(ICAI Study Material)* Pg no.______

Enter the following transaction in Cash Book with Discount and Bank columns. Cheques are first treated as cash receipts

2023	Particulars	Amount
March 1	Cash in Hand	15,000
	Overdraft in Bank	500
March 2	Cash Sales	3,000
March 3	Paid to Sushil Bros. by cheque	3,400
	Discount received	100
March 5	Sales through credit card	2,800
March 6	Received cheque from Srijan	6,200
March 7	Endorsed Srijan's cheque in favour of Adit	
March 9	Deposit into Bank	6,800
March 10	Received cheque from Aviral and deposited the same into Bank by allowing discount of ₹50	3,600
March 11	Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque	
March 15	Sales through Debit Card	3,200
March 24	Withdrawn from Bank	1,800
March 28	Paid to Sanchit by cheque	3,000
March 30	Bank charged 1% commission on sales through Debit/Credit Cards	

Question 3 (ICAI Study Material) Pg no.______

Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount is ₹ 500. From the following information, show how his Petty Cash Book would appear for the week ended 13th September, 2023:

Date	Particulars	Amount
7-09-2023	Balance in hand	134.90
	Received Cash reimbursement to make up the imprest	365.10
	Stationery	49.80
8-09-2023	Miscellaneous Expenses	20.90
9-09-2023	Repairs	156.70
10-09-2023	Travelling	68.50
11-09-2023	Stationery	71.40
12-09-2023	Miscellaneous Expenses	6.30
13-09-2023	Repairs	48.30

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the ________
   (a) Credit of the discount allowed account.
   (b) Debit of the discount allowed account
   (c) Credit of the discount received account.

2) Cash book is a type of _________ but treated as a ___________ of accounts.
   (a) Subsidiary book, principal book
   (b) Principal book, subsidiary book
   (c) Subsidiary book, subsidiary book

3) Which of the following is not a column of a three-column cash book?
   (a) Cash column
   (b) Bank column
   (c) Petty cash column

4) Contra entries are passed only when ________________________
   (a) Double-column cash book is prepared
   (b) Three-column cash book is prepared
   (c) Simple cash book is prepared

5) The Cash Book records ________________________
   (a) All cash receipts
   (b) All cash payments
   (c) All cash receipts and payments

6) The balance in the petty cash book is ________________________
   (a) An expense
   (b) A profit
   (c) An asset

7) If Ram has sold goods for cash, the entry will be recorded ________________________
   (a) In the Cash Book
   (b) In the Sales Book
   (c) In the Journal

ANSWERS MCQs

1. (b) 2. (a) 3. (c) 4. (b) 5. (c) 6. (c) 7. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Cash book is a subsidiary book as well as a principal book. *(July 2021)*
2) Two column cash book consists of two columns cash column & bank column.
3) Discount column of cash book is never balanced. *(Dec 2021)*
4) Contra entry is passed in a two column cash book.
5) If the bank column is showing the opening balance on credit side, it is an overdraft.
6) A Cash book records cash transactions as well as credit transactions.
7) Discount column of cash book records the trade discount. *(Dec 2023)*
8) The balance in the Cash Book shows net income.
9) Discount account should be balanced in the Cash Book.
10) The balance in the Petty Cash Book represents the amount spent.
11) Petty cash is an expense.
12) The balance in petty cash book represents an asset
13) A crossed cheque is always payable across the bank counter.
14) If a cheque received is further endorsed, it must be entered on both sides of the Cash Book.

Solution

1) **True**: Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.
2) **False**: Two column cash book consists of two columns either cash column and discount column or cash column and Bank column.
3) **True**: Discount column is totalled and transferred to Discount Allowed/Received Account
4) **True**: Contra Entry can be passed in 2 column cash book which includes cash and bank columns
5) **True**: The debit side of opening balance shows a favourable balance, whereas the credit balance is an unfavourable balance & treated as overdraft
6) **False**: Cash book records only cash transactions
7) **False**: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.
8) **False**: The balance in the Cash Book shows cash in hand.
9) **False**: Discount account is maintained in Double columnar or Three columnar Cash Book. These columns are not balanced but are only totalled.
10) **False**: The balance in the Petty Cash Book represents the cash balance lying with the Petty Cashier.
11) **False**: Petty cash is real account & current asset, and it is shown on asset side of the balance sheet.
12) **True**: The balance represents the cash physically in existence and is therefore an asset.
13) **False**: A crossed cheque is always payable to the recipient's account directly.
14) **True**: When the cheque is received it is debited and when further endorsed it is credited.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

Enter the following transactions in a Simple Cash Book:

2023	Particulars	Amount
Jan.1	Cash in hand	1,200
Jan.5	Received from Ram	300
Jan.7	Paid Rent	30
Jan.8	Sold goods for cash	300
Jan.10	Paid to Shyam	700
Jan.27	Purchased Furniture	200
Jan.31	Paid Salaries	100
Jan.31	Rent due, not yet paid, for January	30

Question 2 (ICAI Study Material) Pg no.______

Ganesh commenced business on 1st April, 2023 with ₹ 2,000 as capital. He had the following cash transactions in the month of April 2023:

Date	Particulars	Amount
April 1	Purchased furniture and paid cash	250
April 2	Purchased goods	500
April 4	Sold goods for cash	950
April 5	Paid cash to Ram Mohan	560
April 5	He allowed discount	10
April 6	Received cash from Krishna & Co. & allowed discount ₹ 20	600
April 7	Paid for petty expenses	15
April 8	Cash purchases	150
April 13	Paid for labour	1,000
April 14	Paid Ali & Sons	400
April 14	They allowed discount	8

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2023.

Question 3 (RTP May 2023)/(May 18)/(Nov 18)/(May 20)/(May 21)/(Nov 23) (Similar) Pg no.______

Prepare a Triple Column Cash Book for the month of April 2022 from the following transactions and bring down the balance for the start of next month:

Date	Particulars	Amount
1	Cash in hand	9,000
1	Cash at bank	36,000
2	Paid into bank	3,000
5	Bought furniture and issued cheque	4,500
8	Purchased goods for cash	1,500
12	Received cash from Ms. Kamini	2,940
	Discount allowed to her	60
14	Cash sales	15,000
16	Paid to Ms. Shikha by cheque	4,350
	Discount received	150
19	Paid into Bank	1,500
20	Sales through Credit Card	4,000
23	Withdrawn from Bank for Private expenses	1,800

24	Received cheque from Ms. Reema	4,290
	Allowed her discount	60
26	Deposited Reema's cheque into Bank	
28	Withdraw cash from Bank for Office use	6,000
30	Paid rent by cheque	2,400
30	Bank charged 1% commission on sales through Debit/Credit Cards	

Question 4 *(ICAI Study Material)* Pg no.______

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

2023	Particulars	Amount
Jan. 1	Received ₹10000 for petty cash	
Jan. 2	Paid bus fare	50
Jan. 2	Paid cartage	250
Jan. 3	Paid for Postage	500
Jan. 3	Paid wages for casual labourers	600
Jan. 4	Paid for stationery	400
Jan. 4	Paid bus charges	200
Jan. 5	Paid for the repairs to chairs	1,500
Jan. 5	Bus fare	100
Jan. 5	Cartage	400
Jan. 6	Postage	700
Jan. 6	Bus charges	300
Jan. 6	Cartage	300
Jan. 6	Stationery	200
Jan. 6	Refreshments to customers	500

Question 5 *(RTP May 2019) / (RTP Nov 2021) (Similar) / (RTP May 2022) (Similar)* Pg no.______

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

Date (2021)	Particulars	Amount
April 1	Received ₹20000 for petty cash	
April 2	Paid auto fare	500
April 3	Paid cartage	2,500
April 4	Paid for Postage & Telegrams	500
April 5	Paid wages	600
April 5	Paid for stationery	400
April 6	Paid for the repairs to machinery	1,500
April 6	Bus fare	100
April 7	Cartage	400
April 7	Postage and Telegrams	700
April 8	Cartage	3,000
April 9	Stationery	2,000
April 10	Refreshments to customers	5,000

Question 6 *(CA Foundation June 2022) (5 Marks)* Pg no.______

What is petty cash book? Write it's any two advantages.

Question 7 **(CA Foundation Dec 2022) (5 Marks) / (RTP Sep 2024)** **Pg no.______**

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

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

Question 8 **(CA Foundation Dec 2023) (5 Marks)** **Pg no.______**

Prepare a Triple Cash Book from the following transactions of G. Enterprises for the month of Jan 2023.

Date	Particulars	Amount (₹)
01.01.2023	Cash in hand	14,500
	Cash in Bank	1,95,000
03.01.2023	Received from K	
	- Cash	7,300
	- Cheque	15,000
	Discount allowed to him	400
06.01.2023	Goods sold for cash	9,100
07.01.2013	Withdrew from bank by self cheque	3,000
12.01.2023	Issued a cheque to B	10,590
	Discount received	410
14.01.2023	Received a cheque form R (in full settlement of her account ₹ 6,500) by cheque	6,350
17.01.2023	Withdrew from bank for personal use	15,000
18.01.2023	Paid electricity bill by cheque	5,000
20.01.2023	Cash purchases of stationary	1,200
31.01.2023	Deposit the entire cash in bank in excess of ₹ 10,000	

Unit 6: RECTIFICATION OF ERRORS

CH 2F

"You must have long range goals to keep you from being frustrated by short range failures."

- Accountant, as a normal human being is likely to commit mistakes while recording the transactions in the books of original entry, posting them to Ledger accounts or in preparing a Trial balance itself.
- It is essential to locate & rectify errors else Profit & Loss A/c and Balance sheet will not disclose true profit/loss and true financial position of the business respectively.

TYPE OF ERRORS

Errors in Accounting

- **Errors of Principle (Type 1)**
- **Clerical Errors**
  - Errors of Omission
    - (a)Complete Omission (Type 1)
    - (b)Partial Omission (Type 2)
  - Errors of Commission (Type 1 and 2)
  - Compensating Errors (Type 1)

Note: Type 1 Error = Trial balance will still agree. Type 2 Error = Trial balance will not agree.

ERRORS OF PRINCIPLE

Meaning	It arises when a financial transaction is recorded in the books in an incorrect manner. i.e., Journal Entry is not as per the Accounting Principles
Example	Capital Expenditure is treated as revenue expenditure or vice versa, E.g. Repairs to machinery wrongly treated as capital expenditure and debited to Machinery Account instead of Machinery Repairs A/c.
Stage	Such errors are normally committed while recording in the journal
Effect	Such errors will not affect the Trial Balance.

ERRORS OF OMISSION

Meaning	Error of Omission means that a transaction is not recorded/posted/transferred either wholly or partially, in the books of accounts.	
Types	They may be further analyzed into-	
	Partial Omission	**Complete Omission**
	(a) One aspect of the transaction, either debit or credit, omitted to be posted	Both aspects of transaction, debit & credit omitted to be recorded/posted.
	(b) Trial Balance will not agree.	Trial Balance will still agree

	(c) Arises from posting on one side & omission of other side entry.	Arises from omission-either in the book of original entry or in the ledger.
Stage	(a) Complete Omission: (i) While recording in Journal (ii) Posting to Ledger (b) Partial Omission: (i) While Posting to ledger	
Effect	(a) Complete Omission – will NOT affect Trial Balance. (b) Partial Omission in Posting – will affect Trial Balance	

ERRORS OF COMMISSION

Meaning	A transaction is recorded wrongly or incorrectly in the books. It also includes all clerical errors during the Accounting process.
Types & Effect on Trial balance	These may be categorized into- (a) **Recording Error**: writing the wrong amount in subsidiary books. Trial balance will agree. (b) **Posting Error**: wrong account, wrong amount, wrong side, etc. Trial Balance may or may not agree. (c) **Casting Error**: wrong totaling or balancing. Trial Balance will not agree. (d) **Carry Forward Error**: carrying forward a wrong amount, wrong side, etc. Trial Balance will not agree. (e) **Duplication Error**: recording the same transactions twice in the original book of entry and posting it to the ledger. Trial balance will agree.

COMPENSATING ERRORS

Meaning	One set of errors on the debit side for a specified amount is counter-balanced by another set of errors for the same amount on credit side. Due to this the trial Balance is not affected.
Example	Goods worth 10,000 sold to Ram but posted to Rohit's Account as 1,000 and goods worth 1,000 sold to Rohit but posted to Ram's Account as 10,000
Effect	Such errors will not affect the Trial Balance

STAGES OF OCCURRENCE OF ERRORS

- **While recording the transactions in journal**
  - Errors of Principle
  - Errors of Omission
  - Errors of Commission
- **While posting the entries in the Ledger**
  - Errors of Omission
    - (a) Partial Omission
    - (b) Complete Omission
  - Errors of Commission
    - (a) Posting to wrong A/c
    - (b) Posting on wrong side
    - (c) Posting of wrong amount
- **While balancing Ledger Accounts**
  - Wrong Totaling
  - Wrong balancing
- **While Preparing the Trial balance**
  - Errors of Omission
  - Errors of Commission
    - (a) Taking wrong A/c
    - (b) Taking wrong Amt.
    - (c) Taking to wrong side

TRIAL BALANCE AND IDENTIFICATION OF ERRORS

1. **Purpose**:
   (a) The purpose of Trial Balance is to ensure arithmetical accuracy of books of Accounts.
   (b) Hence, Trial Balance can be used to identify the errors made during the accounting process.
2. **Method of Identification of errors:** Errors are identified if Debit Column Total ≠ Credit Column Total

Errors Affecting Trial Balance:

- Error of Casting
- Error of Carrying Forward
- Error of balancing
- Posting to wrong side of the correct amount
- Posting to the correct side with the wrong amount
- Error of partial omission

Errors Not Affecting Trial Balance:

- Error of Principle
- Error of Complete Omission (Recording or Posting)
- Compensating Errors
- Wrong amount recorded in books of original entry
- Posting to the wrong account but on correct side

SUSPENSE ACCOUNT

1. **Meaning**: When the Trial Balance does not tally, then it is essential to create an account named "Suspense Account" on the column whose total is lower
2. **Purpose**:
   (a) The Suspense Account is opened for the differential amount on the column which is lower to make the trial balance artificially tally. (i.e., Trial Balance is temporarily tallied by opening the suspense account).
   (b) It is kept till the errors are identified and rectified. After the rectification, Suspense A/c balance will become zero.
3. **Type**: Suspense A/c is a combination of Real, Personal and Nominal Accounts. It is a temporary Account.
4. **Nature of balance in Suspense Account:**

Situation	Suspense A/c will appear on	Nature of Balance
If Debit Column Total < Credit Column Total	Debit Column	Debit Balance
If Credit Column Total < Debit Column Total	Credit Column	Credit Balance
Note: Suspense account will appear on the Column whose total is lower		

5. Hence, Suspense Account will appear only when error affects the Trial Balance.
6. **Disclosure in Balance Sheet:**

Nature of Suspense A/c Balance	Shown in	Side
Debit Balance in Suspense A/c	Balance sheet	Assets
Credit Balance in Suspense A/c	Balance sheet	Liabilities

STAGES OF RECTIFICATION OF ERRORS

- Before Preparation of Trial Balance
- After Trial Balance but before Final Accounts are prepared
- After Final Accounts ie. in next trading/ Accounting period

Stage	Treatment
1. Before preparation of Trial Balance	• Errors affecting Trial Balance: Direct rectification is done in relevant account. No use of Suspense Account (E.g. Error of Partial Omission) • Errors not affecting Trial Balance: Rectified journal entry is passed (E.g. Error of Complete Omission, Error of Principle etc.) Note: Errors of Commission are rectified based on the nature of error.
2. After Trial Balance but before Final Accounts are prepared	• Errors affecting Trial Balance: Suspense Account used while passing Journal entry. (E.g. Error of Partial Omission) • Errors not affecting Trial Balance: Rectified journal entry is passed (E.g. Error of Complete Omission, Error of Principle etc.) Note: Errors of Commission are rectified based on the nature of error.

Rectification of Errors (Few Examples)

	Before Trial Balance	After Trial Balance
1) Cash received from A, 1000 wrongly credited to B		
2) Cash received from A, 1000 a) Not credited to A b) Debited to his account c) Credited to his account, 100 d) Credited to his account, 10000 e) Debited to his account 100 f) Debited to B's Account		
3) Repairs to Machinery 5000 wrongly capitalised		
4) Total of Sales Book undercast by 500		

3. Rectification of Error After Final Accounts i.e., in the Next Trading/Accounting period

- Errors which have an impact on Profit (Nominal Accounts) are rectified by using the P&L Adjustment Account (Prior Period Item).
- Instead of Nominal Accounts, P&L Adjustment Account debited or credited.
- The balance in this account should be transferred to Profit & Loss A/c (or Capital A/c)
- Prior Period items should be separately disclosed in the current statement of Profit & Loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

Rectification of Errors (Few Examples)

	Before Trial Balance	After Trial Balance	After Final Accounts
1) Cash received from A, 1000 wrongly credited to B			
2) Cash received from A, 1000 a) Not credited to A b) Debited to his account			
3) Repairs to Machinery 5000 wrongly capitalised			
4) Total of Sales Book undercast by 500			
5) Purchase of A, 1000 wrongly recorded in Sales Book but correctly posted to A's Account.			

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

How would you rectify the following errors in the book of Rama & Co.? (without opening suspense A/c)

1. The total to the Purchases Book has been undercast by ₹100.
2. The Returns Inward Book has been undercast by ₹ 50.
3. A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.
4. A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.
5. The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.
6. An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.
7. Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. The amount has been posted correctly to the credit of his personal account.

Question 2 *(ICAI Study Material)* Pg no.______

The following errors, affecting the account for the year 2023 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture ₹150 treated as sale of goods.
(2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.
(3) Goods worth ₹100 brought from Mohan Narain have remained unrecorded so far.
(4) A return of ₹120 from Mukesh posted to his debit.
(5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.
(6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.
(7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹125.
(8) Sales Book casted short by ₹ 900.
(9) The total of Bills Receivable Book ₹ 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

Question 3 *(RTP May 2019) / (RTP Nov 2021) (Similar) / (RTP Nov 2023)* Pg no.______

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?

Question 4 *(ICAI Study Material)* Pg no.______

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

(a) The Sales Book has been totalled ₹100 short.
(b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.
(c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.
(d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.
(e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.
(f) 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.

Question 5 *(ICAI Study Material)* Pg no.______

The following errors were found in books of Ram Prasad & Sons. Give the necessary entries to correct them.
(1) ₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.
(2) Repairs made were debited to Building Account for ₹ 50.
(3) An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
(4) ₹100 paid for rent debited to Landlord's Account.
(5) Salary ₹125 paid to a clerk due to him has been debited to his personal account.
(6) ₹100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
(7) ₹ 700 paid in cash for a typewriter was charged to Office Expenses Account.

Question 6 Pg no.______

On 31st March 2023, a book-keeper finds the difference in the Trial Balance and the puts it in the Suspense Account. Later on he detects the following errors:-
a) ₹ 50,000 received from A was posted to the debit of his account.
b) ₹ 20,000 being purchases returns were posted to the debit of Purchases Account.
c) Discount of ₹ 8,000 received were posted to the debit of Discount Account.
d) ₹ 9,060 paid to repairs of Motor Car was debited to Motor Car Account as ₹ 7,060.
e) ₹ 40,000 paid to B was debited to A's Account.
Give Journal Entries to rectify the errors & ascertain the amount transferred to Suspense Account, assuming that the Suspense Account is balanced after the above corrections.

Question 7 Pg no.______

A book keeper finds the differences in the Trial Balance amounting to ₹ 1,000 and puts it in the Suspense Account.
Later on he detects the following errors:-
a) Purchased goods from Ravi ₹ 15,000 but entered into Sales Book.
b) Received one bill for ₹ 25,000 from Arun but recorded in Bills Payable Book.
c) An item of ₹ 3,500 relating to prepaid rent account was omitted to be brought forward.
d) An item of ₹ 2,000 in respect of purchase returns, had been wrongly entered in the purchase book.
e) ₹ 25,000 paid to Harish against our acceptance were debited to Harish's Account.
f) Bills (invoice) received from Janki for repairs done to radio ₹ 2,500 and radio supplied for ₹ 45,000 were entered in the Purchase Book as ₹ 46,000.
g) Bad Debts aggregating ₹500 were written off during the year in the Sales ledger but were not adjusted in the General Ledger.
Give rectifying journal entries and prepare Suspense Account.

Question 8 (ICAI Study Material) Pg no.______

The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense pending investigation which disclosed that:

a) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.
b) Discounts received ₹1,320 had been debited to discounts allowed.
c) The Sales account had been under added by ₹10,000.
d) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.
e) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.
f) An accrual of ₹560 for telephone charges had been completely omitted.
g) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.
h) Tools bought for ₹1,200 had been inadvertently debited to purchases.
i) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to pass rectification entries without narration to correct the above errors before preparing annual accounts and also prepare suspense account.

Question 9 (ICAI Study Material) Pg no.______

On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

a) The totals of debit side of "Expenses Account" have been casted in excess by ₹ 50.
b) The "Sales Account" has been totalled in short by ₹100.
c) Supplier account has been overcasted by ₹225.
d) The sale return of ₹100 from a party has not been posted to that account though the Party's account has been credited.
e) A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.
f) A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

1) Pass necessary journal entries for correcting the above;
2) Show how they affect the Profits; and
3) Prepare the "Suspense Account" as it would appear in the ledger.

Question 10 (ICAI Study Material) / (RTP May 2018) / (Nov 2019) / (Nov 2020) Pg no.______

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

a) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
b) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that:

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

Question 11 — Pg no.______

The Trial Balance of ABC Ltd., as on Dec 31st, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following were discovered:

a) The total of the Sales-book of one page ₹ 6,531 was carried forward to the next page as ₹ 6,351.
b) Goods returned by a customer for ₹1,200, but entered in Purchases Return Book.
c) Personal Car Expenses amounting to ₹ 250 were debited to Trade Expenses.
d) Sales Return Book was under cast by ₹ 2,750.
e) ₹ 50 discount allowed by a supplier, was wrongly posted to debit side of Discount Account.
f) An item of Purchases of ₹ 151 was entered in Purchases Book as ₹ 15 and posted to Supplier's Account as ₹ 51.

You are required to give journal entries to rectify the errors through Profit & Loss Adjustment A/c in a way so as to show the current year's profit or loss correctly.

Question 12 *(ICAI Study Material)* — Pg no.______

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account ₹3,000.
(2) Purchase account was over-cast by ₹10,000.
(3) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.
(4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.
(5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.
(6) ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.
(7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.
(8) Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) Goods purchased from A for ₹10,000 passed through sales book. The error will result in
   (a) Increase in gross profit.
   (b) Decrease in gross profit.
   (c) No effect on gross profit.

2) If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the
   (a) Trial balance would show the debit side to be ₹1,000 more than the credit.
   (b) Trial balance would show the credit side to be ₹1,000 more than the debit.
   (c) The debit side of the trial balance will be ₹2,000 more than the credit side.

3) If amount is posted in wrong a/c or it is written on the wrong side of the account, it is called
   (a) Error of omission.
   (b) Error of commission.
   (c) Error of principle.

4) ₹200 paid as wages for erecting a machine should be debited to
   (a) Repair account.
   (b) Machine account.
   (c) Capital account.

5) On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to
   (a) Repair account.
   (b) Furniture account.
   (c) Cash account.

6) Goods worth ₹50 given as charity should be credited to
   (a) Charity account.
   (b) Sales account.
   (c) Purchase account.

7) Goods worth ₹100 taken by proprietor for domestic use should be credited to
   (a) Sales account.
   (b) Proprietor's personal expenses.
   (c) Purchases account

8) Sales of office furniture should be credited to
   (a) Sales Account.
   (b) Furniture Account.
   (c) Purchase Account.

9) The preparation of a trial balance is for:
   (a) Locating errors of commission.
   (b) Locating errors of principle.
   (c) Locating clerical errors.

10) 200 received from Smith whose account was written off as bad debt should be credited to
   (a) Bad Debts Recovered account.
   (b) Smith's account.
   (c) Cash account.

11) Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:
    (a) A clerical error.
    (b) An error of principle.
    (c) An error of omission.

ANSWERS MCQs

1. (a) 2. (c) 3. (b) 4. (b) 5. (b) 6. (c) 7. (c) 8. (b) 9. (c) 10. (a) 11. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) The method of rectification of errors depends on stage at which are errors are detected.
2) In case of errors of complete omission, the trial balance does not tally
3) When errors are detected after preparation of trial balance, suspense account is opened
4) When purchase of an asset is treated as an expense, it is known as error of principle
5) Trial balance agrees in case of compensating errors
6) When amount is written on wrong side, it is known as an error of principle
7) On purchase of old furniture, the amount spent on repairs should be debited to repairs account
8) Profit & Loss Adjustment account is opened to rectify the errors detected in the current accounting period
9) Rent paid to Landlord of the proprietor house must be debited to Rent account
10) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. *(June 2022)/ (Dec 2022)*
11) Any type of error affects the agreement of Trial Balance.
12) Error of carry forward of totals of Purchase Journal affects two accounts.
13) The debts written off as bad if recovered subsequently are credited to debtors account.
14) Error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.
15) Freight & cartage expenses paid on purchase of goods is added to amount of purchases.
16) If the amount is posted in the wrong account or it is written on the wrong side of an account it is called error of omission.
17) Tallying of the Trial Balance only proves the arithmetical accuracy.
18) A tallied balance means that the books of accounts have been prepared as per accepted accounting principles.
19) Compensating errors do not disturb agreement of Trial Balance.
20) The trial balance does not ensure the arithmetical accuracy of the books.
21) Under or overcasting of subsidiary book is example of error of Commission. *(June 2023)*
22) Rectifying errors in subsequent accounting period always affects the profit or loss of that period.
23) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree. *(May 2018)*
24) The rationale behind the opening of a suspense account is to tally the trial balance.
25) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. *(May 2019) / (June 2024)*
26) Sale of Office Furniture should be credited to Profit & Loss Account.
27) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission. *(Nov 2020)*
28) Prior period items need not be separately disclosed in current statement of profit & loss.
29) All errors are rectified by means of journal entries. *(June 2024)*

Solution

1) **True**: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification of errors.
2) **False**: In case of error of complete omission, the trial balance tallies
3) **True**: In order to balance difference of balances in trial balance suspense a/c is opened.
4) **True**: Where the accounts being debited is principally incorrect it is termed as error of principle
5) **True**: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes
6) **False**: When amount is written on wrong side, it is known as error of commission
7) **False**: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense
8) **False**: Profit & Loss Adjustment account is opened to rectify the errors detected in the next accounting period
9) **False**: Rent paid to Landlord of the proprietor house must be debited to Drawings account
10) **False**: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle, Compensating errors, Errors of complete omission which can be rectified without opening a suspense account.
11) **False: –** Any type of error does not affect the agreement of trial balance e.g. compensating errors do not affect the Trial Balance.
12) **False: –** Error of carry-forward of totals of Purchase Journal will affect only one account i.e. Purchases A/c and finally it will result in disagreement of Trial Balance.
13) **False**: – The debts written off as bad if recovered subsequently shall be treated as gain and be credited to Profit & Loss A/c or to Bad debts Recovered A/c.
14) **True**: – Recording the transaction in a fundamentally incorrect manner in contravention of accounting principles is an error of principle.
15) **True:** – Freight and cartage expenses paid to bring goods purchased into the business premises factory are included in the 'Cost of Purchases'.
16) **False**: – Posting amount on wrong side or to wrong a/c is called an error of commission.
17) **True**: – Trial Balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors.
18) **False**: – The balance only checks the arithmetical accuracy of books. Errors of principles and errors of omission will not affect the agreement of trial balance.
19) **True**: – In cases of compensating errors, the effect of errors committed cancel out, and thus errors do not disturb agreement of trial balance.
20) **False**: – Trial balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal error of principle and compensating errors.
21) **True**: – If an amount is posted in the wrong account or it is written on the wrong side or totals are wrong or wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.
22) **False**: – If errors are rectified in the subsequent accounting period as prior period items, profit of subsequent period is not affected.
23) **False**: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
24) **False**: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
25) **False**: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

26) **False**: Sale of Office Furniture should be credited to Furniture Account since it is a capital receipt
27) **False**: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.
28) **False**: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived
29) **False:** Errors not affecting the trial balance can be rectified by passing a rectification journal entry. While other errors that affect one account of trial balance cannot be rectified by passing journal entries. Totaling errors cannot be rectified by passing journal entries

HOMEWORK QUESTIONS

Question 1 *(CA Foundation Nov 2019) (10 Marks)* Pg no.______

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

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

Question 2 *(ICAI Study Material)* Pg no.______

Give journal entries to rectify the following:

(1) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.

(2) A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.

(3) On 31st December, 2023 goods of the value of ₹300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.

(4) An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.

(5) A Cheque for ₹100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

Question 3 Pg no.______

The accountant of X prepared the Trial Balance for the year ended 31st March, 2023. But there was a difference and the accountant put the difference in Suspense Account.
Rectify the following errors found and prepare the Suspense Account.

a) The total of the Returns outward book, ₹ 420 has not been posted to the ledger.
b) A purchase of ₹ 350 from Y has been entered in the sales book. However Y's account has been correctly entered.
c) A sale of ₹ 390 to Z has been credited to his account as ₹ 290.
d) Old furniture sold for ₹ 5,400 had been entered as ₹ 4,500 in sales account.
e) Goods taken by the proprietor, ₹ 500 have not been entered in the books at all.

Question 4 *(ICAI Study Material) / (RTP May 2019)/(May 2021)/(Nov 2023) (Similar)* Pg no.______

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

(1) Goods of the value of ₹100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20;

(4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2023 amounting to ₹ 250 was not posted.

Question 5 (CA Foundation May 2018) (4 Marks) / (RTP May 2020) Pg no.______

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

a) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.
b) A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
c) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
d) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Question 6 Pg no.______

The difference in Trial Balance is kept by Rajesh in Suspense Account. Before preparing the Final Accounts, the following errors were detected by him:

a) Purchase for ₹ 1,080 was written in Sales day book, but was posted to the correct side of the Party's account.
b) Salary account total ₹ 25,200 was carried over to the next page as ₹ 2,520 on the wrong side.
c) Interest on Overdraft ₹ 1,300 was not posted to the Ledger from the Cash-book.

Pass the Rectification entries and prepare the suspense account.

Question 7 (RTP Nov 2018) / (RTP Nov 2021) Pg no.______

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

a) Sale of furniture credited to Sales Account.
b) Purchase worth ₹ 4,500 from M not recorded in subsidiary books.
c) Credit sale wrongly passed through the Purchase Book.
d) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
e) Goods worth ₹ 5000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Question 8 (CA Foundation May 2019) (4 Marks) / (RTP Nov 2022) Pg no.______

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

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

Question 9 (ICAI Study Material) Pg no.______

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹ 493 excess credit. The difference thus has been posted to a Suspense Account.

a) An amount of ₹100 was received from D.Das on 31st December, 2023 but has been omitted to enter in the Cash Book.
b) The total of Returns Inward Book for December has been casted short by ₹100.

c) The purchase of an office table costing ₹ 300 has been passed through the Purchases Day Book.
d) ₹ 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
e) A purchase of ₹ 67 had been posted to the trade payables' account as ₹ 60.
f) A cheque for ₹ 200 received from P.C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
g) ₹ 1,000 paid for the purchase of a motorcycle for Mr. Dutt for his personal use had been charged to "Miscellaneous Expenses Account".
h) Goods amounting to ₹100 had been returned by customer and were taken into inventory, but no entry in respect thereof, was made into the books.
i) A sale of ₹ 200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

Question 10 *(CA Foundation Dec 2021) (5 Marks) / (RTP Sep 2024)* **Pg no.______**

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

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

Question 11 *(CA Foundation Dec 2022) (10 Marks)* **Pg no.______**

Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

a. Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.
b. An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.
c. Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
d. Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.
e. College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.
f. Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.
g. Goods amounting to ₹ 6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.
h. ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.
i. Salary paid to a clerk ₹ 12,000 has been debited to his personal account.
j. A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Question 12 *(ICAI Study Material) / (RTP Jan 2025) (Sim.)* Pg no.______

Mr. A closed his books of account on September 30, 2022 in spite of a difference in the trial balance. The difference was ₹830 the credits being short; it was carried forward in a Suspense Account. In 2023 following errors were located:

a) A sale of ₹2,300 to Mr. Lala was posted to the credit of Mrs. Mala.
b) The total of the Returns Inward Book for July, 2022 ₹1,240 was not posted in the ledger.
c) Freight paid on a machine ₹5,600 was posted to the Freight Account as ₹6,500. 10% Depreciation is charged on this machine.
d) While carrying forward the total in the Purchases Account to the next page, ₹65,590 was written instead of ₹56,950.
e) A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th Sept. 2022 was not entered in the books at all. The book value of the machine was ₹6,750.

Pass journal entries to rectify the errors. Have you any comments to make?

Question 13 *(CA Foundation Nov 2018) (10 Marks) / (RTP May 2020)* Pg no.______

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

a) Sales Day Book was overcast by ₹ 1,000
b) A Sale of ₹ 5,000 to X was wrongly debited to the account of Y
c) General expenses ₹ 180 was posted in the General Ledger as ₹ 810
d) Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The bill was given by P
e) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
f) Cash received from Ram was debited to Shyam ₹ 1,500
g) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

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

Question 14 *(ICAI Study Material)* Pg no.______

A merchant's trial balance as on June 30, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

a) The total of the Purchases Book of one page, ₹4,539 was carried forward to the next page as ₹4,593.
b) A sale of ₹573 was entered in the Sales Book as ₹753 and posted to the credit of the customer.
c) A return to a creditor, ₹510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
d) Cash received from C. Dass, ₹620 was posted to the debit of G. Dass.
e) Goods worth ₹840 were despatched to a customer before the close of the year but no invoice was made out.
f) Goods worth ₹1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

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

Question 15 *(RTP May 2022)* Pg no.______

The books of accounts of Dime Ltd. for the year ending 31.3.2023 were closed with a difference in books carried forward. The following errors were detected subsequently:

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

Pass rectification entries in the next year.

Question 16 *(CA Foundation Nov 2020) (5 Marks) / (RTP June 2024)* Pg no.______

M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2023 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.
(ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.
(iii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.
(iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.
(v) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

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

Question 17 *(CA Foundation Jan 2021) (10 Marks) / (RTP May 2025) (Similar)* Pg no.______

Mr. Joshi's trial balance as on 31st March, 2023 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

a) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.
b) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.
c) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
d) Cash received from Senu, ₹ 895 was posted to debit of Sethu.
e) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
f) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
g) ₹ 600 due from Mr. Q was omitted to be taken ·to the trial balance.
h) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

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

Question 18 *(CA Foundation May 2018) (10 Marks) / (RTP May 2023) (Similar)* Pg no.______

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

a) Purchase account was undercast by ₹ 8,000.
b) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.
c) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.
d) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

e) Repairs to Machinery was debited to Machinery Account ₹ 1,800.
f) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.
Suggest the necessary rectification entries.

Question 19 (CA Foundation July 2021) (10 Marks) / (RTP Jan 2025) (Sim.) Pg no.______

Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

a) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.
b) Purchase account was over cast by ₹ 1,00,000.
c) A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.
d) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.
e) Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.
f) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
g) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
h) Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries.

Question 20 (CA Foundation June 2024) (12 Marks) Pg no.______

The Trial Balance of Mr. Sarvesh Kumar as on 31st March,2024 did not tally and the difference was posted to Suspense Account. On a scrutiny of the books; following errors were detected:

(i) The total of Sales Returns Book for January 2024 has been casted short by ₹ 1,000.
(ii) Freight paid for installation of a Machine ₹ 6,500 was posted to the Freight Account as ₹ 5,600.
(iii) Goods of the value of ₹ 2,500 returned by a customer were entered in the Sales day Book and posted therefrom to the credit of his account.
(iv) ₹ 18,000 paid for purchase of old Motorcycle for personal use of Mr. Sarvesh Kumar was debited to conveyance account.
(v) A purchase of ₹ 6,700 had been posted to creditor's account as ₹ 6,000.
(vi) Receipt of cash ₹ 5,000 from Mr. Avinash was posted to the debit of his account.
(vii) A cheque for ₹ 2,500 received from Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.
(viii) Sale of ₹ 8,500 to Mr. Deepak was recorded in the sales book correctly but while posting in ledger credited to his account.
(ix) The total of "Discount Allowed" column in the cash for the month of December 2023 amounting to ₹ 3,800 was not posted.
(x) Sale of old office table for ₹ 2,200 treated as sale of goods.

You are required to pass necessary journal entries with narrations to rectify the above errors.

Question 21 (CA Foundation Sep 2024) (4 Marks) Pg no.______

Pass the necessary journal entries to rectify the following errors, using a Suspense Account:

(i) Goods of the value of ₹ 500 returned by Mr. A were entered in the Sales Day Book and posted there from to the credit of his account
(ii) ₹ 250 entered in the Sales Returns Book, has been posted to the debit of Mr. R, who returned the goods
(iii) A sale of ₹ 700 made to Mr. Q was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. S as ₹ 70
(iv) The total of "Discount allowed" Column in the Cash Book for September amounting to ₹ 350 was not posted.

BANK RECONCILIATION STATEMENT

CH 3

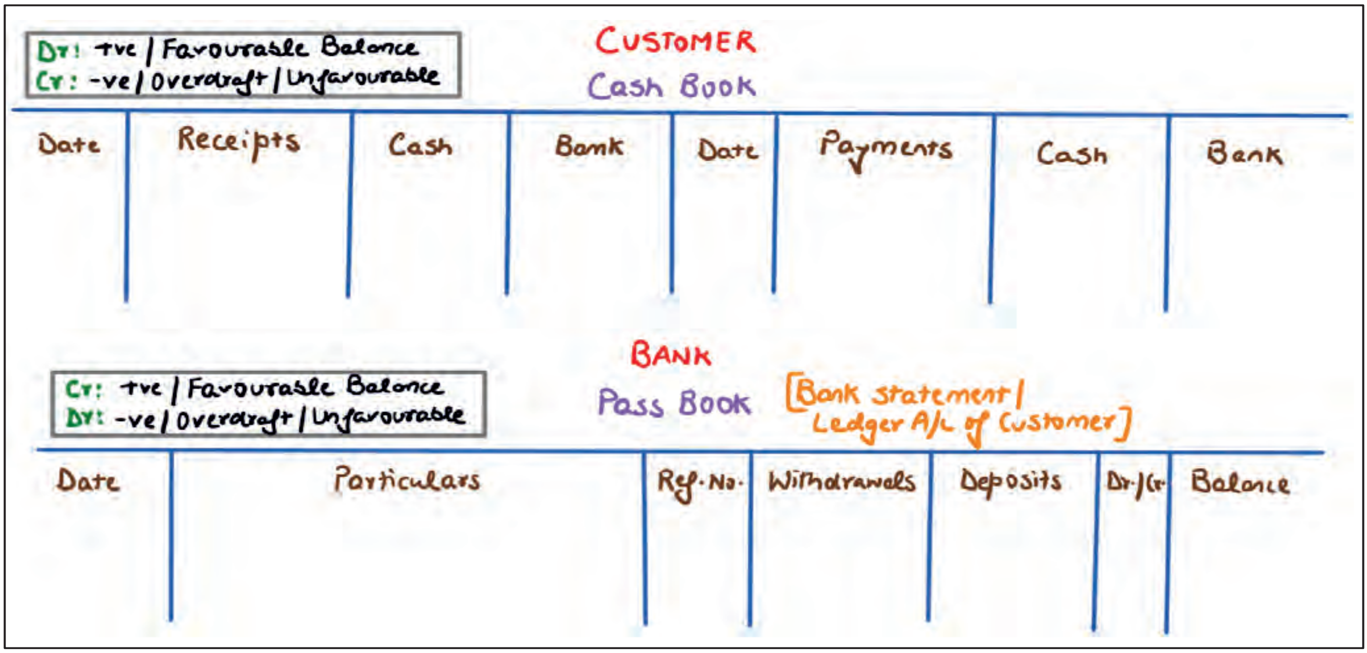
The Kite gives a wonderful message. Fly high & high. But stay connected to the ground to our roots or else you will be lost.

ACTIVITIES OF BANK

Acceptance of Deposits	Bank accepts various deposits like Term Deposits, Fixed Deposits, Recurring deposits etc.
Loans	Lending of money is the major revenue earning activity for a bank, e.g., Machinery loan, Housing loan, Vehicle loan and Personal loan etc.
Discounting	Discounting is a process by which the Bank enables its customer to receive the cash before the due date, in consideration of a small charge called discount, e.g.. Bills of Exchange/Pro-Note Discounting.
Overdraft	Bank allows overdrafts to its good customers so that they can make payment even when they do not have sufficient balance in their account at the Bank.
Guarantee	The Bank furnishes securities or guarantee for its customers whose credit is good. The Bank charges commission for this service.
Standing Instructions	As per the instructions of the customer and on his behalf, a Bank makes payment to various parties on the due date, e.g. Telephone Bills, Insurance Premium, Credit Card Dues, etc.
Demand Draft	Banks issue Demand Draft based on its customer's request. Demand Draft is also called as Banker's Cheque, Pay Order, etc. in some cases.

BANK PASS BOOK OR STATEMENT

1. Bank Pass Book (also known as Bank Statement) is an extract of the Ledger Account of the customer, as per the Bank's books of Accounts.
2. It is a periodical statement of account in which all transactions, i.e, deposits and withdrawals made by the customer during the particular period is recorded.



3. A comparative analysis of the Cash Book (Bank Column) and Bank Pass Book is given below

Point	In Cash Book of Customer	In Bank Pass Book
Debit Entries in Cash Book	• Deposits of cash into Bank • Receipt of cheques from debtors • Other Incomes/Receipts, e.g. Interest, Dividend, Capital introduced, etc. • B/R Collection, Income on Investment, etc. by the Bank.	These are recorded as "Deposits" in the Pass Book, i.e. on the credit side of the Pass book
Credit Entries in Cash Book	• Withdrawal of cash from Bank • Payment to Creditors/ of Expenses • Bank Interest, Charges by the Bank • Payment as per standing instructions	These are recorded as "Withdrawals" in the Pass book, i.e. on the debit side of the Pass book
Favourable Balance	Such balance will normally appear on the debit side of cash book (Bank column)	Credit Balance in Pass Book represents a favourable balance, i.e. Normal Balance
Overdraft balance	Such balance will normally appear on the credit side of Cash Book (Bank column)	Debit Balance in Pass Book represents an unfavourable balance i.e. Overdraft Bal.

Note:

For each entry in the Cash Book, there should be corresponding opposite entry in Pass book. This is because the business enterprises treat the Bank as Debtor A/c (Receivable/Asset) and bank treats the business enterprises as a Creditor (i.e. Payable/Liability).

BANK RECONCILIATION STATEMENT

1. **Bank Reconciliation Statement:** At periodical intervals, the customer/ business entity (i.e. Account Holder in the Bank), should compare the balance in Bank as shown by the Cash Book with the Pass Book. In case of any differences between the two, they should be analyzed by listing out the various reasons for such difference. Such a statement is called **Bank Reconciliation Statement (BRS).**
   It is prepared by Customer/Bank Account holder. It is prepared to know the causes for difference between balance as per Bank Column of Cash Book & Pass Book/Bank Statement.
2. **Advantages**: The advantages of Bank reconciliation statement are-
   (a) To record entries which have been missed out in the Cash Book, e.g. Interest charged/allowed by the bank, bank charges, and direct collection by bank etc.
   (b) To identify any errors that may been committed either in cash book or in bank statement,
   (c) To identify any undue delay in the clearance of cheque and
   (d) To act as a deterrent against embezzlement frauds.

DIFFERENCES BETWEEN BANK STATEMENT AND CASH BOOK

Causes of Difference

Timing	Transaction	Error
Transaction recorded at 2 different times in cash book & Pass book	Transactions which bank carries out itself without intimating the customer	Mistakes or errors in preparing accounts either in cash book or Pass book
* Cheque issued but not presented	* Interest allowed by bank	
* Cheque deposited but not cleared	* Bank charges debited by bank	

The common reasons for difference between the balances as per cash book and the bank statement are-

1	**Cheques issued but not yet presented for payment**	Payment is recorded in the cash book immediately on issue of a cheque. However, the bank debits the Customer's (i.e. Account Holders') Account only when the cheque is presented for payment. There may be a time gap between the entry in the cash book and in the bank statement.
2	**Cheques deposited into bank not yet credited/cleared**	Receipts are recorded in the cash book when the cheques are sent to the Bank. However, the bank would credit the account only when they have been cleared

3	**Interest allowed/credited by bank**	Interest credited by the Bank in the account (if any) will be reflected only in the bank pass book. They will have to be recorded in the cash book only after receiving the pass book.
4	**Interest & Dividends collected by Bank**	When investments are kept with the bank for safe custody, the income thereon may be collected by the bank directly. This will be recorded in the cash book later.
5	**Direct payments into Bank by a customer**	Amount directly received by the bank from the Company's customer will be recorded in the cash book only after analyzing the pass book.
6	**Bills Receivables collected by Bank on behalf of the customer**	The bank collects the proceed of bills receivable when the documents of title are sent through it. On collection, the bank will credit the customer's account. The customer may make the entry only on receiving the bank statement at the end of the period.
7	**Interest & Expenses charged by bank**	Interest and expenses charged by bank (for Cheque Book, Demand draft, outstation cheque collection, etc.) will be recorded by the customer company only after seeing the pass book.
8	**Direct payment by bank**	When standing Instructions for certain payments, e.g. Insurance premium, telephone bills, etc. are given to the Bank; the company may come to know of the actual payment only on seeing the Pass Book at the end of the period.
9	**Dishonour of a bill discounted with the Bank**	If the Bank is not able to receive payment on Bills of Exchange discounted by it, it wills debit the customer's account together with any charges thereon. The customer will make the entry only when he sees the Bank statement.
10	**Error in Pass Book/Cash Book**	Errors committed in the Pass Book/ Cash Book will also contribute to difference between the balances shown by the books.

Note:

- Items 1 & 2 are recorded in the Cash Book first, and later on reflected in the Bank Pass Book/Statement.
- Items 3 to 9 are recorded first in Pass Book, and later recorded in Cash Book. Out of these, Item 3,4,5 and 6 constitute receipts into Bank Account and Items 7,8 and 9 constitute Payments out of Bank A/c.

PROCEDURE FOR BANK RECONCILIATION STATEMENT

BRS may be prepared in two ways-

(a) **Without** adjusting the Cash Book, i.e. Preparation of BRS only.

(b) **After** adjusting Cash Book for Items 3 to 10 given above, i.e. Preparation of Adjusted Cash Book and BRS.

The Procedures for preparing the BRS is explained below-

METHOD 1: PREPARATION OF BRS ONLY (i.e. WITHOUT ADJUSTING CASH BOOK)

Starting Point	**Cash Book Balance**		**Pass Book Balance**	
Balance as per Starting Point	Dr. Balance in Cash Book **(Favourable)**	Cr. Balance in Cash Book **(Overdraft)**	Dr. Balance in Pass Book **(Overdraft)**	Cr. Balance in Pass Book **(Favourable)**
1. Cheques issued but not yet presented for payment **(Item 1)**	**Add**	**Subtract**	**Add**	**Subtract**
2. Cheques deposited into Bank but not yet credited /cleared **(Item 2)**	**Subtract**	**Add**	**Subtract**	**Add**
3. Interest allowed by Bank **(Item 3)**	**Add**	**Subtract**	**Add**	**Subtract**
4. Interest & Dividends collected by Bank **(Item 4)**	**Add**	**Subtract**	**Add**	**Subtract**
5. Direct payments into Bank by a customer **(Item 5)**	**Add**	**Subtract**	**Add**	**Subtract**
6. Bill Receivable collected by bank on behalf of the customer **(Item 6)**	**Add**	**Subtract**	**Add**	**Subtract**
7. Interest & Expenses charged by Bank **(Item 7)**	**Subtract**	**Add**	**Subtract**	**Add**
8. Direct Payments by bank **(Item 8)**	**Subtract**	**Add**	**Subtract**	**Add**
9. Dishonour of a bill discounted with the Bank **(Item 9)**	**Subtract**	**Add**	**Subtract**	**Add**
10. Wrong Entries **(Item 10)**				
(a) Wrong Debit in Cash Book or in Pass Book, under-casting of Cr. Side of Cash Book, overcasting of Dr. side of cash book etc.	**Subtract**	**Add**	**Subtract**	**Add**
(b) Wrong Credit in Cash Book or Pass Book, overcasting of Cr. side of Cash book, undercasting of Dr. side of cash book	**Add**	**Subtract**	**Add**	**Subtract**
Balances as per End Point	**Pass Book Balance**		**Cash Book Balance**	
Positive (+) End Point balance indicates	**Favourable** i.e Cr. Bal. as per Pass Book	**Overdraft** i.e. Dr. Bal. as per Pass Book	**Overdraft** i.e. Cr. Bal. as per Cash Book	**Favourable** i.e. Dr. Bal. as per Cash Book
Negative (-) End Point balance indicates	**Overdraft** i.e. Dr. Bal. as per Pass Book	**Favourable** i.e. Cr. Bal. as per Pass Book	**Favourable** i.e Dr. Bal. as per Cash Book	**Overdraft** i.e. Cr. Bal. as per Cash Book

METHOD 2: PREPARATION OF ADJUSTED CASH BOOK AND BRS

When the balance in the cash book is first adjusted for certain adjustments before taking it to the bank reconciliation statement, then it is known as adjusted cash book balance. Adjusting the cash-book before preparing the bank reconciliation statement is completely optional, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash-book must be adjusted so as to reflect the correct bank balance in the balance sheet.

Errors occurring in the pass-book are not to be adjusted in the cash book. All the adjustments considered in the adjusted cash-book are not carried again to the Bank Reconciliation Statement.

Step 1:

Prepare Adjusted Cash Book with the following Debits and Credits

Receipts	₹	Payments	₹
To balance b/d (in case of Favourable Bal. as per Cash Book)		By balance b/d (in case of Overdraft Bal. as per Cash Book)	
To Interest allowed by Bank	**Item 3**	By Interest & Expenses charged by bank	**Item 7**
To Interest & Dividends collected by Bank	**Item 4**	By Direct payments by bank as per Standing Instructions	**Item 8**
To Direct Payments into Bank by firm's customers	**Item 5**	By dishonour of a bill discounted with the bank	**Item 9**
To Bill Receivable collected by bank on behalf of firm	**Item 6**		
To Rectification of Error in Cash Book, e.g. double credit posting, credit overcast, debit under cast, debit entry omission etc.	**Item 10**	By Rectification of Error in cash book, e.g. double debit posting, debit overcast, credit undercast, credit entry omission etc.	**Item 10**
To balance c/d (in case of Overdraft bal. as per Cash Book)		By balance c/d (in case of Favourable bal. as per Cash Book)	
Total		**Total**	

Note:
- The closing balance in the above Adjusted Cash Book is called Adjusted Cash Balance. This will be taken to the BRS.
- Prepared under Step 2 below.
- In Item 10, Errors made in Cash Book will be adjusted, but errors made in Pass Book will not be given effect in Cash Book.

Step 2:

Prepare Bank Reconciliation Statement as under-

Starting Point	**Cash Book Balance**		**Pass Book Balance**	
Balance as per Starting Point	**Dr.** Balance in Cash Book **(Favourable)**	**Cr.** Balance in Cash Book **(Overdraft)**	**Dr.** Balance in Pass Book **(Overdraft)**	**Cr.** Balance in Pass Book **(Favourable)**
1. Cheques issued but not yet presented for payment **(Item 1)**	**Add**	**Subtract**	**Add**	**Subtract**
2. Cheques deposited into Bank but not yet credited/cleared **(Item 2)**	**Subtract**	**Add**	**Subtract**	**Add**
3. Wrong Cr. in Pass Book **(Item10)**	**Add**	**Subtract**	**Add**	**Subtract**
4. Wrong Dr. in Pass Book **(Item10)**	**Subtract**	**Add**	**Subtract**	**Add**
Balance as per End Point	**Pass Book Balance**		**Cash Book Balance**	
Positive (+) End point balance indicates	**Favourable** i.e. Cr. bal. as per pass book	**Overdraft** i.e. Dr. Bal, as per Pass Book	**Overdraft** i.e. Cr. Bal. as per Cash Book	**Favourable** Dr. Bal. as per Cash Book
Negative (-) End Point balance indicates	**Overdraft** i.e. Dr. Bal. as per Pass Book	**Favourable** i.e. Cr. Bal. as per Pass Book	**Favourable** i.e. Dr. Bal. as per Cash Book	**Overdraft** i.e. Cr. Bal as per Cash Book

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

On 30th June 2023, the Bank Pass Book of Namrata showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050.

On scrutiny of the two books, she ascertained the following causes of difference:

a) She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.

b) She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in bank.

c) A cheque of ₹ 22,000 deposited by her has not been cleared yet.

d) Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.

e) Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

Question 2 *(RTP Nov 2021) (Similar)* Pg no.______

On 31st March, 2023 the pass-book of a trader showed a credit balance of ₹15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

1. Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹3,84,000 were not yet presented for payment.
2. Bank charged ₹350 for bank charges and 'Z' directly deposited ₹1,816 into the bank account, which were not entered in the cash book.
3. Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2023 although they were banked on 25.03.2023.
4. Interest allowed by bank ₹ 4,500
5. Wrong credit by Bank ₹ 20,000
6. Amount wrongly debited to trader account by the Bank ₹ 15,000
7. Bank paid house tax ₹ 5,000 on our behalf, but no information received from bank in this connection.

Prepare a bank reconciliation statement as on 31st March, 2023.

Question 3 *(ICAI Study Material)* Pg no.______

Prepare a bank reconciliation statement as on 30th September, 2023 from the following particulars:

Particulars	Amount
Bank balance as per pass-book	10,00,000
Cheque deposited into the bank, but no entry was passed in the cash-book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

Question 4

Pg no.______

Prepare Bank Reconciliation Statement as on 30th September, 2023:

	Amount
Bank overdraft as per Pass-Book	21,494
A cheque deposited as per Pass-Book, but not recoded in Cash-book	700
Debit side of Bank column undercast	100
A cheque of ₹ 5,000 deposited, but credited in Pass book as	4,996
A party's cheque returned dishonored as per Pass-book only	530
Bill collected directly by the Bank	3,500
Bank charges recorded twice in the Cash-book	25
A Bill for ₹ 8,000 discounted for ₹ 7,960 returned dishonored by the Bank. Noting charges being	15
Cheque deposited, but not yet collected by the Bank	2,320
Cheque issued, but not yet presented to the bank for payment	1,250

Question 5 (ICAI Study Material) / (RTP May 2018)/(RTP Nov 2022) (Similar)

Pg no.______

The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

a) Subsidy ₹ 10,250 received from government directly by bank, but not advised to company
b) On 15th March, 2022 the payments side of the Cash-book was under cast by ₹ 350.
c) On 20th March, 2022 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.
d) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2022. The cashier erroneously entered the gross amount in the Cash-Book.
e) On 10th March, 2022 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.
f) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.
g) Insurance premium ₹ 756 paid directly by bank under standing order. No entry made in cash-book.
h) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2022, but advice was received on 1st April, 2022.
i) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2022.

Question 6 (RTP Nov 2018) / (RTP Nov 2020)

Pg no.______

Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2023:

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

Question 7 *(ICAI Study Material)* Pg no.______

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2023, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2023 the payment side of the Cash Book was undercast by ₹10,000.
(2) A cheque for ₹1,31,000 issued on 25th December, 2023 was not taken in the bank column.
(3) One deposit of ₹1,50,000 was recorded in the Cash Book as if there is no bank column therein.
(4) On 18th December, 2023 the debit balance of ₹15,260 as on the previous day, was brought forward as credit balance in the Cash Book.
(5) Of the total cheques amounting to ₹11,514 drawn in the last week of December, 2023, cheques aggregating ₹7,815 were encashed in December.
(6) Dividends of ₹25,000 collected by the Bank and subscription of ₹1,000 paid by it were not recorded in the Cash Book.
(7) One out-going Cheque of ₹3,50,000 was recorded twice in the Cash Book.

Prepare Bank Reconciliation Statement:

(i) If the books are not closed on 31st December, 2023
(ii) If the books are not closed on 31st December, 2023

Question 8 *(ICAI Study Material)* Pg no.______

The following are the Cash Book (bank column) and Pass Book of Jain for the months of March, 2023 and April, 2023:

Cash Book (Bank Column only)

Date	Particulars	Amount	Date	Particulars	Amount
1/3/23	To Balance b/d	60,000	3/3/23	By Cash A/c	2,00,000
6/3/23	To Sales A/c	3,00,000	7/3/23	By Modi	60,000
10/3/23	To Ram	65,000	12/3/23	By Patil	30,000
18/3/23	To Singhal	2,70,000	18/3/23	By Suresh	40,000
25/3/23	To Goyal	33,000	24/3/23	By Ramesh	1,50,000
31/3/23	To Patel	65,000	31/3/23	By Balance c/d	3,13,000
		7,93,000			**7,93,000**

Pass Book

Date	Particulars	Amount (Dr.)	Amount (Cr.)	Dr. or Cr.	Balance
1/4/23	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/23	By Goyal		33,000	Cr.	3,98,000
5/4/23	By Patel		65,000	Cr.	4,63,000
7/4/23	To Naresh	2,80,000		Cr.	1,83,000
12/4/23	To Ramesh	1,50,000		Cr.	33,000
15/4/23	To Bank Charges	200		Cr.	32,800
20/4/23	By Usha		17,000	Cr.	49,800
25/4/23	By Kalpana		38,000	Cr.	87,800
30/4/23	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2023.

Question 9 *(ICAI Study Material)* Pg no.______

Prepare a bank reconciliation statement from the following particulars on 31st March, 2023 and show the balance as per cash book:

a) Overdraft as per passbook on March 31, 2023, is ₹ 3,00,000.
b) Interest on bank overdraft not entered in the cash book ₹ 36,500
c) Insurance premium of ₹ 17,950 was due and paid by the bank but same has not been accounted in the books.
d) Cheques drawn in the last week of March,2023, but not cleared till date for ₹ 13,000 and ₹ 23,500.
e) Cheques deposited into bank on February,2023, but yet to be credited on dated March 31, 2023 ₹ 56,000.
f) Amount of ₹ 20,500 is wrongly debited by the bank
g) Interest on Investment ₹ 83,800 collected and credited by bank but the same has not been entered in the Cash Book

Question 10 *(CA Foundation May 2018) (10 Marks)* Pg no._____

The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2023. On going through the Pass Book, the accountant found the following:

(i) A Cheque of ₹ 1,080 credited in the pass book on 28th March 2023 being dishonoured is debited again in the pass book on 1st April 2023. There was no entry in the cash book about the dishonour of the cheque until 15th April 2023.
(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 2023 cheques amounting to ₹ 7,500 were collected on 7th April, 2023.
(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2023 a cheque for ₹ 2,500 was encashed on 3rd April, 2023.
(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.
(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2023.
(vii) A Bill Receivable for ₹ 5,200 previously discounted (Discount ₹ 200) with the Bank had been dishonoured but advice was received on 1st April, 2023.
(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, 2023.

Prepare Bank Reconciliation Statement as on 31st March, 2023.

Question 11 *(ICAI Study Material) / (RTP June 2024) (Similar)* Pg no._____

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹10,39,200 for the period ended on 30th June, 2023, this did not agree with the balance in the cash book. An examination of the Cash Book and Bank Statement disclosed the following:

a) A deposit of ₹3,09,200 paid on 29th June, 2023 had not been credited by Bank until 1st July, 2023.
b) On 30th March, 2023 the company had entered into hire purchase agreement to pay by bank order a sum of ₹3,00,000 on the 10th of each month, commencing from April, 2023. No entries had been made in Cash Book.
c) A customer of the firm, who received a cash discount of 4% on his account of ₹4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
d) Bank charges amounting to ₹3,000 had not been entered in Cash-Book.
e) On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.

f) ₹11,200 paid into the bank had been entered twice in the Cash Book.
g) A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2023.

Prepare Bank Reconciliation Statement on 30 June, 2023.

Question 12 (ICAI Study Material) / (RTP Sep 2024) (Similar) Pg no.______

According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2023. On investigation you find that :

a) Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till date.
b) Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2023.
c) A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.
d) Insurance premium (up to 31st Dec, 2023) paid by the bank ₹ 27,000 not entered in the cash book.
e) The payment side of the cash book had been under casted by ₹ 5,000.
f) Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.
g) A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

Required:
(a) to make the appropriate adjustments in the cash book, and
(b) to prepare a statement reconciling it with the bank pass book.

Question 13 (ICAI Study Material)/(RTP Nov 2019)/(Nov 2023) (Similar) Pg no.______

On 30th September, 2023, 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:

1. A cheque for ₹13,14,000 deposited on 29th September, 2023 was credited by the bank only on 3rd October, 2023
2. A payment by cheque for ₹16,000 has been entered twice in the Cash Book.
3. On 29th September, 2023, 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, 2023.
4. Bank charges amounting to ₹580 had not been entered in the Cash Book.
5. On 6th September, 2023, the bank credited ₹20,000 to X in error.
6. A bill of exchange for ₹1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2023 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2023 but not presented for payment upto 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, 2023 and
b) to prepare a bank reconciliation statement as on that date.

Question 14 *(MTP March 2022)* Pg no.______

On 30th June. 2023, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:

(a) Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.

(b) A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.

(c) Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June., but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.

(d) According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.

(e) Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2023.

Question 15 *(ICAI Study Material)* Pg no.______

Mr. Manoj is employed by Century Rayon and Carpets Pvt Ltd. as their cashier. The main responsibility of Mr. Manoj is to maintain the company's cash book and prepare a bank reconciliation statement at the end of each month. The cash book (only bank column) is set out below together with a copy of the bank statement for the month of February 2023.

You are required to:

a) Reconcile the cash book with the bank statement.
b) Make necessary entries to update the cash book.
c) Start with the balance as per cash book, list any unpresented cheques and sub-total on the reconciliation statement.

Century Rayon and Carpets Pvt Ltd
Cash Book (Bank Column only)

Date	Particulars	Amount	Date	Particulars	Amount
1/2/23	To Balance b/d	1,42,500	3/2/23	By Bhagwandas	1,980
1/2/23	To Blue & Co.	1,570	5/2/23	By Maruti Ltd. (400460)	1,500
4/2/23	To GM Ltd.	2,430	12/2/23	By Jackson Ltd. (400461)	54,000
8/2/23	To Robinson Ltd.	910	18/2/23	By PC Computers (400462)	1,420
13/2/23	To Donald	750	21/2/23	By Shiv Garage (400463)	49,000
20/2/23	To Avenue Super Mart	4,200	26/2/23	By Petty Cash (400465)	1,500
28/2/23	To Sleep Well Ltd.	940	26/2/23	By Shweta & Co. (400464)	2,100
			26/2/23	By AV Partners (400466)	5,200
			28/2/23	By Balance c/d	36,600
		1,53,300			**1,53,300**

Customer: Century Rayon and Carpets Pvt Ltd
Account No – xxxxx0439
Account Statement for the month of February 2023

Date	Particulars	Amount (Dr.)	Amount (Cr.)	Dr. or Cr.	Balance
1/2/23	Balance b/d			Cr.	1,42,500
3/3/23	Cheques		1,570	Cr.	1,44,070
6/2/23	Maruti Ltd.	1,500		Cr.	1,42,570
7/4/23	Bhagwandas	1,980		Cr.	1,40,590
12/2/23	GM Ltd.		2,430	Cr.	1,43,020
15/2/23	Robinson Ltd.		910	Cr.	1,43,930
20/2/23	Premium of New India Insurance Ltd.	3,800		Cr.	1,40,130
22/2/23	Donald		750	Cr.	1,40,880
22/2/23	400463	49,000		Cr.	91,880
23/2/23	Cheques		4,200	Cr.	96,080
26/2/23	Savita	1,030		Cr.	95,050
26/2/23	400465	1,500		Cr.	93,550
27/2/23	Shreya		2,200	Cr.	95,750
28/2/23	Bank Charges	2,538		Cr.	93,212

Question 16 *(CA Foundation June 2023) (5 Marks)* Pg no.______

From the following information prepare a Bank Reconciliation Statement as on 31st March 2023 for A Ltd.

		₹
	Bank overdraft as per cash book as 31st March, 2023	15,50,750
1.	Cheques deposited on 15th February, 2023 credited on 5th April, 2023	12,50,000
2.	Interest debited by bank on 31st March, 2023 but not entered in Cash Book	1,75,500
3.	Cheques issued before 31st March, 2023 but not yet presented	7,75,000
4.	On 10th March, 2023 bank credited to A Ltd. in error	1,50,000
5.	Draft deposited in bank but not credited till 31st March, 2023	12,75,000
6.	Bills for collection credited by bank but no advice received by the company	9,45,000
7.	Bank charges charged by bank but not entered in cash book	2,85,000
8.	Transport subsidy received from the state government directly by the bank not advised to the company	17,50,000

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. When the balance as per Cash Book is the starting point, direct deposits by customers are:
(a) Added
(b) Subtracted
(c) Not required to be adjusted.

2. A debit balance in the depositor's Cash Book will be shown as:
(a) A debit balance in the Bank Statement.
(b) A credit balance in the Bank Statement.
(c) An overdrawn balance in the Bank Statement.

3. When balance as per Pass Book is the starting point, interest allowed by Bank is
(a) Added
(b) Subtracted
(c) Not required to be adjusted.

4. A Bank Reconciliation Statement is prepared with the help of:
(a) Bank statement and bank column of the Cash Book.
(b) Bank statement and cash column of the Cash Book
(c) Bank column of the Cash Book and cash column of the Cash Book.

5. The cash book showed an overdraft of ₹1,50,000, but the pass book made up to the same date showed that cheques of ₹ 10,000, ₹ 5,000 and ₹ 12,500 respectively had not been presented for payments; and the cheque of ₹ 4,000 paid into account had not been cleared. The balance as per the pass book will be:
(a) ₹ 1,10,000
(b) ₹ 2,17,500
(c) ₹ 1,26,500

6. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:
(a) Added;
(b) Deducted;
(c) Not required to be adjusted.

7. When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:
1. Cheque issued but not presented to bank
2. B/R collected directly by bank
3. Overcasting of the Dr. Side of bank A/c in the cash book.

(a) only 1
(b) only 1& 2
(c) all of the above

8. A bank reconciliation statement is mainly prepared to:

(a) Reconcile the cash balance of the cash book
(b) Reconcile the difference between bank balance shown by cash book and bank passbook
(c) both a & b

ANSWERS MCQs

1. (a) 2. (b) 3. (b) 4. (a) 5. (c) 6. (a) 7. (b) 8. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.
2) There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.
3) Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.
4) Debit balance in cash book is same as overdraft as per pass book.
5) Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.
6) Overcasting of the debit side of the cash book is an example of a difference that is due to Error.
7) When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.
8) The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.
9) When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.
10) While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.
11) Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.
12) Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
13) A cheque for ₹ 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of ₹ 50,000 from the balance in pass book.
14) A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.
15) Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.
16) The difference between cash book & pass book that relates to errors are those mostly made by Bank.
17) A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.

18) Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.
19) A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.
20) Timing difference relates to the transactions that are recorded in the same period in both cash book and also the bank pass book.
21) Interest charged by the bank will be deducted, when the overdraft as per the cash book is made the starting point for the making the bank reconciliation statement.
22) Interest charged by the bank will be deducted when the overdraft as per pass book is the starting point for preparing the Bank Reconciliation Statement to arrive at the balance as per cash book at the end.
23) Bank Reconciliation Statement is prepared to arrive at the bank Balance.
24) If the balance as per Cash Book & Pass Book are the same, there is no need to prepare a Reconciliation Statement.
25) Bank reconciliation statement is not prepared to arrive at the bank balance.
26) Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank Pass-book as compared to the balance as per the Cash-book.

Solution

1) **False:** Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.
2) **True:** These are the three broad categories.
3) **False:** Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.
4) **False:** Debit balance as per cash book should be represented by credit or favourable balance in pass book.
5) **False:** Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.
6) **True:** Overcasting is an example of an error.
7) **True:** Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.
8) **False:** Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.
9) **True:** Since, we don't know the causes of difference, matching the two statements is only efficient way to identify the difference.
10) **False:** Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.
11) **True:** Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.
12) **False:** Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.
13) **True:** ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.
14) **True:** It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.
15) **True:** Reconciliation statement can be prepared in either of the two formats.
16) **False:** Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.

17) **False:** We need to deduct 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.
18) **False:** Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.
19) **True:** In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.
20) **False:** Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.
21) **False :-** Interest charged by the bank will be added when the overdraft as per the Cash Book is made the starting point in preparing Bank Reconciliation Statement.
22) **True: –** Interest charged by the bank had resulted in increased overdraft balance as shown by the Pass Book. Therefore, it will be deducted from this balance in bank reconciliation statement to arrive at the balance as per cash book at the end.
23) **False: –** Bank reconciliation statement is prepared to reconcile and explain the causes of difference between bank balance as per cash book and the same as per bank statement as on a particular date.
24) **True: –** The reconciliation statement is prepared only when any difference in the balances arises.
25) **True: –** Object of preparation of BRS is to reconcile the pass book balance and the cash book balance in order to find out the causes of differences between these two books on a particular date.
26) **True: –** Direct collection received by the bank on behalf of its customer will increases the balance of pass book, as compared to balance as per cash book till the customer gets intimation from the bank.

SALIENT FEATURES OF BANK RECONCILIATION STATEMENT:

- The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book;
- Any undue delay in the clearance of cheques will be shown up by the reconciliation;
- A regular reconciliation discourages the accountant of the bank from embezzlement. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the bank; they were able to get away with it only because of lack of reconciliation.
- It helps in finding out the actual position of the bank balance.

IMPORTANCE OF BANK RECONCILIATION TO AN INDUSTRIAL UNIT

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

HOMEWORK QUESTIONS

Question 1
Pg no.______

From the following particulars, prepare a Bank Reconciliation Statement for Pathak Ltd. as on 30.6.2023

(1) Balance as per cash book is ₹ 1,20,000.
(2) Cheques issued but not presented in the bank amounts to ₹ 68,000.
(3) Bank charges amounts to ₹ 300.
(4) Interest credited by bank amounts to ₹ 1,500

Question 2 *(ICAI Study Material)*
Pg no.______

From the following particulars, prepare a Bank Reconciliation Statement for Jindal Offset Ltd.

(1) Balance as per cash book is ₹ 2,40,000
(2) Cheques issued but not presented in the bank amounts to ₹ 1,36,000.
(3) Cheques deposited in bank but not yet cleared amounts to ₹ 90,000.
(4) Bank charges amounts to ₹ 300.
(5) Interest credited by bank amounts to ₹ 1,250.
(6) The balance as per pass book is ₹ 2,86,950

Question 3 *(ICAI Study Material)*
Pg no.______

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2023.

a) The bank overdraft as per Cash Book on 31st December, 2023 ₹6,340.
b) Interest on overdraft for 6 months ending 31st December, 2023 ₹160 is entered in Pass Book.
c) Bank charges of ₹400 are debited in the Pass Book only.
d) Cheques issued but not cashed prior to 31st December, 2023, amounted to ₹ 11,68,000.
e) Cheques paid into bank but not cleared before 31st December, 2023 were for ₹ 22,17,000.
f) Interest on investments collected by the bank and credited in the Pass Book ₹12,00,000.

Question 4 *(ICAI Study Material)*
Pg no.______

From the following information, prepare a Bank reconciliation statement as at 31st December, 2023 for M/s New Steel Limited:

1	Bank overdraft as per Cash Book on 31st December, 2023	22,45,900
2	Interest debited by Bank on 26th December, 2023 but no advice received	2,78,700
3	Cheque issued before 31st December, 2023 but not yet presented to Bank	6,60,000
4	Transport subsidy received from the State Government directly by the Bank but not advised to the company	14,25,000
5	Draft deposited in the Bank, but not credited till 31st December, 2023	13,50,000
6	Bills for collection credited by the Bank till 31st December, 2023 but no advice received by the company	8,36,000
7	Amount wrongly debited to company account by the Bank, for which no details are available	7,40,000

Question 5 *(CA Foundation July 2021) (5 Marks)*
Pg no.______

From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2023:

a) Debit balance as per Bank Pass Book ₹ 3,500.

b) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.
c) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.
d) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book
e) A Cheque for ₹ 1,500 was debited twice in the cash book.

Question 6 *(ICAI Study Material)* Pg no.______

From the following particulars prepare a bank reconciliation statement as on 31st December 2023:
a) On 31st December, 2023 cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).
b) Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.
c) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December,2023 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2023 but was banked on 3rd January, 2024.
d) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2023 but was dishonoured and the advice was received on 2nd January, 2024.
e) Pass-book showed bank charges of ₹ 2,000 debited by the bank.
f) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2023 but the intimation in this respect was received from the bank on 2nd January, 2024.
g) Bank pass-book showed a debit balance of ₹ 3,82,000 on 31st December, 2023

Question 7 *(ICAI Study Material)* Pg no.______

Prepare a bank reconciliation statement from the following particulars on 30th September, 2023:

Particulars	Amount
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date	15,40,000
Bank charges not entered in Cash Book	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection.	3,50,000

Question 8 *(CA Foundation June 2022) (5 Marks)* Pg no.______

From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2023

Particulars	Amount (₹)
Bank balance as per Pass Book	25,00,000
Bills discounted dishonored not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank under-standing instruction	1,50,000

Cheque issued but not presented to Bank for payment	12,50,000
Cheque received, but not sent to Bank	28,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	12,50,000
Credit side of the Bank column cast short	5,000

Question 9 *(CA Foundation Nov 2018) (10 Marks) / (RTP May 2020)* Pg no.______

Prepare a Bank Reconciliation Statement from the following particulars as on 30th September, 2023:

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

Question 10 *(RTP May 2019)/(RTP May 2023) (Similar)* Pg no.______

On 30th November, 2023, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by ₹ 400.

(ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

(iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.

(iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

(viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

(ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 30th November, 2023.

Question 11 *(CA Foundation May 2019) (10 Marks)* Pg no.______

Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2023 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2023.

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

(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2023.

(iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.
(v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
(1) Cheques collected before 30th June, 2023, ₹ 14,000
(2) Cheques collected on 10th July, 2023, ₹ 4,000
(3) Cheques collected on 12th July, 2023, ₹ 2,000.
(vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.
(vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.
(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.
(ix) The credit side of bank column of Cash Book was under cast by ₹ 2,000.

Question 12 *(ICAI Study Material)* Pg no.______

On 30th December, 2023 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

1) Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2023 were not presented for payment until that date.
2) Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2023, but were entered in the bank statement on 1st January, 2024.
3) A cheque for ₹ 73,000 had been dishonoured prior to 30th December, 2023, but no record of this fact appeared in the cash book.
4) A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.
5) Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.
6) No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2023.
7) A cheque for ₹ 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2023.

You are required:

a) to make appropriate adjustments in the cash book bringing down the correct balance, and
b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Question 13 *(RTP May 2021) / (RTP May 2025)* Pg no.______

From the following information (as on 31.3.2023), prepare a bank reconciliation statement after making necessary amendments in the cash book:

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

Also show the bank balance that will appear in the trial balance as on 31.3.2023.

Question 14 (CA Foundation Nov 2019) (10 Marks) Pg no.______

On 30th September, 2023, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

a) A cheque for ₹ 11,14,000 deposited on 29th September, 2023 was credited by the bank only on 3rd October, 2023.
b) A payment by cheque for ₹ 18,000 has been entered twice in the Cash book
c) On 29th September, 2023, the bank credited an amount of 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2023.
d) Bank charges amounting to ₹ 280 had not been entered in the cash book.
e) On 6th September 2023, the bank credited ₹ 30,000 to XYZ in error.
f) A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2023 but no entry had been made in the books of XYZ.
g) Cheques issued upto 30th September, 2023 but not presented for payment upto that date totalled ₹ 13,46,000.
h) A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

You are required:
To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2023 and to prepare a Bank Reconciliation Statement as on that date.

Question 15 (RTP May 2022) / (RTP Jan 2025) Pg no.______

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

(1) Bank overdraft as per Pass Book as on 31st March, 2023 was ₹ 8,800
(2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.
(3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.
(4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.
(5) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass Book
(6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2023.
(7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.
(8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

Question 16 (CA Foundation Nov 2020) (10 Marks) Pg no.______

On 31-3-2023, Mahesh's Cash Book showed a Bank overdraft of ₹ 98,700. On comparison he finds the following:

1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.
2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April & other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.
4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.
5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.
6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2023.
7) The bank allowed interest on deposit ₹ 1,000.
8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2023. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2023

Question 17 *(CA Foundation Jan 2021) (4 Marks)* Pg no.______

Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2023:

Particulars	Amount
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2023 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2023 but the same effected by the Bank on 01st January, 2024	4,000

Question 18 *(CA Foundation Dec 2021) (10 Marks)* Pg no.______

According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2023. On investigation you find that:

(i) Cheques amounting to ₹ 60,000 issued to creditors have not been presented for payment till the date
(ii) Cheques paid into bank amounting to ₹ 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2023
(iii) A dividend of ₹ 4,000 and rent amounting to ₹ 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.
(iv) Insurance premium (up to 31st December, 2023) paid by the bank ₹ 2,700 not entered in the cash book.
(v) The payment side of the cash book had been under cast by ₹ 500
(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.
(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

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

Question 19 **(MTP October 2021) / (MTP Jan 2025)** Pg no.______

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2023 The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2023, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2023 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹ 85,000 issued on 20th March, 2023 was not taken in the bank column
3. On 22nd March, 2023 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2023, cheques aggregating ₹ 28,500 were encashed in March, 2023.
5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2023 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2023 but was dishonored and advice received from bank on 3rd April, 2023.
9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

Note: *Do not make adjusted cash book.*

Question 20 – **(CA Foundation Dec 2022) (10 Marks)** Pg no.______

The cash book of Mr. Karan shows ₹ 2,60,400 as the balance of bank as on 31st December, 2023 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies:

a. On 15th December, 2023 the payment side of the cash book was overcast by ₹ 10,000.
b. A Cheque for ₹ 1,18,000 issued on 6th December, 2023 was not taken in the bank Column.
c. On 20th December, 2023 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.
d. Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2023, cheques aggregating ₹ 9,360 were encashed in December, 2023.
e. Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.
f. A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.
g. Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2023 but no advice was received by Mr. Karan till 31st December, 2023.
h. A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2023. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31st December, 2023.

Question 21 – (CA Foundation Dec 2023) (8 Marks) Pg no.______

From the following particulars, prepare a Bank Reconciliation Statement as on 31st December,2022.

(i) Debit balance (overdraft) shown by the pass book ₹ 2,48,000.
(ii) Cheques of ₹ 2,10,000 were issued in the last week of December, but of these only ₹1,40,000 were presented for payment.
(iii) A Cheque for ₹ 19,200 drawn for the payment of telephone bill had been entered in the cash book as ₹ 29,200 but was shown correctly in the bank statement.
(iv) A cheque received for ₹ 37,520 entered twice in the Cash book.
(v) A Cheque for ₹ 1,17,000 was issued for purchase of merchandise and was paid by the bank but not recorded in cash book.
(vi) Interest on overdraft and bank charges amounting to ₹ 3,500 were not entered in the Cash Book.
(vii) A Cheque for ₹ 45,000 was credited in the Pass Book but was not recorded in the Cash Book.
(viii) A bill of exchange for ₹ 26,200 which was discounted with bank returned dishonored but on entry was made in the cash book.
(ix) Payment side of the Cash Book has been undercast by ₹ 12,000.

Question 22 – (CA Foundation June 2024) (5 Marks) Pg no.______

From the following particulars, prepare the Bank Reconciliation Statement of businessman as on 31st March, 2024:

S.No.	Particulars	₹
1	Bank Overdraft as per cash book	24,000
2	Cheque deposited as per bank statement but not recorded in cash book	4,000
3	Cash received from Exe was entered in bank column of cash book.	3,150
4	Debit side of the bank column casted short	1,000
5	A cheque for ₹ 9,000 deposited but collection as per bank statement	8,950
6	Bills sent to the bank for collection, collected by the bank but not recorded in cash book	4,200
7	Bank charges recorded twice in cash book	40
8	Noting charges debited in Pass-Book for discounted bill dishonoured	60
9	Cheques deposited on 25th March, 2024 but collected by bank on 5th April,2024	4,800
10	Cheques issued on 26th Mrach,2024 but presented for encashment on 6th April,2024	3,000

Question 23 – (CA Foundation Sep 2024) (10 Marks) Pg no.______

The cash book of Hari showed a debit balance of ₹ 1,36,800 as on 31.12.2023 which was in disagreement with balance as per pass book. Following discrepancies were noticed:

(i) Dividend of ₹ 18,000 was deposited in the bank of which Hari had no information
(ii) Cheque was issued to Suresh of ₹ 14,780 on 18.12.2023 which was recorded in cash book as ₹ 14,870.
(iii) Cheques totalling of ₹ 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.
(iv) Mediclaim premium of ₹ 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.

(v) Goods amounting ₹ 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducting 4% cash discount. This entry was missed while preparing cash book.
(vi) Bank charges for issue of cheque book ₹ 150 was skipped while preparing cash book.
(vii) Hari received a UPI of ₹ 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.
(viii) Cheques amounting to ₹ 1,80,000 were issued during the month but cheques of ₹ 1,44,000 were only presented during the month for payment.

Prepare Bank Reconciliation Statement on 31.12.2023 and ascertain balance as per pass-book.

Question 24 – (CA Foundation Jan 2025) (10 Marks) Pg no.______

From the following information, prepare a Bank Reconciliation Statement as on June 30, 2024 for M/s XYZ Limited:

(i) The Bank column of Cash Book was overdrawn to the extent of ₹ 24,768.
(ii) Bank charges amounting to ₹ 350 had not been entered in the Cash Book.
(iii) Cheque amounting to ₹ 88,678 issued before June 30, 2024 but not yet presented to Bank.
(iv) One payment of ₹ 4,590 was recorded in the Cash Book as if there is no bank column.
(v) The company paid ₹ 15,500 to a creditor and received a cash discount @ 2%. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
(vi) A debit of ₹ 5,700 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into the Bank again on July 8, 2024.
(vii) Cheques deposited in bank but not yet cleared amount to ₹ 45,789.
(viii) Dividends of ₹ 1,980 collected by the Bank was not recorded in the Cash Book.
(ix) Amount of ₹ 2,340 wrongly credited by bank to company account for which no details are available.
(x) On June 25, 2024 the credit side of bank column of the Cash Book was overcast by ₹ 6,789.

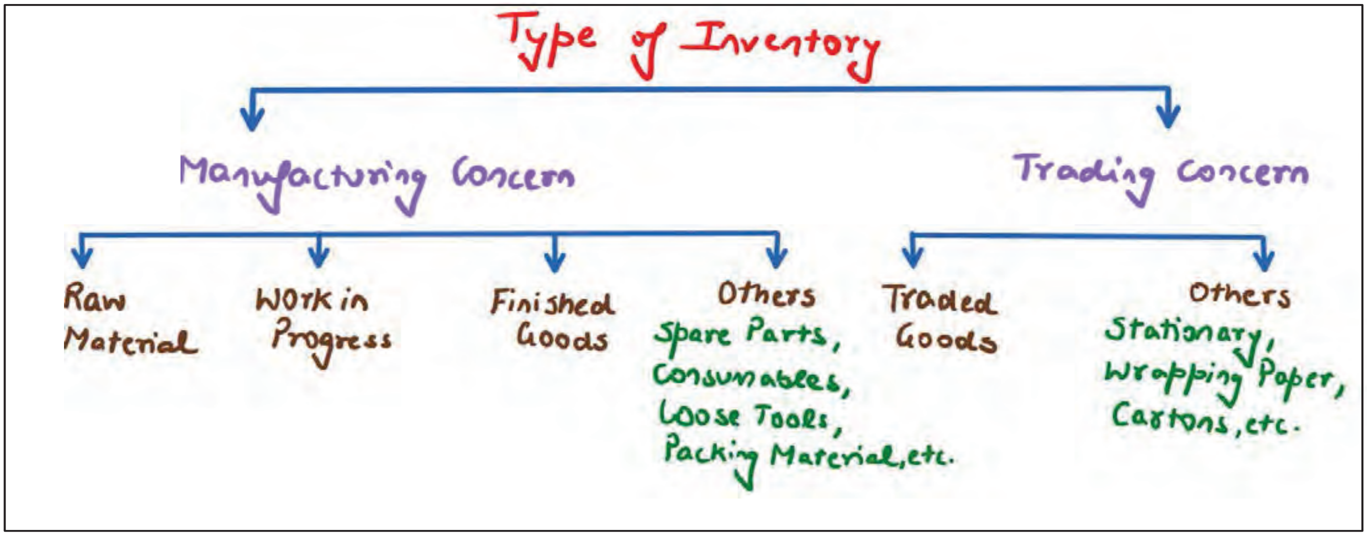
INVENTORIES

CH 4

"Education is not preparation for life, It is Life itself"

DEFINITION

Nature of Inventory	Description
Held for sale in the ordinary course of business, or	**Finished goods**
In the process of production for such sale, or	**Work in progress**
In the form of materials or supplies to be consumed in production process or in the rendering of services	**Raw Material** – incl. consumables & Loose Tools used in production process



SIGNIFICANCE OF INVENTORY VALUATION

Inventory Valuation is important / significant due to the following reasons-

Purpose	Explanation
To ascertain the **true income earned** by the entity during the accounting period.	See *separate note* below this table
To determine the **true financial position** of the **entity** as on the Balance sheet date.	Inventory is classified as "Current Assets". Balance sheet will disclose the correct financial position, only if Inventory is properly valued.
To analyze the **liquidity** of the enterprise. (Note: Liquidity = Ability to meet short-term commitment	Liquidity is analyzed in the terms of **Net Working capital** (Current Assets Less Current liabilities), and **Current Ratio** (Current Assets divided by current liabilities). Inventory forms an important part of Current Assets
To ensure **compliance with disclosure requirements**	As per AS-2, the financial Statements should disclose- (a) the **accounting policies** adopted in measuring inventories,

under AS- 2, and applicable Statutes like Companies Act, 2013	including the cost formula used and (b) the **total carrying amount** of inventories and its classification appropriate to the enterprise. Schedule III to the Companies Act, 2013, requires valuation of each class of goods i.e. Raw material, WIP and finished goods under broad head to be disclosed in the financial statements.

Note: Effect of wrong valuation of inventory on Profits and Balance Sheet position

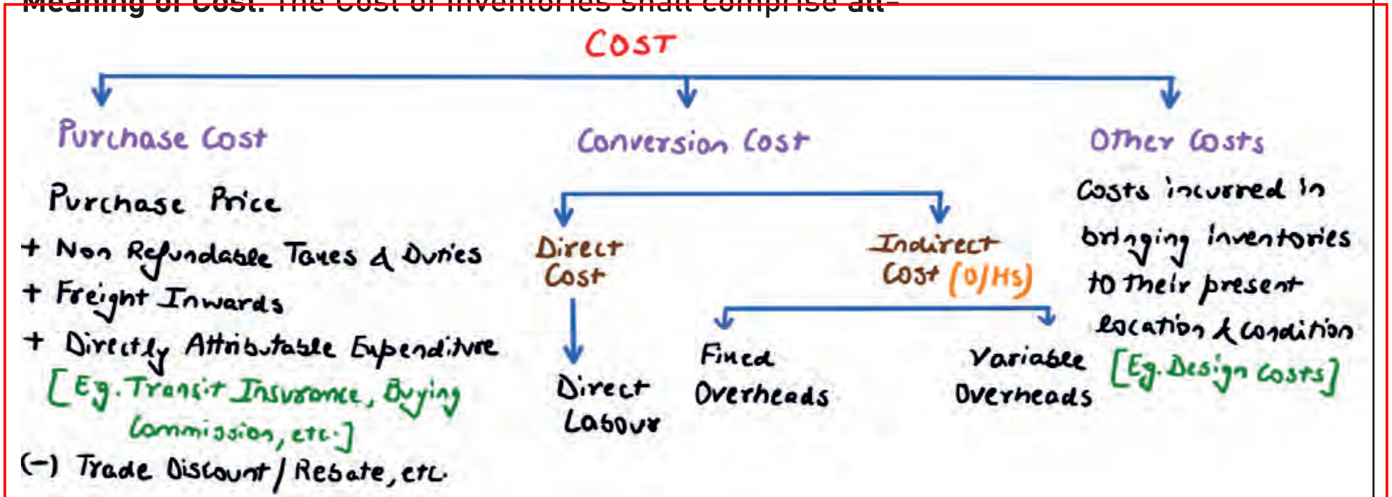
Situation	Effect on Profit	Effect on Balance sheet	Effect on liquidity
Closing stock overstated	Overstated	Higher Current Assets	High
Closing stock understated	Understated	Lower Current Assets	Low
Opening stock overstated	Understated	-	-
Opening stock understated	Overstated	-	-

MEASUREMENT OR VALUATION OF INVENTORY

Inventories should be valued at – (a) Cost, or (b) Net Realizable Value, **whichever is lower.**
This principle is governed by **'Principle of Conservative Accounting'** under which any expenses or losses from transactions entered or event occurred are to be recognized immediately, however, any gains or profits are recognized until its becomes due or are actually realized.

COMPONENTS OF COST

Meaning of Cost: The Cost of Inventories shall comprise all–



Cost of Purchase is determined as under–

Particulars	Amount
Purchase price including duties and taxes (excluding tax refunds/credits)	XXX
Add: Freight Inwards	XXX
Add: Other Expenditure directly attributable to the purchase (See Note)	XXX
Less: Trade Discounts and Rebates	(XXX)
Costs of Purchase	**XXX**

Note: Examples of expenditure directly attributable for purchases are- (a) Costs of Containers (b) Transit Insurance, (c) Buying Commission where purchase of material is possible only through buying agents.

Costs of Conversion includes

Types of Cost	Cost directly related to the units of production	Variable Production Overheads	Fixed Production Overheads
Description / Example	E.g., Direct Labour, i.e., cost of workers who are directly associated in production process.	Indirect costs which vary directly with volume of output, e.g., Indirect Materials, Indirect Labour.	Indirect costs which remain relatively constant regardless of the level of output, e.g., Factory Rent, Salary, etc.

Other Costs

Included in the cost of inventories only to the extent they are incurred in bringing the inventories to their present location and condition.

Items includible as "Other Costs"	Items excludible from "Other Costs"
• Costs of designing products for specific customers • Non-production Overheads incurred for bringing inventories to their present location	• Interest and other Borrowing Costs. • Overheads incurred after inventories are brought to their present location and condition

EXCLUSIONS FROM COST

- Abnormal amount of wasted materials, labour or other production cost
- Storage cost unless those are necessary in the production process prior to a further production stage.
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition
- Selling and distribution cost

NET REALIZABLE VALUE

Estimated Selling Price	XX
Less: Estimated selling expenses	(XX)
Less: Estimated cost of completion	(XX)
NRV	**XX**

- Inventories are usually written down to Net Realizable value on an item-by-item basis (individual basis) & not on global basis
- In case of firm/committed contract of sale, NRV shall be calculated at the contract price.

Example ***(ICAI Study Material)***

Surekha Ltd deals in 3 products P, Q & R neither similar nor interchangeable. At the end of year, the Historical Cost and NRV of items of closing stock are given below. Determine the value of closing stock.

Items	Historical Cost (in Lakhs)	Net Realizable Value (in Lakhs)
P	38	42
Q	29	29
R	17	14

Example

Closing Stock: 3,000 units. Cost per Unit 40. Selling Price per Unit 45.
There is firm contract for 1,000 units @ 37 per unit.

INVENTORY SYSTEMS

Inventory System refers to – (a) system of recording receipts and issues of inventory, and physical counting of actual stock available at the period end and (c) comparing physical stock as per books and records to ascertain discrepancies if any.

There are two broad Inventory system, – (1) Periodic Inventory System, and (2) Perpetual Inventory System. The salient features/ difference between these two methods are–

Particulars	Periodic Inventory System	Perpetual Inventory System
1. Meaning	This involves ascertaining inventory value by actual physical count. It is also called as **Physical Inventory System**	This involves ascertaining inventory value by keeping upto date records & finding the value from such Books and Records
2. COGS	Cost of Goods Sold (COGS) = Opening Inventory (Known) + Purchases during year (known) - Closing Inventory (by **Physical count**)	Cost of Goods Sold (COGS) is determined from the books, since each receipt and issue of materials is recorded on an immediate basis.
3. COGS v/s Stock	This system determines Inventory Value, and calculates COGS as balancing figure	This system determines COGS for every issue & determines Inventory Value as Balancing figure.
4. Treatment of Loss	COGS includes loss of goods, as goods not in stock are assumed to be sold	Closing Inventory include loss of goods as all unsold goods are assumed to be in Inventory

5. Stock taking	Stock verification takes place at the end of a financial period, say a year	Stocks are verified at regular intervals in the year, therefore also called as Continuous stock taking
6. Coverage in stock taking	All items of stock are covered in a single stretch of verification, say over two or three days	In each verification, two or three items are covered on random basis. In entire period, all items are covered on rotation basis.
7. Effect on Work	Requires closure of business for counting of inventory	Inventory can be determined without affecting the business operations
8. Control	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
9. Cost	This is simple and less costly method.	This is a relatively costly method

Note:-

Periodic inventory system is used by small enterprises where is easy to control physical inventory. This system is not considered suitable for medium or larger enterprises which generally use Perpetual Inventory system.

TECHNIQUES / FORMULA FOR INVENTORY VALUATION

Techniques of Inventory Valuation

Historical Cost Methods

1) Specific Identification Method (Items not ordinarily interchangeable)
2) First in First Out (FIFO)
3) Last in First Out (LIFO)
4) Simple Average
5) Weighted Average

Non Historical Cost Methods

1) Adjusted Selling Price/ Retail Inventory Method
2) Standard Cost Method

SPECIFIC IDENTIFICATION OF COST

Meaning	❖ Specific Identification of Cost means that specific costs are attributed to specific or identified items of inventory. ❖ This **applies** for items that are segregated or identified for a specific project. ❖ When there are large numbers of items of inventory, which are ordinarily interchangeable, specific identification of costs should **not** be applied.

FIRST-IN-FIRST-OUT (FIFO)

Meaning	❖ FIFO is a method of pricing the issues of materials, in the order in which they are purchased. The earliest prices at which materials were received are exhausted first before subsequent prices are taken up. ❖ Hence, closing stock will be valued at the price relating to the latest consignments
Merits	(a) It is simple to understand and easy to operate (b) Closing stock of material will be represented very closely at current market price.
Demerits	This method may lead to clerical errors, when the prices fluctuate frequently.
Impact	Cost of Goods sold (COGS) will consist of the Oldest Prices, while closing stock will be valued at most recent price.

LAST-IN-FIRST-OUT (LIFO)

Meaning	❖ It is a method of pricing the issues of materials, in the **reverse order** in which they are purchased. Closing stock will be generally valued at earliest prices. ❖ The prices of the most recently received consignment i.e., immediately last available consignment are exhausted first before previous consignment prices are taken up.
Merits	a. Cost of materials issued will reflect the current market price approximately. This enables the matching of cost of production with current sale revenue. b. Use of LIFO method during the period of rising prices does not reflect undue high profit in the income statement.
Demerits	a. Calculation becomes complicated and cumbersome when frequent purchases are made at highly fluctuating rates. b. This method is not acceptable under Accounting Standards or to Income Tax Authorities
Impact	COGS will consist of Recent Prices, while Closing stock will be valued at Older Prices.

SIMPLE AVERAGE PRICE

Meaning	Closing stock is valued at Average Price. This method is generally followed by the entities using periodic inventory method. Simple Avg Price = $\frac{\text{Total of Unit Prices of each purchase}}{\text{Total no. of purchases}}$ **Example**: If there were three consignments with prices of ₹ 20, ₹ 27 and ₹ 22, the Simple Average Price would be (₹ 20 + 27 + 22) ÷ 3 = ₹23
Merits	(a) Useful when materials are received in uniform lots of similar quantity. (b) Useful when purchased prices do not fluctuate considerably. (c) Simple to understand and easy to operate.

Demerits	(a) Materials Issue Cost does not represent actual cost price. Since the material are issued at a price obtained by averaging cost prices (b) This method will give incorrect results, if the prices of materials fluctuate frequently. (c) The price determination is unscientific, since there is averaging of prices without considering quantity.

WEIGHTED AVERAGE PRICE

Meaning	Weighted Average Price Method gives due weightage to quantities purchased and the purchase price to determine the issue price. Closing stock is valued at Weighted Average Cost, calculated as under- **Total Cost of Goods received ÷ Total Quantity purchased**
Merits	(a) It smoothens the price fluctuations, if any, due to material purchases (b) Issue prices need not be calculated for each issue unless new lot of material is received
Demerits	(a) It may be difficult to compute since every new lot received would require recomputation of issue prices.

ADJUSTED SELLING PRICE / RETAIL METHOD

1. **Applicability:** This method is applicable in the following situations
   (a) Retail trade
   (b) Similar profit margins
   (c) Inventories of large numbers of rapidly changing items,
   (d) Impracticable to use other costing methods
2. Retail Method may be used for **convenience** if the results approximate the actual cost.
3. **Measurement:** Cost of Inventory = **Sales Value of Inventory Less Appropriate Gross Margin%**

Note: Adjusted GP Percentage is used for inventories marked down to below its Original Selling Price. An average percentage for each Retail Departments is often used.

Cost + Profit = Sales	So, the relationship to be remembered is-
100% + 50% = 150%	(50÷100) = 1/2nd on Cost = 1/3rd on Sales = (50÷150)
100%+33 1/3%=133 1/3%	(33 1/3÷100) = 1/3rd on Cost = 1/4th on Sales = (33 1/3÷133 1/3)
100% + 25% = 125%	(25÷100) = 1/4th on Cost = 1/5th on Sales = (25÷125)
100% + 20% = 120%	(20÷100) = 1/5th on Cost = 1/6th on Sales = (20÷120)

STANDARD COST METHOD

This method is used when there is frequent change in the price per unit of the goods and goods are purchased frequently by the business e.g. crude oil. Based on the experience a standard cost is determined on the basis of frequent changes in prices and inventory is valued on that price per unit.

PHYSICAL STOCK v/s BOOK STOCK

Wherever required the following adjustments are carried out in respect of value of Physical stock, to arrive at the value of Inventory as per the Balance sheet

	Value of **Physical Stocks** on the Closing Date	XXX
Add	Goods in Transit, i.e. goods in respect of which the Firm has the title and ownership, but lying with the Transporter/ Carrier, pending delivery.	XXX.
Add	Goods held by other Entities on our behalf (e.g. Our stock held by Agent, Sub-Contractor, Job Worker, etc.)	XXX
Add	Goods sent on approval for which confirmation not received from customer.	XXX
Less	Any goods sold in respect of title has been transferred to the Buyer, but delivery pending at Buyer's request.	(XXX)
Less	Goods held by us on behalf of other Entities (e.g. As agent, as Sub-Contractor, as Job Worker, etc)	(XXX)
Less	Adjustments required to mark-down defectives/Obsolete items etc, to their NRV, if any.	(XXX)
	Value of Stocks as per Balance sheet	**XXX**

VERIFICATION OF STOCK ON OTHER THAN BALANCE SHEET DATE

Generally, Physical Stock Verification and Valuation is done at the end of the last day of the accounting year. Sometimes, in big organizations, it may not be possible to verify the stocks exactly on the last date of the accounting period. In such cases, stock is taken either few days earlier or later, according to the situation. The following adjustments are carried out in order to arrive at the Stock Value on the Balance Sheet date-

Stock Taking after Balance Sheet date	
Value of Stocks on verification date (e.g. 6th April)	XXX
(+) Cost of Sales made during the interim period	XXX
(+) Purchase Returns during the interim period	XXX
(-) Purchases made during the interim period	(XXX)
(-) Sales Return (at cost price) during the period	(XXX)
Value of Stocks on B/S date i.e., 31st March	**XXX**

Stock Taking before Balance Sheet date	
Value of Stocks on verification date (e.g. 25thMarch)	XXX
(+) Purchases made during the interim period	XXX
(+) Sales Return (at Cost price) during the period	XXX
(-) Cost of Sales made during the interim period	(XXX)
(-) Purchase Return during the interim period	(XXX)
Value of Stocks on B/S date i.e., 31st March	**XXX**

ASSIGNMENT QUESTIONS

Question 1

Pg no.______

A manufacturer has following record of purchases of material which he uses while manufacturing TV set

Date	Quantity (units)	Price per unit
Dec. 5	900	50
Dec. 11	600	55
Dec. 26	300	60
Dec. 29	800	71
	2,600	

1,600 units were issued during the month of December as follows:

Record of issues

Date	Quantity (units)
Dec. 6	500
Dec. 21	600
Dec. 30	500
	1,600

Find out value of inventory by following methods:

1) FIFO Method
2) LIFO Method
3) Weighted Average Cost Method
4) Simple Average Method

Also find inventory value if computed by Periodic inventory system.

Question 2

Pg no.______

Information has been given relating to petrol pump for the month of October 2023:

Sales	9,45,000
Administrative Cost	25,000

Inventory

Opening (1/10)	1,00,000 litres @ ₹ 3/litre
Purchases	
1/10	2,00,000 litres @ ₹ 2.85/litre
31/10	1,00,000 litres @ ₹ 3.03/litre
Closing	1,30,000 litres

Compute Closing Inventory, Cost of Goods Sold, Gross Profit and Net Profit as per FIFO, LIFO & Weighted average methods.

Question 3 *(ICAI Study Material)*

Pg no.______

From the following information, calculate the non-historical cost of closing inventories using adjusted selling price method:

Sales during the year	2,00,000
Cost of purchases	2,00,000
Opening inventory	Nil
Closing inventory at selling price	50,000

Question 4 (ICAI Study Material) Pg no.______

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2023:

Goods received from suppliers (subject to trade discount and taxes)	15,75,500
Trade discount 3% and GST 11%	
Packaging and transportation charges	87,500
Sales during the year	22,45,500
Sales price of closing inventories	2,35,000

Find out the non-historical cost of inventories using adjusted selling price method.

Question 5 Pg no.______

Y sells goods at a Gross Profit of 20% on Cost. He provides following data during a period-

- Opening Inventory at Market Price = ₹ 1,20,000 (Cost = ?)
- Sales made during the period = ₹ 38,40,000
- Purchases during the period (at cost) = ₹ 34,00,000

Find out the value of Closing Inventory

Question 6 (ICAI Study Material) Pg no.______

From the following particulars ascertain the value of Inventories as on 31st March, 2023:

Inventory as on 1.4.2022	1,42,500
Purchases	7,62,500
Manufacturing Expenses	1,50,000
Selling Expenses	60,500
Administrative Expenses	30,000
Financial Charges	21,500
Sales	12,45,000

At the time of valuing inventory as on 31st March, 2022, a sum of ₹ 17,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

Question 7 Pg no.______

X Bros could organize their stock- taking only on 12th April, even though their financial year ended on 31st March. The following data is provided for the period 1st April to 12th April-

Sales during the period (at an average Gross Profit of 25% on cost)	10,00,000
Purchases during the period (including Cash Purchases ₹ 3,80,000)	7,80,000
Purchase Returns (only out of Credit Purchases)	80,000
Sales Return by customers (at Market Prices)	1,00,000

Value of Physical Stock as per Stock-taking was ₹ 30,00,000. What would be value of inventory for B/s purposes?

Question 8 (ICAI SM)/(RTP May 18)/(Nov 19)/(May 21)/(Nov 23)/(May 25) (Similar) Pg no.______

Inventory taking for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for ₹ 68,750, profit margin being 33.33% on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10%. During this period, goods were added to inventory of the mark up price of ₹ 3,000 in respect of sales returns.

After inventory taking it was found that there were certain very old slow moving items costing ₹ 11,250 which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March, 2023.

Calculate the value of inventory for inclusion in the final accounts for the year ended 31st March, 2023.

Question 9 *(ICAI Study Material)* **Pg no._____**

X who was closing his books on 31.3.2023 failed to take the actual stock which he did only on 9th April, 2023, when it was ascertained by him to be worth ₹ 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2023 and 9.4.2023 as per the sales day book are ₹ 17,200. Purchases between 31.3.2023 and 9.4.2023 as per purchases day book are ₹ 1,200, out of these goods amounting to ₹ 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2023 but goods received only on 4th April, 2023 amounted to ₹ 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2023.

Question 10 *(ICAI Study Material)* **Pg no._____**

The Profit and loss account of Hanuman showed a net profit of ₹ 6,00,000, after considering the closing stock of ₹ 3,75,000 on 31st March, 2023. Subsequently the following information was obtained from scrutiny of the books:

a) Purchases for the year included ₹ 15,000 paid for new electric fittings for the shop.
b) Hanuman gave away goods valued at ₹ 40,000 as free samples for which no entry was made in the books of accounts.
c) Invoices for goods amounting to ₹ 2,50,000 have been entered on 27th March, 2023, but the goods were not included in stock.
d) In March, 2023 goods of ₹ 2,00,000 sold and delivered were taken in the sales for April, 2023.
e) Goods costing ₹ 75,000 were sent on sale or return in March, 2023 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2023 these were taken as sales for March, 2023.

Calculate value of stock on 31st March, 2023 and the adjusted net profit for the year ended on that date.

Question 11 *(ICAI Study Mat)/(RTP May 19)/(Nov 20)/(May 22)/(Nov 22)/(June 2024)* **Pg no._____**

A trader prepares his account on 31st March each year. Due to some avoidable reasons, no stocktaking could be possible till 15th April 2023. On which date total cost of goods in his godown came to ₹ 50,000.

The following facts were established between 31st March and 15th April 2023.

a) Sales ₹ 41,000 (including cash sales ₹ 10,000)
b) Purchase ₹ 5,034 (including cash purchase ₹ 1,990)
c) Sales Return ₹ 1,000

d) On 15th March goods of the sale value of ₹ 10,000 were sent on sale or return basis to customer, the period of approval being four weeks. He returned 40% of the goods on 10th April approving the rest. The customer was billed on 16th April.
e) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis, 20% of the goods had been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.
You are required to ascertain the value of inventory as on 31st March 2023.

Question 12 (ICAI Study Material) / (CA Foundation Sep 2024) (5 Marks) (Sim.) Pg no.______

Physical verification of stock in a business was done on 23rd June, 2023. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2023:
a) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.
b) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2023.
c) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June 2023.
d) Goods are sold at cost plus 25%. However, goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

Determine the value of stock on 30th June, 2023.

Question 13 (CA Foundation May 2019) (5 Marks) /(RTP May 2023) (Similar) Pg no.______

Raj Ltd. prepared their accounts financial year ended on 31st March 2023. Due to unavoidable circumstances actual stock has been taken on 10th April 2023, when it was ascertained at ₹ 1,25,000. It has been found that;
(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.
(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.
(iii) Sales between 1st April 2023 to 9th April 2023 amounting to ₹ 20,000 as per Sales Day Book.
(iv) Free samples for business promotion issued during 1st April 2023 to 9th April 2023 amounting to ₹ 4,000 at cost.
(v) Purchases during 1st April 2023 to 9th April 2023 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.
(vi) Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2023 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March 2023.

Question 14 (RTP Nov 2018) / (RTP May 2020) /(RTP Nov 2021) (Similar) Pg no.______

Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2023 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2023 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2023 with the stock figure as on 31st December, 2022 and some other information is available to you:
(i) The cost of stock on 31st December, 2022 as shown by the inventory sheet was ₹ 80,000.
(ii) On 31st December, stock sheet showed the following discrepancies:
    (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
    (b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2023 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2022. Invoices entered in April 2023 relating to goods received in March, 2023 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2023. Of this ₹ 5,000 related to goods dispatched before 31st December, 2022. Goods dispatched to customers before 31st March, 2023 but invoiced in April, 2023 totalled ₹ 4,000.

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

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2023.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) The amount of purchase if
   Cost of goods sold is ₹ 80,700
   Opening Inventory ₹ 5,800
   Closing Inventory ₹ 6,000
   (a) ₹ 80,500
   (b) ₹ 74,900
   (c) ₹ 80,900

2) Average Inventory = ₹ 12,000. Closing Inventory is ₹ 3,000 more than opening Inventory. The value of closing Inventory = ______.
   (a) ₹ 12,000
   (b) ₹ 24,000
   (c) ₹ 13,500

3) While finalizing the current year's profit, the company realized that there was an error in the valuation of closing Inventory of the previous year. In the previous year, closing Inventory was valued more by ₹ 50,000. As a result
   (a) Previous year's profit is overstated and current year's profit is also overstated
   (b) Previous year's profit is overstated and current year's profit is understated
   (c) Previous year's profit is understated and current year's profit is also understated

4) Consider the following for Q Co. for the year 2022-23:

Cost of goods available for sale	₹ 1,00,000
Total sales	₹ 80,000
Opening inventory of goods	₹ 20,000
Gross profit margin on sales	25%

   Closing inventory of goods for the year 2022-23 as
   (a) ₹ 80,000
   (b) ₹ 60,000
   (c) ₹ 40,000

5) If the profit is 25% of the cost price then it is
   (a) 25% of the sales price
   (b) 33% of the sales price
   (c) 20% of the sales price

6) Goods purchased ₹ 1,00,000. Sales ₹ 90,000. Margin 20% on cost. Closing Inventory = ?
   (a) ₹ 20,000
   (b) ₹ 10,000
   (c) ₹ 25,000

7) A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw-materials during the week are as follows:

1.12.2023	Opening Inventory 50 units value ₹ 2,200.
2.12.2023	Purchased 100 units @ ₹47.

4.12.2023 Issued 50 units.
5.12.2023 Purchased 200 units @ ₹ 48.
The value of inventory at the end of the week and the unit weighted average costs is
(a) ₹ 14,200 – ₹ 47.33
(b) ₹ 14,300 – ₹ 47.67
(c) ₹ 14,000 – ₹ 46.66

8) The cost of sales is equal to
   (a) Opening stock plus purchases
   (b) Purchases minus Closing stock
   (c) Opening stock plus purchases minus closing stock

9) Inventory is disclosed in financial statements under:
   (a) Fixed Assets
   (b) Current Assets
   (c) Current Liabilities

10) Accounting Standards do not permit following method of inventory valuation
   (a) FIFO
   (b) Average cost
   (c) LIFO

11) Which inventory costing formula calculates value of closing inventory considering that inventory most recently purchased has not been sold?
   (a) FIFO
   (b) LIFO
   (c) Weighted average cost

12) Valuing inventory at cost or net realisable value is based on which principle
   (a) Consistency
   (b) Conservatism
   (c) Going concern

13) Under inflationary trend, which of the methods will show highest value of inventory?
   (a) FIFO
   (b) Weighted average
   (c) LIFO

14) Which of the following methods does not consider historical cost of inventory?
   (a) Weighted average
   (b) FIFO
   (c) Retail price method

ANSWERS MCQs

1. (c)	**2. (c)**	**3. (b)**	**4. (c)**	**5 (c)**	**6. (c)**	**7. (a)**
8. (c)	**9. (b)**	**10. (c)**	**11. (a)**	**12. (b)**	**13. (a)**	**14. (c)**

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.
2) A building is considered inventory in a construction business.
3) Inventory is valued as carrying cost less percentage decreases.
4) Management has daily information about the quantity and valuation of closing stock under Physical Inventory System.
5) Periodic Inventory System is more suitable for small enterprises.
6) When closing inventory is overstated, net income for the accounting period will be understated.
7) Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.
8) Cost of inventories should comprise all cost of purchase.
9) Inventory by-products, should be valued at net realisable value where cost of by products can be separately determined.
10) Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
11) Perpetual system requires closure of business for counting of inventory.
12) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count. ***(Dec 2022)***
13) The value of closing inventory under average method is realistic as compare to LIFO.
14) The value of stock is shown on the assets side of the balance-sheet as fixed assets.
15) Under inflationary conditions, FIFO will not show lowest value of cost of goods sold ***(Jan 2025)***
16) Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17) Valuation of inventory at cost or net realizable value whichever is less, is based on principle of Conservatism. ***(Nov 2019) / (Sep 2024)***
18) Finished goods are normally valued at cost or market price, whichever is higher.
19) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory. ***(July 2021)***
20) Loss of stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities.
21) The proprietor of a shop feels that he has made a loss due to closing stock being zero.
22) Finished goods are normally valued at cost or market price, whichever is lower.
23) Damaged inventory should be valued at cost or market price; whichever is lower.
24) The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less.
25) Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.

Solution

1) **True:** Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.
2) **True:** For a construction business a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as well as inventory.
3) **False:** Inventory is valued at lower of cost or net realizable value.

4) **False:** Under Perpetual Inventory System management have daily information of closing stock.
5) **True:** A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.
6) **False:** When closing inventory is overstated, net income for the accounting period will be overstated.
7) **False:** Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).
8) **False:** Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
9) **False:** Inventory by-products, should be valued at net realisable value where cost of by products cannot be separately determined. .
10) **False:** Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.
11) **False:** Periodic system requires closure of business for counting of inventory.
12) **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
13) **True:** Value of Closing stock as per average method is more realistic then LIFO.
14) **False:** The value of stock is shown on the assets side of the balance-sheet as current assets as it is realisable within 12 months.
15) **False:** Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.
16) **False:** Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17) **True:** The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net realisable value whichever is less, therefore is based on principle of Conservatism.
18) **False:** Finished goods are normally valued at cost or NRV, whichever is lower
19) **False**: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine
20) **False**: Loss of stock is normal loss when the loss is attributable to the inherent features of the goods. The abnormal loss is usually caused by fire, theft abnormal spoilage etc.
21) **False:** Since the closing stock does not determine the profit directly but the operational efficiency and other factors determine it.
22) **True:** Finished goods are normally valued at cost or NRV, whichever is lower, as also adopted by AS-2.
23) **True:** As per AS-2, the inventory should be valued at cost or market price, whichever is less.
24) **False:** As per AS-2 inventory is valued at lower of cost or net realisable value.
25) **False:** Costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable overheads.

HOMEWORK QUESTIONS

Question 1 **Pg no.______**

Best Ltd. deals in five products, P, Q, R, S, and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31st March 2023, the historical cost and net realizable value of the items of the closing stock are determined as follows:

Items	Historical cost	Net realizable value
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock for the year ending 31st March, 2023 as per AS 2.

Question 2 *(ICAI Study Material) / (RTP Jan 2025) (Similar)* **Pg no.______**

The following are the details of a spare part of Sriram mills:

Date	Quantity (units)	Price per unit
1-1-2023	Opening Inventory	Nil
1-1-2023	Purchases	100 units @ ₹ 30 per unit
15-1-2023	Issued for consumption	50 units
1-2-2023	Purchases	200 units @ ₹ 40 per unit
15-2-2023	Issued for consumption	100 units
20-2-2023	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2023 if the company follows

a) First in first out basis
b) Weighted Average basis

Question 3 *(ICAI Study Material)* **Pg no.______**

A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Record of issues

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
	1,600

Find out value of inventory by following methods:

1) FIFO Method
2) LIFO Method
3) Simple Average Method
4) Weighted Average Cost Method

Also find inventory value if computed by Periodic inventory system.

Question 4 Pg no.______

A Company has the following record of purchases-

Date	December 4	December 10	December 24
Quantity (units)	900	700	600
Price p.u. (₹)	50	55	60

Sales were made as under:

Date	December 5	December 12	December 29
Quantity (Units)	600	500	600

Compute the value of Closing Inventory under –

(a) FIFO,

(b) LIFO

(c) Simple Average Cost,

(d) Weighted Average Cost.

Question 5 *(CA Foundation Dec 2021) (4 Marks)* Pg no.______

The following are the details of a spare part of an Oil Mill:

Date	Quantity (units)	Price per unit
1-1-2023	Opening Inventory	Nil
1-1-2023	Purchases	10 units @ ₹ 300 per unit
15-1-2023	Issued for consumption	5 units
1-2-2023	Purchases	20 units @ ₹ 400 per unit
15-2-2023	Issued for consumption	10 units
20-2-2023	Issued for consumption	10 units

Find out the value of Inventory as on 31-3-2023 if the company follows Weighted Average Method.

Question 6 Pg no.______

Suraj Stores is a departmental store, which sell goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available:
Opening Inventory ₹ 50,000; Purchases ₹ 3,60,000; Purchase Returns ₹ 10,000; Freight Inwards ₹ 10,000; Gross Sales ₹ 4,50,000; Sales Returns ₹ 11,250; Carriage Outwards ₹ 5,000.
Compute the estimated cost of the inventory on the closing date.

Question 7 *(CA Foundation July 2021) (5 Marks) / (RTP Jan 2025) (Similar)* Pg no.______

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	5,00,000
Sales during the year	7,50,000
Opening inventory	Nil
Closing inventory at selling price	1,00,000

Question 8 *(ICAI Study Material)* Pg no.______

From the following information, ascertain the value of stock as on 31.3.2023:

Value of stock on 1.4.2022	7,00,000
Purchases during the period from 1.4.2022 to 31.3.2023	34,60,000

Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2022 a sum of ₹ 60,000 was written off a particular item which was originally purchased for ₹ 2,00,000 and was sold for ₹ 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

Question 9 *(CA Foundation Jan 2021) (5 Marks) / (RTP Sep 2024)* Pg no.______

From the following particulars ascertain the value of Inventories as on 31st March, 2023:

Inventory as on 1.4.2022	3,50,000
Purchases	12,00,000
Sales	18,50,000
Manufacturing Expenses	1,00,000
Selling & Distribution Expenses	50,000
Administrative Expenses	80,000

At the time of valuing inventory as on 31st March, 2022, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000. Except the above mentioned transaction, gross profit earned during the year was 20% on sales.

Question 10 *(CA Foundation June 2022) (5 Marks)* Pg no.______

Zed Enterprises furnishes the following information for the year ended 31st March,2023.

Particulars	Amount (₹)
Value of Stock as on 1st April,2022	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

a) At the time of valuing stock on 31st March,2022 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March,2023 for ₹ 6,40,000.

b) Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March,2023.

Question 11 Pg no.______

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2023 on which date the total cost of goods in his godown came to ₹ 5,00,000. The following facts were established between 31st March & 15th April, 2023

a) Sales ₹ 4,10,000 (including cash sales ₹ 1,00,000)

b) Purchases ₹ 50,340 (including cash purchases ₹ 19,900)

c) Sales Return ₹ 10,000.

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

You are required to ascertain the value of inventory as on 31st March, 2023.

Question 12 *(CA Foundation June 2023) (5 Marks)* Pg no.______

The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2023. Subsequently the following information was obtained from scrutiny of the books.

a. Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.
b. Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.
c. Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March 2023 but were not included in the stock.
d. Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2023.
e. Goods costing ₹ 55,000 were sent on sale or return basis in March, 2023 at a margin of profit of 33½ % on cost. Approval was given in April, 2023 but these were considered as sales in March, 2023.

Calculate. the value of stock as on 31st March, 2023 and the adjusted net profit for the year ended on that date.

Question 13 *(CA Foundation Nov 2020) (10 Marks)* Pg no.______

Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.
(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.
(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.
(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020.

Question 14 *(CA Foundation Nov 2019) (5 Marks) / (Sep 2024) (5 Marks)* Pg no.______

Distinguish between Periodic Inventory System and Perpetual Inventory System.

Question 15 Pg no.______

Explain the Periodic Inventory system and its limitations.

Question 16 *(CA Foundation Dec 2023) (4 Marks)* Pg no.______

From the following information, ascertain the value of Closing Stock as on 31st March,2023.

Particulars	(₹)
Opening Stock	1,47,500
Cash Sales	5,50,000
Credit Sales	4,00,000
Purchases	8,85,000
Manufacturing Expenses	1,35,000
Advertisement Expenses	43,000
Rate of Gross Profit on Cost	25%

At the time of valuing inventory as on 31st March,2022, a sum of ₹ 12,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 40,000.

Question 17 (CA Foundation June 2024) (5 Marks) Pg no.______

Manish closed his books of account on 31st March, each year. Inventory taking for the year ended 31st March, 2024 was completed by 10th April, 2024 on which date value of the stock available in godown was of ₹4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2024 and 10th April, 2024:

(i) Goods sold to customers ₹1,10,000.
(ii) Sales return ₹ 10,000.
(iii) Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).
(iv) Purchases return amounted to ₹ 2,500.
(v) Goods costing 15,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.
(vi) After the stock was taken, it was found that there was certain very old slow- moving items costing ₹ 14,850, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2024.

Question 18 (CA Foundation Jan 2025) (5 Marks) Pg no.______

The following details are available of raw material of a manufacturing unit:

1-5-2024	Opening Inventory	100 units @ ₹ 15 per unit
2-5-2024	Purchases	300 units @ ₹ 18 per unit
5-5-2024	Issued for consumption	250 units
16-5-2024	Purchases	500 units @ ₹ 21 per unit
21-5-2024	Issued for consumption	100 units
25-5-2024	Issued for consumption	450 units

The manufacturer also incurred the following expenses:

- Freight of ₹ 300 and unloading charges of ₹ 150 at the time of every purchase respectively.
- Warehouse rent of ₹ 2,000 per month.
- Administrative Expenses of ₹ 1,500 per month.

You are required to find out the value of inventory as on May 31, 2024 if the company follows:

(a) Weighted Average method for inventory valuation.
(b) First in First Out method for inventory valuation.

DEPRECIATION and AMORTISATION

CH 5

"What you do makes a difference, and you have to decide what kind of difference you want to make."

CONCEPT OF DEPRECIATION

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

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

Value of such assets decreases with passage of time mainly due to following reasons.
1. Wear and tear due to its use in business.
2. Efflux of time even when it is not being used.
3. Obsolescence due to technological or other changes.
4. Decrease in market value.
5. Depletion mainly in case of mines & other natural reserves.

Meaning of Depreciation

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

Depreciation on components of an assets

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

OBJECTIVES FOR PROVIDING DEPRECIATION

True cost of production	The depletion of asset value due to usage should be charged in the account for determination of the true Cost of Production. This is done by charging depreciation.
Income measurement	Profits can be properly ascertained only after writing off the expense represented by the loss in value of Property, Plant & Equipment arising on their use.
True Position Statement	Original Cost of assets decreases due to many factors and hence assets cannot be presented at their original costs. The amount of accumulated

	depreciation is deducted there from to reflect in the Balance Sheet, a true and fair value of the Property, Plant & Equipment.
Funds for replacement	As the amount of depreciation charged in the P&L A/c is retained in the business (and not distributed as dividend), it goes on accumulating and eventually provides funds for replacement of Property, Plant & Equipment when their useful life is over.

FACTORS FOR DEPRECIATION

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

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

These factors are explained as follows –

1. **Historical Cost:**

Purchase price	XX
Add : Other Non-refundable taxes & duties	XX
Add: Any directly attributable cost of bringing the asset to its working condition for its intended use. **<u>Example:</u>** Costs of site preparation, Initial delivery & handling costs, Installation and assemble costs, professional fees, etc.	XX
Add: Estimated dismantling, restoration costs	XX
Less: Trade discount & rebates	(XX)
Cost of Asset	**XX**

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

   Note :
   - Useful Life is generally shorter than the physical life of an asset.
   - 'Determination of the Useful Life of a depreciable asset is a matter of estimation and is normally based on various factors including experience with similar types of assets.

3. **Residual/Scrap Value** is the amount likely to be obtained by the disposal of the Fixed Asset at the end of its Useful Life.
   (a) If Residual Value of an asset is insignificant, it is normally regarded as Nil.
   (b) If Residual Value is significant, it is estimated either –
      (i) at the time of acquisition/installation, or
      (ii) at the time of subsequent revaluation of the asset.

DEPRECIABLE AMOUNT

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

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

Example :

An item of Machinery was purchased by A Ltd for ₹ 18 Lakhs. It can be sold for ₹ 2 Lakhs after 8 years, which is the useful life of the asset.

The Depreciable Amount of the machinery will be ₹ 18 Lakhs – ₹ 2 Lakhs = ₹ 16 Lakhs.

METHODS OF DEPRECIATION

1. Methods Available:

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

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

2. Selection of method:

The choice of a method is based on the type of asset, nature of its use, and circumstances prevailing in the business.

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

Meaning	➢ Under this method, an equal or constant amount of depreciation is written off from Depreciable Asset every year. ➢ Suitable for assets which generate equal utility during each year of its useful life. ➢ At the end of the useful life of the asset, the cost of the asset will be NIL or equal to its Residual Value / Scrap Value. ➢ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): Unequal every year
Formula	Straight Line Depreciation $= \dfrac{\text{Cost of Asset Less Residual Value}}{\text{Useful Life}}$
	SLM Depreciation Rate $= \dfrac{\text{SLM Depreciation}}{\text{Cost of Asset}} \times 100$
Example	X Ltd purchased a Machine costing ₹ 10 Lakhs, having a useful life of 5 years Its estimated Residual Value is ₹ 1 Lakh.

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

Meaning	➢ Depreciation Amount for each year is computed by applying a fixed % on the Opening Balance of the Asset (i.e. Diminishing Balance of the Asset.) ➢ Reducing Balance refers to the Written Down Value of the Asset, i.e. value of the asset as reduced by the depreciation upto the previous year. ➢ The value of the asset will never be extinguished, as it happens in SLM Method. ➢ Depreciation Rate is computed such that at the end of the useful life of the asset, the cost of asset will be equal to its Residual Value / Scrap Value. ➢ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): More or Less Equal/constant/Uniform every year
Formula	WDV Depreciation Rate = $1 - \sqrt[n]{\frac{\text{Residual.Value}}{\text{Cost.of.Asset}}}$, where n = Useful Life.
Example	X Ltd purchased a machine costing ₹ 10 Lakhs, and has ascertained its WDV rate as 10% p.a. Depreciation amounts for the first three years will be as under

Particulars	Year 1	Year 2	Year 3
Cost / Opening WDV			
(-) Depreciation			
Closing WDV			

METHOD 3: SUM OF DIGITS OF YEARS METHOD

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

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation amount for the year					

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

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

METHOD 4: MACHINE HOUR METHOD

Meaning	In this method, Depreciation is computed based on the number of Machine Hours (rather than years). Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life
Formula	Dep. = Depreciable Amt x $\frac{\text{No.of Machine Hours during the year}}{\text{Total Machine Hours during the entire useful life}}$
Example	X Ltd purchased a machine costing ₹ 23,00,000, having a Scrap Value of ₹ 2,30,000. The machine has a useful life of 20,700 machine hours distributed as under – • Years 1 to 3: 2,500 machine hours each, • Years 4 to 6: 2,000 machine hours each, and • Years 7 to 10: 1,800 machine hours each. In this case, Depreciation Amounts will be computed as under –

METHOD 5: PRODUCTION UNITS METHOD

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

METHOD 6: DEPLETION METHOD

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

ACCOUNTING ENTRIES FOR DEPRECIATION

Depreciation can be recorded in the books of account, under 2 approaches, which are described below –

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

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

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

CHANGE IN COST AND RESIDUAL VALUE / LIFE OF ASSET

CHANGE IN HISTORICAL COST

The Historical Cost of a depreciable asset may undergo subsequent changes arising as a result of increase or decrease in long term liability on account of —

(a) Exchange Rate Fluctuations,
(b) Price Adjustments,
(c) Changes in duties, or
(d) Other similar factors.

When the Historical Cost of an asset has undergone a change due to the above circumstances <u>the depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the Asset.</u>

Example

X Ltd has an equipment purchased 2 years ago for 3,80,000. The residual value of asset was estimated to be 20,000. The total useful life of the asset when purchased was 12 years. The Company charges Straight Line Method of depreciation. Due to Price Adjustment, the cost of asset is now increased by 30,000. Calculate depreciation for the third year.

CHANGE IN ESTIMATED USEFUL LIFE & SCRAP VALUE

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

Example

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

CHANGE IN METHOD OF DEPRECIATION

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.
Whenever any change in depreciation method is made such change in method is treated as **change in accounting estimate** as per Accounting Standards.
Change in method of depreciation is applied with **prospective effect**. Hence, depreciation is recalculated in accordance with the new method from the date method is changed.

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

REVALUATION OF DEPRECIABLE ASSETS

An enterprise should choose **Either** Cost model, **Or** Revaluation model
as its accounting policy and should apply that policy to an **entire class of PPE**.
If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.
Class of PPE: A class of PPE is a grouping of assets of a **similar nature and use** in operations of an enterprise.
Examples of separate classes:
(a) Land (b) Buildings (c) Machinery (d) Ships (e) Motor Vehicles (f) Furniture & Fixtures
(g) Aircraft (h) Office Equipment
Revaluations should be made with **sufficient regularity** to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date. It may be pertinent to note that revaluation of PPE is an accounting policy choice, and not mandatory under the accounting standards or the Companies Act, 2013

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

Case	1st	2nd	Ist	2^{nd}
1	↑	↑	R/S	R/S
2	↓	↓	P & L	P & L
3	↑	↓	R/S	Use R/S 1st
4	↓	↑	P & L	Use P&L 1st

Example: ***(ICAI Study Material)***

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

SALE / DISPOSAL OF DEPRECIABLE ASSETS

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

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

Example:

Cost of Machine purchased on 1st January, 2018 = ₹ 75 Lakhs, Useful Life = 7 years. Estimated Residual Value = ₹ 5 Lakhs.
The Company adopts original cost method (SLM) of Depreciation. On 30th June, 2020, the Machine was sold for 53,00,000. Accounting year is Jan to Dec. Prepare:

A) Machinery Account
B) Machinery Account, Provision for Depreciation Account & Asset Disposal Account

INTANGIBLE ASSETS

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

Examples of intangible assets include:

(a) Streaming rights of movies / TV shows / web series on platforms like Netflix, Disney Hot Star, Amazon Prime / Sony LIV etc.
(b) Broadcasting rights of events such as the Cricket World Cup, the Indian Premier League, the Pro Kabaddi League etc.
(c) Landing rights / time slots at airports which permit aircrafts to land or take-off during a particular time frame
(d) Patents
(e) Trademarks
(f) Copyrights
(g) Distribution rights for motion pictures in theatres
(h) Customer data collected by the entities such as customer contact numbers / email IDs and spending data at stores like Pantaloons, Westside etc. could be a major intangible asset for these entities.
(i) Goodwill (purchased)
(j) Computer Software

Intangible assets comprise a major portion of the balance sheet. It may be noted that it can also be the case that intangible assets could make the entities far more valuable than the tangible assets.

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

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

Cost of Intangible Assets include the following:

Purchase price	XX
Add: Non-refundable taxes & duties	XX
Add: Directly attributable expenditure on making the asset ready for its intended use.*	XX
Less: Trade discount & rebates	(XX)
Cost of Asset	XX

*__Example__: Professional fees for legal services

Derecognition

An intangible asset should be derecognized (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as ***income or expense in the statement of profit and loss***.

Difference between Tangible and Intangible Assets

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

AMORTISATION

Amortisation can be defined as 'the systematic allocation of the depreciable amount of an intangible asset over its useful life'.

Depreciable amount is the cost of an asset less its residual value.

The concept of amortisation in case of intangible assets is similar to the concept of depreciation in case of tangible assets. In other words, 'depreciation of an intangible asset' is called AMORTISATION.

Useful Life

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

For instance, given the rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life will be short. Similarly, intangible assets with contractual rights for a period exceeding ten years, will be amortised over such extended period rather than the presumed period of ten years.

Amortisation Method

The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be used.

The amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly.

If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

Jain Bros. acquired a machine on 1st July, 2021 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.
Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

Question 2 (ICAI Study Material) Pg no.______

M/s Akash & Co. purchased machine for ₹ 10,00,000. Estimated useful life & scrap value were 10 years & ₹ 1,20,000 respectively. The machine was put to use on 1.1.2017. Show Machinery Account & Depreciation Account in their books for 2022 by using sum of years digits method.

Question 3 (ICAI Study Material) Pg no.______

A firm purchased on 1st January, 2020 certain machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On July 1, 2020 another machinery for ₹ 2,00,000 was acquired.
On 1st July, 2021 the machinery purchased on 1st January, 2020 having become obsolete was auctioned for ₹ 3,86,000 and on the same date fresh machinery was purchased at a cost of ₹ 4,00,000. Depreciation was provided for annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery Account.

Question 4 (RTP May 2018) / (ICAI Study Material) Pg no.______

The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.
You are required to prepare the motor truck account for two year ending 31 Dec, 2022

Question 5 (ICAI Study Material) Pg no.______

The Machinery Account of a factory showed a balance of ₹ 19,00,000 on 1st January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method. On 1st June 2022, a new machinery was acquired at a cost of ₹ 2,80,000 and installation charges incurred in erecting the machine works out to ₹ 8,920 on the same date. On 1st June, 2022 a machine which had cost ₹ 4,37,400 on 1st January 2020 was sold for ₹ 75,000. Another machine which had cost ₹ 4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing.
Write Machinery account for the year 2022 allowing the same rate of depreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

Question 6 (RTP Nov 2018)/(Nov 2019) /(Nov 2020)/(May 2021)/(May 2022)/(Jan 2025) Pg no.______

M/s. Deep Lakshmi purchased a second-hand machine on 1st April, 2020 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1st October, 2020.
On 1st Oct, 2022, the machine installed on 1st April, 2020 was sold for ₹ 1,00,000. Another machine for ₹ 30,000 was purchased and was installed on 31st December, 2022.
Under the existing practice the company provides depreciation @ 10% p.a. on original cost.
However, from the year 1st April, 2023 it decided to adopt WDV method & to charge depreciation @ 15% p.a. Prepare Machinery account for the years 1st April, 2020 to 31st March, 2024.

Question 7 (ICAI Study Material) Pg no.______

M/s Anshul & Co. commenced business on 1st January 2017, when they purchased plant and equipment for ₹ 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount ₹
1-1-2018	1,50,000
1-1-2021	2,00,000

On 1-1-2021 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2021 with no scrap value and 10 years for the asset purchased on 1.1.2021.
Prepare Plant and Equipment Account for the year ending 31st December, 2021.

Question 8 (CA Foundation July 2021) (4 Marks) Pg no.______

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

Question 9 (CA Foundation Dec 2021) (5 Marks) Pg no.______

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

Question 10 (ICAI Study Material) Pg no.______

On April 1, 2019 Shubra Ltd. purchased a machinery for ₹ 12,00,000. On Oct 1, 2021, a part of the machinery purchased on April 1, 2019 for ₹ 80,000 was sold for ₹ 45,000 and a new machinery at a cost of ₹ 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.
Show necessary ledger accounts for the years ended 31st March 2020 to 2022 assuming that
(a) 'Provision for Depreciation Account' is not maintained
(b) Provision for Depreciation Account is maintained.

Question 11 (CA Foundation June 2023) (10 Marks) Pg no.______

The following balances appear in the books of Dheeraj Enterprises:

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

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

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

Question 12 *(ICAI Study Material)* **Pg no._____**

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost	Depreciation Provision
2005	2,00,000	2,00,000
2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	**21,35,000**

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹ 15,00,000
2. Plant that had been bought in 2011 for ₹ 1,70,000 was scrapped.
3. Plant that had been bought in 2012 for ₹ 90,000 was sold for ₹ 5,000.
4. Plant that had been bought in 2013 for ₹ 2,40,000 was sold for ₹ 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. It is company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit & Loss Account. You are also required to prepare the following ledger accounts during 2022.

(i) Plant and machinery at cost; (ii) Depreciation provision;

(iii) Sales or disposal of plant and machinery.

Question 13 *(ICAI Study Material)* **Pg no._____**

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

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

Question 14 *(ICAI Study Material)* **Pg no._____**

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

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. The portion of the acquisition cost of the tangible asset, yet to be allocated is known as
   (a) Written down value
   (b) Accumulated value
   (c) Realisable value

2. The main objective of providing depreciation is to
   (a) Create secret reserve
   (b) Reduce the book value of assets
   (c) Allocate cost of the assets

3. Which of the following assets does not depreciate?
   (a) Machinery and equipment
   (b) Patents
   (c) Land

4. Obsolescence of a depreciable asset may be caused by:
   I. Technological changes.
   II. Improvement in production method.
   III. Change in market demand for the product or service output.
   IV. Legal or other restrictions.
   (a) Only (I) above
   (b) Both (I) and (II) above
   (c) All (I), (II), (III) and (IV) above

5. The number of production or similar units expected to be obtained from the use of an asset by an enterprise is called as
   (a) Unit life
   (b) Useful life
   (c) Production life

6. If the equipment account has a balance of ₹ 22,50,000 and accumulated depreciation account has a balance of ₹ 14,00,000, the book value of the equipment is
   (a) 36,50,000
   (b) 8,50,000
   (c) 14,00,000

7. In the case of downward revaluation of a plant which is for the first time revalued, the account to be debited is
   (a) Plant account
   (b) Revaluation Reserve
   (c) Profit & Loss account

8. Original cost = ₹ 12,60,000; Salvage value = Nil; Useful life = 6 years Depreciation for the first year under sum of years digits method will be
   (a) 3,60,000
   (b) 1,20,000
   (c) 1,80,000

9. Original cost of a machine was ₹ 25,20,000 salvage value was ₹ 1,20,000, useful life was 6 years. Annual depreciation under Straight Line Method
   (a) 4,20,000
   (b) 4,00,000
   (c) 3,00,000

10. The cost of a machine is ₹ 20,00,000. Two years later the book value is ₹ 10,00,000. The Straight-line percentage depreciation is
    (a) 50%
    (b) 33-1/3%
    (c) 25%

11. Original cost ₹13,00,000, Salvage value ₹ 40,000, Useful life 6 years. Depreciation for the first year under sum-of-years digit methods will be
    (a) 60,000
    (b) 1,20,000
    (c) 3,60,000

12. A company purchased a machinery on April 01, 2016, for ₹ 15,00,000. It is estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. The depreciation charged during the year 2020-21 was
    (a) 5,00,000
    (b) 4,00,000
    (c) 3,00,000

13. A plant with original cost of ₹ 50,00,000 was revalued after 2 years resulting in credit to Revaluation Surplus account of ₹ 4,00,000. Towards the year end of 2019-20, due to COVID-19, the plant value had gone down by ₹ 5,00,000 and accordingly management decided to revalue the same. What shall be the impact of this downwards revaluation on Profit & Loss Account?
    (a) Debit of ₹ 5,00,000
    (b) Debit of ₹ 1,00,000
    (c) Credit of ₹ 5,00,000

14. A machinery with original cost of ₹ 10,00,000 and Nil Salvage value acquired on 1st April 2019 with 4 years useful life was depreciated using Straight Line Method. It was decided to sell the machinery on 1st October 2022 for ₹ 1,20,000. What shall be the gain or (loss) on the sale of Machinery?
    (a) Loss of ₹ 1,30,000
    (b) Gain of ₹ 1,20,000
    (c) Loss of ₹ 5,000

15. In respect of intangible assets, there is a presumption that the useful life of an intangible asset will not exceed
    (a) 2 years
    (b) 3 years
    (c) 10 years

16. A company developed a technology to enhance the battery life of mobile phones. The cost of development have been capitalized as an intangible asset at ₹ 5,00,000. The company estimates the life of the technology developed to be 3 years. The company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in third year?

(a) ₹ 2,50,000
(b) ₹ 75,000
(c) ₹ 1,75,000

17. An intangible asset is an asset
(a) with no physical existence
(b) generated internally by the business
(c) cannot be sold

ANSWERS MCQs

1. (a)	**2. (c)**	**3. (c)**	**4. (c)**	**5. (b)**	**6. (b)**	**7. (c)**
8. (a)	**9. (b)**	**10. (c)**	**11. (c)**	**12. (c)**	**13. (b)**	**14. (c)**
15. (c)	**16. (b)**	**17. (a)**				

TRUE / FALSE

State with reasons whether the following are true or false:

1) Increase in market value of a fixed asset is one of the reasons for depreciation being charged.
2) Depreciation is a cash expenditure like other normal expenses.
3) Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.
4) Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.
5) Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.
6) In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.
7) In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.
8) Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years & scrap value is ₹ 1,00,000. Depreciation for the 1st year using sum of the years digit method shall be ₹ 2,00,000.
9) Depreciation cannot be provided in case of loss, in a financial year.
10) Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.
11) If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.
12) Sum of years digit method is an example of accelerated method of charging depreciation. ***(Dec 2023)***
13) Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.
14) While depreciating Land cost, Straight line method shall give more depreciation than the written down value.
15) Provision for depreciation account is debited at the time of recording the depreciation on an asset.
16) If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.
17) When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited & any gain or loss is recorded to profit and loss account.

18) While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost.
19) Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.
20) An intangible asset is a non identifiable, non monetary asset.
21) There exists difference between the written down value method and diminishing balance method of depreciation.
22) The expressions depreciation is to be charged at 10% and 10% p.a. on furniture and fittings carry the same meaning.
23) Higher depreciation will not affect cash profit of the business.
24) Land is also a depreciable asset.
25) Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.
26) Depreciation is a process of allocation of the cost of fixed asset.
27) Depreciable amount refers to the difference between historical cost and the market value of an asset.
28) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
29) Depreciation is a non-cash expense and does not result in any cash outflow. ***(Nov 2018)***
30) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits. ***(Dec 2023)***

Solution

1) **False**: It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.
2) **False**: - Depreciation is not a cash expenditure like other normal expenses as it does not result in any cash outflow.
3) **False**: Non refundable taxes & duties form part of the cost.
4) **False**: Inauguration costs shouldn't be part of cost.
5) **True**: SLM method results in same amount and Diminishing method involves same rate of depreciation.
6) **True**: Revaluation should be done for the whole class of the asset.
7) **False**: Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account.
8) **True**: Sum of years digit method depreciation is calculated as 10/55 x (12,00,000 – 1,00,000) = 2,00,000
9) **False**: Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.
10) **True**: Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.
11) **False**: WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000
12) **True**: Higher depreciation is charged in earlier years under sum of the years digit method.
13) **False**: It is vice versa as under diminishing balance method; higher depreciation is charged in beginning.
14) **False**: Land is not depreciated.
15) **False**: Provision for Depreciation account is credited while charging the depreciation.
16) **False**: Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.
17) **True**: At the time of sale of an asset, respective asset a/c is credited with provision for depreciation a/c being debited & any resulting gain or loss being charged to P&L A/c.

18) **False**: Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.
19) **True**: Any change in useful life of an asset is accounted for as a change in estimate.
20) **False**: An intangible asset is an identifiable non-monetary asset, held for use in production and supply of goods and services.
21) **False**: - Both are same methods. Depreciation is computed by applying a fixed rate on the diminishing balance which is known as written down value.
22) **False**:- They differ on the basis of time factor. 10% p.a. implies that time factor is to be considered while calculating depreciation on prorate basis whereas simply 10% implies that time factor is immaterial for calculation.
23) **True**: - It is a non-cash expense and therefore will not affect cash profit of the business.
24) **False**: - Land is not a depreciable asset since it has unlimited life.
25) **False**: Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year.
26) **True**: - It is measure of wear and tear of an asset. On charging depreciation, the cost of fixed asset is allocated during the period it is used.
27) **False**: - Depreciation is allocated over the estimated useful life of the assets depreciated. Depreciable amount= [Historical Cost of the Asset]- [Residual or Scrap Value]
28) **True** - In the early periods of useful life of fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
29) **True**: - Depreciation is a non-cash expense and it does not result in any outflow of cash.
30) **False**: Depreciation is non-cash but operating expenses which are to be provided for whether there are profits or losses in the financial year.

DIFFERENCE BETWEEN STRAIGHT LINE METHOD (SLM) & WRITTEN DOWN VALUE METHOD

S.No.	Straight Line Method (SLM)	Written Down Value (WDV)
1.	Under SLM an equal amount is written off each year throughout the working life of the depreciable asset so as to reduce the cost of the asset to nil or to its scrap value at the end.	Under WDV, a fixed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scrap value at the end of useful life
2.	Under this method, annual depreciation charge is equal throughout the life of the asset	Under this method, depreciation charge is reduced over the years as the asset grows old
3.	Under this method, the asset can be fully depreciated	Under this method asset can never be fully depreciated.
4.	Under this method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform	Under this method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under this method depreciation and repairs are more or less evenly distributed throughout life of the asset.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

A machine was purchased for ₹ 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be ₹ 2,00,000 and anticipated pattern of distribution of effective hours is :

Year 1 – 3 3,000 hours per year
Year 4 - 6 2,600 hours per year
Year 7 - 10 1,800 hours per year

Determine Annual Depreciation under Machine Hour Rate Method.

Question 2 *(ICAI Study Material)* Pg no.______

A machine is purchased for ₹ 20,00,000. Its estimated useful life is 10 years with a residual value of ₹ 2,00,000. The machine is expected to produce 1,50,000 units during its life time. Expected distribution pattern of production is as follows:

Year	Production
1-3	20,000 units per year
4-7	15,000 units per year
8-10	10,000 units per year

Determine the value of depreciation for each year using production units method.

Question 3 *(ICAI Study Material)* Pg no.______

M/s Surya & Co. took lease of a quarry on 1-1-2019 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019	2,000 tonnes
2020	10,000 tonnes
2021	15,000 tonnes

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

Question 4 *(ICAI Study Material)* Pg no.______

Jain Bros. acquired a machine on 1st July, 2021 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a.. The books are closed on 31st December every year. Show the Machinery Account on diminishing balance method for the year 2021 and 2022.

Question 5 *(CA Foundation Dec 2023) (5 Marks)* Pg no.______

From the following transactions of a concern, prepare the Machinery Account for the year ending 31st December, 2022:

01.01.21	Purchased a second – hand Machinery for ₹ 2,00,000
01.01.21	Spent ₹ 50,000 on repairs for making it serviceable
30.06.21	Purchased additional new Machinery for ₹ 3,50,000
30.06.21	Installation charges of new Machine ₹ 15,000
01.04.22	Repairs and maintenance of Machinery ₹ 30,000
30.06.22	Sold second hand Machinery purchased on 01.01.21 for ₹ 1,55,000
31.12.22	Depreciate the Machinery at 10% per annum by WDV method

Question 6 *(CA Foundation Nov 2019) (4 Marks)* **Pg no._____**

X purchased a machinery on 1st January 2020 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2020 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2021 the machinery purchased on 1st January, 2020 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value.
Prepare Machinery account for the years 2020 and 2021.

Question 7 *(RTP Nov 2021)* **Pg no._____**

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

Question 8 *(CA Foundation Jan 2021) (10 Marks)/(RTP June 2024)/(Sep 2024) (Sim.)* **Pg no._____**

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

Question 9 *(CA Foundation June 2022) (10 Marks) / (RTP May 2025)* **Pg no._____**

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

Question 10 **Pg no._____**

A firm purchased, on 1st January, 2017, certain machinery for ₹ 19,40,000 and spent ₹ 60,000 on its erection. On 1st July in the same year additional machinery costing ₹ 10,00,000 was acquired. On 1st July, 2019 the machinery purchased on 1st January, 2017 having become obsolete was auctioned for ₹ 8,00,000 and on the same data fresh machine was purchased at a cost of ₹ 15,00,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the asset. In 2020 however, the firm changed this method of providing depreciation and adopted the method of writing off 20% on the written down value. Prepare Machinery Account from 2017 to 2021.

Question 11 *(CA Foundation May 2019) (10 Marks)/(RTP Nov 2022)/(RTP Nov 2023)* **Pg no._____**

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2018 and spent ₹ 3,000 on its overhauling. On 1st July 2019, another machine was purchased for ₹ 10,000. On 1st July 2020, the machinery which was purchased on 1st January 2018, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2021, the machine which was purchased on 1st July, 2019 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2019 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January, 2018.

Question 12 *(CA Foundation Dec 2022) (4 Marks)* Pg no.______

A purchased a machinery for ₹ 1,30,000 on 1st April, 2019 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

Question 13 *(CA Foundation Sep 2024) (5 Marks)* Pg no.______

PQR associates bought a computer set on 01.04.2020 for ₹ 2,00,000 and charged depreciation @ 20% p.a. on diminishing balance method. They made further additions as follows:

Date	Amount
01.04.2021	₹ 1,50,000
01.04.2023	₹ 1,00,000

On 01.04.2023 it was decided to change the method to straight line basis and charge depreciation assuming the expected life of all the computers to be 8 years from 01.04.2023. Prepare Computers A/c for year ending 31.03.2024.

Question 14 *(CA Foundation Jan 2025) (10 Marks)* Pg no.______

A firm purchased a second-hand machinery on April 1, 2021 for ₹ 15,00,000 subsequent to which ₹ 2,00,000 were spent on its repairs and installation. On October 1, 2021 another machinery was purchased for ₹ 9,00,000 and cost of installing the machine in a new plant is ₹ 20,000. The firm also shifted the machinery purchased on April 1, 2021 to the new plant and incurred freight of ₹ 10,000. They adopted a policy of charging depreciation @ 12% per annum on diminishing balance method.

On April 1, 2023 it was decided to change the method and rate of depreciation to straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased with no scrap value.

On October 1, 2023 the first machine become outdated and sold for ₹ 2,50,000. On the same date, another machinery was purchased for ₹ 8,50,000. The estimated useful life of the machine is 10 years and residual value is ₹ 30,000.

You are required to prepare the machinery account for the year ending March 31, 2024.

Question 15 *(ICAI Study Material)* Pg no.______

A firm purchased second hand machinery on 1st January, 2019 for ₹ 3,00,000, subsequent to which ₹ 60,000 and ₹ 40,000 were spent on its repairs and installation, respectively. On 1st July, 2020 another machinery was purchased for ₹ 2,60,000. On 1st July, 2021, 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, 2022, 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. Prepare the following accounts in the books of the company:

(i) Machinery Account for years ending Dec. 31, 2019 to 2022 & (ii) Machinery Disposal Account

Question 16 (ICAI Study Material) Pg no.______

On April 1, 2019 a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for ₹ 90,000. On October 1, 2021, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October 2019 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

Question 17 (ICAI Study Material) Pg no.______

Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹ 35,00,000 on 31st December 2022. 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 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2022 was (a) ₹ 37,00,000 (b) ₹ 33,00,000 and (c) ₹ 31,00,000. Also, give the journal entries.

Question 18 (CA Foundation Nov 2018)(4 Marks)/(RTP May 2020)/(May 2023)/(ICAI SM) o.______

A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 years. Calculate depreciation for the 5^{th} year.

Question 19 (ICAI Study Material) Pg no.______

A Machine costing 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate depreciation for the fourth year.

Question 20 (CA Foundation Nov 2020) (5 Marks) Pg no.______

Discuss the factors taken into consideration for calculation of depreciation.

Question 21 (CA Foundation Dec 2022) (5 Marks) Pg no.______

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

Question 22 (CA Foundation June 2024) (8 Marks) Pg no.______

On 1st April,2022, LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Account. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000.

Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000.

The company changed the method of depreciation from diminishing balance method to straight line method with effect from 1st April, 2020 and adjusted the difference on 31st March, 2023. The rate of depreciation remains the same.

Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in the year 2022-23.

BILLS OF EXCHANGE & PROMISSORY NOTES

CH 6

"Your life today is the result of your attitude and choices in the past. Your life tomorrow will be the result of your attitudes and choices you make today."

BILL OF EXCHANGE – MEANING AND FEATURES

Meaning:

As per Sec. 5 of the Negotiable Instruments Act, 1881, a **Bill of Exchange** (B/E) is —

- an instrument in **writing,**
- containing an unconditional **order,**
- **signed** by the Maker,
- **directing** a certain person,
- to pay a certain sum of **money only,**
- to, or to the order of a certain **person** or to the **Bearer** of the instrument.

Note: When prepared by the **Maker** (i.e. Seller of Goods), it is called **Draft.** Once it is accepted by the **Acceptor** (i.e. Buyer of Goods), it becomes a valid Bill of Exchange.

Features of Bill of Exchange:

- ✓ It must be in **writing.**
- ✓ It must contain an **order** to pay. Order must be **unconditional**.
- ✓ It must be **dated**.
- ✓ The instrument must be to pay **money only** and the amount of money payable must be **certain.**
- ✓ The party must **sign** the instrument.
- ✓ It should be properly **stamped.**
- ✓ It must be accepted for payment by the party to whom order is made.
- ✓ Payment must be in the legal currency of the country.

Parties involved:

(a) The person who **makes** the order is known as the **Drawer** (or Maker), i.e. Seller of Goods.
(b) The person who **accepts** the order is known as the **Acceptor/ Drawee**, i.e. Buyer of Goods.
(c) The person to whom the amount is payable is known as the **Payee. [Note:** The Drawer and Payee may be the same person. Sometimes, the Drawer may order the payment to a third party, i.e. Payee.]

Example: Ram sold goods to Laxman on credit for 50,000 on 1st January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Laxman's acceptance, this draft becomes a valid B/E (i.e. Bills Receivable for Ram, and Bills Payable for Laxman). Ram needs to make payment to Krishna. In the following B/E, Ram is the **Drawer**, Laxman is the **Acceptor**, and Krishna is the **Payee.**

Format of Bill of Exchange

₹ 50,000 only		Chandigarh, 1st January 2023
Three months after date, pay to Sri. Krishna or his order, a sum of ₹ 50,000 only.		
To	Accepted	
Sri. Laxman Signature of Ram	Signature of Laxman	Stamp
43, Old Street, Delhi.		

PROMISSORY NOTE – DEFINITION AND FEATURES

Meaning:

As per Sec. 4 of the Negotiable Instruments Act, 1881, a Promissory Note (P/N or Pro-Note) is –

- An instrument in **writing** (not being a Bank Note or a Currency Note),
- Containing an unconditional **undertaking**,
- Signed by the **Maker**,
- To pay a certain sum of **Money** only,
- To, or to the order of a certain **person**.

Note: A Promissory Note cannot be made payable to Bearer.

Features of a Promissory Note:

- ✓ P/N must be in **writing.**
- ✓ P/N must contain an **undertaking/promise to pay.** Mere acknowledgement of debt is not sufficient.
- ✓ The undertaking/promise to pay should be **unconditional and definite** (and not vague).
- ✓ P/N should be **signed by the Maker** himself.
- ✓ P/N should specify the Payee in clear terms
- ✓ Sum payable must be **certain**.
- ✓ P/N must be duly **stamped** and dated.
- ✓ It does **not** require any **acceptance**

Format of Promissory Note

₹ 50,000 only		Laxman 43, Old Street, Delhi
There months after date, I promise to pay Ram/Krishna or his order, a sum of ₹ 50,000 only, for value received.		
To Ram Chandigarh	Stamp	Signature of Laxman Date: 1st January 2023

DIFFERENCE BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

S.No.	Bill of Exchange	Promissory Note
1	A bill contains an unconditional order to pay	A promissory note contains only a promise to pay certain sum of money
2	There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and Payee) in promissory note
3	A bill is paid by Acceptor	A promissory note is paid by maker
4	A bill is drawn by creditor	A promissory note is made by debtor
5	The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee cannot be same person
6	In a bill of exchange the liability of drawer is secondary and conditional	In a promissory note the liability of a maker is primary and absolute
7	In a bill of exchange, notice of dishonor must be given	Notice of dishonor is not required in case of promissory note
8	In case of dishonor, a bill of exchange must be noted and protested	Noting and protest is not required in case of dishonor of a promissory note.

FOREIGN BILL

An instrument which is not an Inland Instrument, is deemed to be a Foreign Instrument. Following are the examples of Foreign Bills:-

- Bill drawn in India on a person resident outside India and made payable outside India.
- Bill drawn outside India on a person resident outside India.
- Bill drawn outside India and made payable in India.
- Bill drawn outside India and made payable outside India.

MATURITY DATE FOR PROMISSORY NOTE AND BILL OF EXCHANGE

1. **Maturity:** Date on which Promissory Note (P/N) or Bill of Exchange (B/E) **falls due**
   a) When a bill is drawn after sight, the term of the bill begins to run from the date of 'sighting', i.e., when the bill is accepted.
   b) When a bill is drawn after date, the term of the bill begins to run from the date of drawing the bill.

2. **Days of Grace:** In calculating the maturity of a P/N or a B/E which is not payable on demand, at sight or on presentment, **3 days of grace** shall be added to the date on which the instrument is expressed to be payable.
   A cheque cannot be a time instrument because the cheque is always payable on demand. Though a cheque can be postdated and which can be presented on or after such date. A cheque has validity of 90 days from its date after that it becomes void, normally termed as 'Stale Cheque' as bank will not honour it.

3. **Instruments entitled to Days of Grace:**
   (a) A Note or Bill payable on a specified date.
   (b) A Note or Bill payable after certain period of time / after sight
   (c) A Note or Bill payable after a certain period or after the happening of a certain event.
   (d) Where a Note or Bill is payable in installments, days of grace are allowed on each installment.

4. Meaning of "At Sight", "On Presentment" and "After Sight":

(a) In a P/N or B/E, the expressions "at sight" and "on presentment" mean, "on demand".
(b) In a P/N, the expression "after sight" means, after presentment for sight.
(c) In a B/E, the expression "after sight' means, after acceptance

5. Provisions as to calculation of Maturity:

Payable after	Maturity is at –
Stated number of months – • After date, or • After sight, or • After a certain event.	• 3 days after corresponding date of month after stated number of months **Example:** B/E dated 30th August, is made payable 3 months after date. It matures on 3rd December. • If the month in which the period terminates has no corresponding day, period will terminate on the last day of such month. Thereafter 3 days of grace is added. **Example**: B/E dated 30th January is payable 1 month after date. It falls due on 3rd March.
A certain number of days – • After date, or • After sight, or • After a certain event.	• It shall be at maturity on the 3rd day after the specified day. • While calculating the date at which a P/N or B/E made payable a certain number of days after date or after sight or after a certain event is at maturity, day presentment for acceptance or sight, or of protest for non – acceptance, or on which the event happens shall be excluded. **Example:** B/E dated 1st November is made payable 15 days after date. The period of 15 days will be counted from 2nd November and the B/E will be at maturity on 19th November.
On a day when day of maturity is a Public Holiday.	• Public holiday includes Sundays and any other day declared by the Central Government, by notification in the Official Gazette, to be a Public Holiday. • A P/N or B/E which matures on a public holiday shall be deemed to fall due on the preceding business day, e.g. if a B/E falls due on Sunday, it shall be deemed to be due on Saturday. • A B/E which falls due on emergency holiday shall be deemed to be due on the succeeding business day.

CHART

Bills of Exchange

Bill at sight
or
Bill on presented
or
Bill on Demand

- When demanded then needs to make payment
- No Time Period
- No Grace Days

Bill after Date

Due Date considered from date of drawing of bill

Bill after sight

From date of Acceptance of bill

- Time Period Mentioned
- 3 Days of Grace Applicable

Due Date or Date of Maturity ⇒ Date of Drawing or Date of Acceptance (After Sight) + Term of Bill* + 3 Days of Grace

* where term of bill can be specified no. of days or months

Note: If the month in which period terminates has no corresponding day, period will terminate on last day of such month.

Date of Maturity is holiday

- Public/Gazetted holiday → Preceding/Previous working day [26/1, 15/8, 2/10, Sundays]
- Emergency/sudden/Unforeseen holiday → Succeeding/next working day

Case a) Date of Bill: 10.04.23 Term 3 months

Case b) Date of Bill: 10.04.23 Term 90 days

Case c) Date of Bill: 30.01.23 Term 1 month

Case d) Date of Bill: 30.01.23 Term 30 days

Case e) Date of Bill: 12.06.23 Term 2 months

Case f) Date of Bill: 25.09.23 Term 2 months
Due date is Emergency holiday.

ENTRIES IN THE BOOKS OF DRAWER & DRAWEE

Bills of Exchange

A —Sale : 10000→ B

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

Books of DRAWER (A)

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

Books of DRAWEE (B)

In all 4 cases, same entries to be passed :

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

DISHONOUR OF BILL OF EXCHANGE AND PAYMENT OF NOTING CHARGES

1. **Dishonour:** Non-payment of Bill of Exchange on the due date is called **Dishonour.**
2. **Noting:** In case of dishonour of a B/E on the due date, the fact of dishonour, and the causes of dishonour should be ascertained and recorded on the B/E itself. Otherwise, the Acceptor may prove that B/E was not properly presented to him on the due date and hence can escape from his liability.
3. **Charges:** Noting Charges refers to the fees paid to a Public Official known as **"Notary Public",** who records the fact and causes of dishonour of B/E.
4. **Accounting:** Noting Charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonour, i.e. the Acceptor.

RETIREMENT OF BILL OF EXCHANGE

1. Reason for Retirement	2. Accounting for Retirement
• Sometimes, the Acceptor of a B/E is ready to pay the amount, even before the due date. • So, the Acceptor may request the Payee, for settling the payment before due date. • This constitutes **Retirement of Bill.**	• Acceptor is entitled to receive certain Interest or Discount (called **Rebate**) for making payment before the due date. • This **Rebate** on Bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee. • It is a consideration of premature payment.

Example ***(ICAI Study Material)***

On 1st January, 2023, A sells goods for ₹ 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 4^{th} March, 2023, B retires his acceptance under rebate/discount of 12% per annum. Record these transactions in the journals of A and B.

RENEWAL OF BILL OF EXCHANGE

1. Reason for Renewal	2. Accounting for Renewal
• Sometimes, the Acceptor of a B/E is unable to pay the amount on the due date. • In such case, the Acceptor may request the Drawer for an **extension** of time period. • This constitutes **Renewal of Bill**.	• Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed. • New B/E will be made out. Journal Entries are passed for recording the New B/E. • Value of New B/E = Value of Old B/E + Interest, if any.

The amount of the new bill may represent any of the following:

a) **Where the drawee pays nothing:** Total of amount of original bill as well as the interest for the extended time period.
b) Where the drawee pays interest amount at the time of renewal: Amount of the Original bill.
c) Where the drawee makes part payment of the original bill or interest amount or both: That part of total of amount of original bill as well as the interest for the extended time period on unpaid amount.

Example

On 1st January, A sold goods to B amounting 10,000 & B accepted 3 months bill drawn by A. On maturity he was unable to meet the bill.

Case 1: He paid nothing & accepted another bill for 2 months for 10,000 with interest @12% p.a.
Case 2: He paid nothing & accepted another bill for 2 months for 10,000. However, interest @12% p.a is paid at the time of renewal of bill.
Case 3: He paid 4,000 & accepted another bill for 2 months for balance with interest @12% p.a.
Case 4: He paid 4,000 & accepted another bill for 2 months for balance. However, interest @12% p.a is paid at the time of renewal of bill.

DEALING WITH INSOLVENCY OF DRAWEE

1. **Meaning:** Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted by him will be dishonoured on the due date.

Books of the Drawer

(a) For dishonour of B/R	Drawee A/c Dr. To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c Dr. (Amt actually received) Bad Debts A/c Dr. (Balancing Figure) To Drawee Account (Total Amount due)

Books of the Drawee

(a) For dishonour of B/R	Bills Payable A/c Dr. To Drawer A/c
(b) For recording final amount, if any, paid	Drawer A/c Dr. (Total Amount due) To Cash A/c (Amt actually paid) To Deficiency A/c (Balancing Figure)

Example

A draws bill on B on 1st April, 2023 for 1,00,000 for 3 months. At maturity bill returned dishonoured & noting charges 1,000. 30 paise in rupee is recovered from B's estate. Pass entries in books of both the parties.

ACCOMODATION BILLS

1. **Meaning:**
   (a) Generally, B/E is drawn in support of a trade transaction, i.e. credit sales. However, B/E can also be utilized for raising finance (i.e. without a trade transaction).
   (b) When B/E is used for financing purposes, it is called as Accommodation Bill. (Note: An Accommodation Bill is referred to as "Kite".)

Example

a)

For the mutual accommodation of 'A' and 'B' on 1st April, 2023, 'A' drew a four months' bill on 'B' for ₹4,000. 'B' returned the bill after acceptance of the same date. 'A' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'B'.
On the due date A send his share in total bill to B and B paid the bill amount to the Bank.
Pass Journal entries in the books of 'A' & ' B '.

b)

Consider in Case a) that on due date 'A' is unable to send the amount due and therefore 'B' draws a bill for ₹7,000, which is duly accepted by 'A'. 'B' discounts the bill for ₹6,600 and sends ₹ 1,300 to 'A'. Before the bill is due for payment 'A' becomes insolvent. Later 25 paise in a rupee received from his estate. Pass Journal entries in the books of 'A' & ' B '.

BILLS RECEIVABLE BOOK AND BILLS PAYABLE BOOK

Bills receivable and bills payable books are journals (Day Books) to record in a chronological order the details of bills receivable and bills payable. When large number of bill transactions take place in an organization, it is convenient to maintain these books. Wherein any bill transaction takes place, the same is entered in the Day Books in the first instance. Postings to individual Debtors or Creditors accounts are made from the Day Books. Also totals of bills received or accepted are posted periodically to Bills Receivable Account and Bills Payable Account respectively.

Bills receivable book and bills payable book are very useful for following up the status of outstanding bills. When there are large number of bills and these bills fall due on different dates, some of these bills may not be honoured on maturity due to varied reasons. It is possible from these Day Books to trace the details of the outstanding bills and to identify the reasons for not honouring the bills.

Bills Receivable Book (Folio No . . .)

Date of Receipt	Voucher No.	Party from whom received	Acceptor	Date of Bill	Due Date	Place of Payment	Amount	L.F.	Mode of Disposal

Bills Payable Book (Folio No . . .)

Date of Acceptance	Drawer	Payee	Date of Bill	Due Date	Place of Payment	Amount	L.F.	Mode of Disposal

TRADE BILL VS ACCOMODATION BILL

	Trade Bill	Accommodation Bill
Purpose	It is drawn and accepted for some consideration i.e. for trade purpose.	It is drawn and accepted without any consideration.
Need	It is drawn to settle a business transaction.	It is drawn to meet the financial requirements of the drawer / drawee / both temporarily.
Legal Status	The drawer can take legal action if the bill is dishonoured.	The drawer cannot take any legal action when the bill is dishonoured.
Discounting of bill	It may, or, may not be discounted with the bank.	It is always discounted with the bank.
Discounting charges	Discounting charges are borne by the drawer.	Discounting charges are divided between the drawer and drawee in the ratio of the proceeds.

ASSIGNMENT QUESTIONS

Question 1 Pg no.______

Record the following transactions in the Journals of Ram and Hari:
Ram sells goods for ₹ 1,00,000 to Hari on 1st January, 2023 and on the same day draws a bill on Hari at three months for the amount. Hari accepts it and returns it to Ram, who discounts it on 4th January, 2023 with his bank at 12% per annum. The acceptance is dishonored on due date and the bank pays ₹ 250 as noting charges.

Question 2 *(ICAI Study Material)* Pg no.______

Vijay sold goods to Pritam on 1st September, 2023 for ₹1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

Question 3 *(ICAI Study Material) / (RTP May 2022) (Similar)* Pg no.______

David draws two bills of exchange on 1.1.2023 for ₹ 6,000 and ₹10,000. The bills of exchange for ₹6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2023, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2023, Mr. Thomas retires the acceptance for ₹10,000, the interest rebate i.e. discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.
You are to give the journal entries in the books of Mr. David.

Question 4 *(ICAI Study Material)* Pg no.______

A draws upon B three Bills of Exchange of ₹ 3,000, ₹ 2,000 and ₹ 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest ₹100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for ₹1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (noting charge being ₹30). The third bill was retained till maturity when it was duly met.
Give the necessary journal entries recording the above transactions in the books of A.

Question 5 *(RTP May 2023)* Pg no.______

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

Question 6 *(ICAI Study Material)/(RTP Nov 2018)/(May 2021) /(Nov 2021) (Similar)* Pg no.______

Prepare Journal entries for 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 was discharged by endorsing Mody's acceptance to Katrak for a similar amount

Question 7 (ICAI Study Material) Pg no.______

Journalize the following in the books of Don:

(i) Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹ 40. Bob accepts ₹ 1,000 cash and the balance as bill at 3 months at interest of 10%. Don accepts from Ray his acceptance at 2 months plus interest @ 12% p.a.

(ii) James owes Don ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹ 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.

(iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

Question 8 Pg no.______

Sunil draws a bill for ₹9,000 on Vijay on 5th April, 2023 for 3 months, which Vijay returns it to Sunil after accepting the same. Sunil gets it discounted with the bank for ₹ 8,820 on 8th April, 2023 and remits one-third amount to Vijay. On the due date Sunil fails to remit the amount due to Vijay, but he accepts a bill for ₹12,600 for three months, which Vijay discounts it for ₹ 12,330 and remits ₹ 2,220 to Sunil. Before the maturity of the renewed bill Sunil becomes insolvent and only 50% was realized from his estate on 15th October, 2023.
Pass necessary Journal entries for the above transactions in the books of Sunil & Vijay

Question 9 (ICAI Study Material) Pg no.______

On 1st July, 2023 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, 2023, 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, 2023, 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, Gorge and Jack.

Question 10 (CA Foundation Nov 2020) (10 Marks) Pg no.______

Suresh draws a bill for ₹15,000 on Anup on 15th April, 2023 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2023 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2023.
Pass necessary Journal entries for the above transactions in the books of Suresh.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. On 1.1.2023, A draws a bill on B for ₹1,20,000 for 3 months' maturity date of the bill will be:
   (a) 1.4.2023
   (b) 3.4.2023
   (c) 4.4.2023

2. On 16.6.2023 P draws a bill on Q for ₹1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:
   (a) 19th July
   (b) 18th July
   (c) 17th July

3. PQ draws a bill on XY for ₹130,000 on 1.1.2023. XY accepts the same on 4.1.2023 for period of 3 months after date. What will be the maturity date of the bill:
   (a) 4.4.2023
   (b) 3.4.2023
   (c) 7.4.2023

4. A draws a bill on B. A endorsed the bill to C. The payee of the bill will be
   (a) A
   (b) B
   (c) C

5. A bill of ₹ 120,000 was discounted by Saras with the banker for ₹1,18,800. At maturity, the bill returned dishonoured, noting charges ₹ 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?
   (a) ₹1,20,000
   (b) ₹1,18,800
   (c) ₹1,20,200

6. X draws a bill on Y for ₹300,000 on 1.1.2023 for 3 months after sight, date of acceptance is 6.1.2023. Maturity date of the bill will be:
   (a) 8.4.2023
   (b) 9.4.2023
   (c) 10.4.2023

7. X sold goods to Y for ₹ 5,00,000. Y paid cash ₹4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:
   (a) ₹ 98,000
   (b) ₹ 68,000
   (c) ₹ 68,600

8. On 1.1.2023, X draws a bill on Y for ₹ 5,00,000 for 3 months. X got the bill discounted 4.1.2023 at 12% rate. The amount of discount on bill will be:
   (a) ₹ 15,000
   (b) ₹ 16,000
   (c) ₹ 18,000

9. Mr. Jay draws a bill on Mr. John for ₹ 3,00,000 on 1.1.2023 for 3 months. On 4.2.2023, John got the bill discounted at 12% rate. The amount of discount will be:
   (a) ₹ 9,000
   (b) ₹ 6,000
   (c) ₹ 3,000

10. XZ draws a bill on YZ for ₹ 2,00,000 for 3 months on 1.1.2023. The bill is discounted with banker at a charge of ₹1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:
   (a) ₹199,000
   (b) ₹ 200,000
   (c) ₹ 201,000

11. On 1.1.2023, XA draws a bill on YB for ₹ 1,00,000. At maturity YB request XA to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:
   (a) ₹ 2,000
   (b) ₹ 1,500
   (c) ₹ 1,800

12. A bill of exchange is drawn by a
   (a) Creditor
   (b) Debtor
   (c) Debenture holder

13. At the time of drawing a bill, the drawer credits
   (a) Bills Receivables A/c
   (b) Bills Payable A/c
   (c) Debtor's A/c

14. A promissory note is made by a
   (a) Seller
   (b) Purchaser
   (c) Endorsee

15. A bill of exchange contains
   (a) An unconditional order
   (b) A promise
   (c) A request to deliver the goods

16. A promissory note contains
   (a) An unconditional order
   (b) A promise
   (c) A request to deliver the goods

17. The rebate on the bill shows that
   (a) It has been endorsed
   (b) It has been paid after the date of maturity
   (c) It has been paid before the date of maturity

18. Notary Public may charge his fee from the
    (a) Holder of bill of exchange
    (b) Drawer
    (c) None

ANSWERS MCQs

1 (c)	**2 (b)**	**3 (a)**	**4 (c)**	**5 (c)**	**6 (b)**	**7 (c)**
8 (a)	**9 (b)**	**10 (b)**	**11 (a)**	**12 (a)**	**13 (c)**	**14 (b)**
15 (a)	**16 (b)**	**17 (c)**	**18 (a)**			

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) Bills payable account is a nominal account.
2) Promise to pay is included in a bill of exchange.
3) Days of rebate are added to the due date to arrive at the maturity date.
4) Discount at the time of retirement of a Bill is a gain for the drawee.
5) Foreign bill is drawn in the country and payable outside the country.
6) Promissory note is different from that of a bill of exchange where the amount is paid by the maker in case of former and by the acceptor in the later. *(June 2024)*
7) A has drawn a bill on B. B accepts the same and endorses the bill to C
8) A bill given to a creditor is called bill payable
9) A Promissory note can be made payable to bearer *(Sep 2024)*
10) No cancellation entry is required when a bill is renewed.
11) A promissory note cannot be made payable to bearer.
12) Cancelling old bill and drawing new bill is called renewal of Bill or A cancellation entry is required, when a bill is renewed.
13) A bill given to a creditor is called Bills Receivable.
14) Discount at the time of retirement of a Bill is a gain for the drawer.
15) Refusal by acceptor to make payment of the bill on the maturity date is called Retirement of the bill.
16) A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.
17) A Promissory Note requires acceptance.
18) At the time of the Renewal of a bill, Interest account is debited in the books of a drawee.
19) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. *(Nov 2019)*
20) There are always 2 parties to the bills of exchange.
21) In case of a public holiday, the due date of the bill falls on the next working day.

Solution

1) **False**: The bills payable account is a personal account that represents a liability.
2) **False**: Bill of exchange contains an order to pay the required amount and not a mere promise to pay.
3) **False**: 3 Days of grace are added to the due date to arrive at the maturity date.
4) **True: –** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
5) **True**: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

6) **True**: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
7) **False: -** A is drawer and B is the drawee. So B cannot endorse the bill to C, only A can do so.
8) **True: -** On giving a bill, the debtor has committed for a payment, therefore, bill given to a creditor is called Bills Payable.
9) **False: -** A promissory note cannot be made payable to a bearer as it is payable on the order of the person who is mentioned in it.
10) **False: -** On renewal of bill, entries are passed for cancellation of the old bill & recording of a new bill.
11) **True: -** A promissory note cannot be made payable to a bearer as it is payable on the order of the person who is mentioned in it. The payee must be to a certain person.
12) **True: -** On the failure of the payment on the due date by the acceptor, a new bill is drawn on him by cancelling the old bill, which is known as renewal of bill. On renewal, the entries are passed for cancellation of old bill and recording of new bill.
13) **False: -** On a giving a bill, the debtor has committed for a payment; therefor, a bill given to creditor is called Bills payable.
14) **False: -** It is a gain for the drawee, as he receives an amount over the bill amount.
15) **False: -** Refusal by the acceptor to make payment of the bill on the date of maturity is called dishonour of the bill.
16) **False: -** Bill of exchange is an unconditional order signed by the maker, directing the debtor to pay a certain sum of money on a certain date or on the demand of the maker i.e. creditor.
17) **False: -** Promissory note is a written unconditional promise and it does not requires any acceptance. It is drawn and signed by the person to whom credit is granted or by the debtor.
18) **True: -** At the time of renewal of a bill, interest account is debited and drawer's account is credited in the books of drawee because interest becomes liability for drawee and it becomes payable to drawer.
19) **False:** In case of Bills of exchange, Drawer & payee may be same person when the Bill hold by drawer up to the date of Maturity. In case of promissory note, the maker and the payee cannot be the same person.
20) **False**: There can be more than 2 parties- namely the drawer, acceptor and the payee of the bill.
21) **False**: In case of a public holiday, the due date of the bill falls on the preceding working day.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) Pg no.______

On 1st January, 2023, Ankita sells goods for ₹5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 4th March, 2023, Bhavika retires his acceptance under rebate of 12% per annum.
Record these transactions in the journals of Ankita and Bhavika.

Question 2 (ICAI Study Material)/(RTP May 2019)/(Nov 2020)/(June 2024)/(Sep 2024) Pg no.______

Rita owed ₹1,00,000 to Siriman. On 1st October, 2023, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2023. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.
Pass journal entries (with narration) in the books of Siriman.

Question 3 (RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2022)/(Nov 2023) (Similar) Pg no.______

Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2023 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800. On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months & that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2023, B became insolvent and his estate paid 40%.
Prepare Journal Entries in the books of Mr. A

Question 4 Pg no.______

R owed ₹ 1,000 to S. On 1st October, 2022, R accepted a bill drawn by S for the amount at 3 months. S got the bill discounted with his bank for ₹ 900 on 3rd October, 2022. Before the due date, R approached S for renewal of the bill. S agreed on the conditions that ₹ 500 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, R should accept a new bill at three months. These arrangements were carried out. But afterwards, R became insolvent and 40% of the amount could be recovered from his estate.
Pass journal entries (with narration) in the books of S.

Question 5 (CA Foundation May 2019) (5 Marks) / (RTP May 2020) Pg no.______

On 1st January 2023, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.
Show the Journal Entries (with narrations) in the books of Akshay.

Question 6 *(ICAI Study Material)* Pg no.______

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2023 for 2 months. The first bill is for 10,200 and the second bill is for ₹ 15,000. The First bill is discounted immediately with the bank for ₹ 10,000 and the second bill was endorsed in favour of Mr. Sree on 3rd January. Pass the necessary journal entries in the books of Ms. Sujata.

Question 7 *(CA Foundation June 2023) (5 Marks)* Pg no.______

Journalise the following transactions in the books of Karthik:

a. Karthik accepted a bill of Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.
b. Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.
c. Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.
d. Karthik's acceptance to Prem for ₹ 6,500 discharged by Ashok's acceptance to Karthik for a similar amount.

Question 8 Pg no.______

A draws on B a bill of ₹ 45,000 on 1st June, 2023 for 3 months. B accepts the bill and sends it to A who discounted for ₹ 44,100. A immediately remits ₹ 14,700 to B. On the due date A, being unable to remit the amount due, accepts a bill for ₹ 63,000 for three months which is discounted by B for ₹ 61,650. B sends ₹ 11,100 to A. On the due date A becomes insolvent, his estate paying forty paise in the rupee.

Give the Journal Entries in the books of A and B.

Question 9 *(ICAI Study Material)* Pg no.______

X draws on Y a bill of exchange for ₹ 30,000 on 1st April, 2023 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 the rupee.

Give the journal entries in the books of X and Y.

Question 10 *(CA Foundation Nov 2022) (15 Marks)* Pg no.______

T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T 'immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee.

Give the journal entries in the books of T and J.

Question 11 Pg no.______

On 1st July, 2023 G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation who accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchases goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H. On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. He paid the amount due to G by cheque.

Give the necessary Journal Entries in the books of H.

Question 12 *(CA Foundation Dec 2021) (10 Marks)* **Pg no.______**

On 12th May, 2023 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills. On 5th June, 2023 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges. However, on 16th August, 2023 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2023 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

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

Question 13 *(RTP May 2019) / (RTP May 2021) / (RTP May 2022) / (RTP Nov 2022)* **Pg no.______**

Write short notes on:

(i) Noting Charges. (ii) Retirement of bills of exchange.

Question 14 *(RTP Nov 2019) / (RTP Nov 2021) / (RTP Nov 2023)* **Pg no.______**

Write short note on Bills of exchange and various parties to it.

Question 15 *(RTP May 2020)/ (RTP Nov 2022) / (RTP May 2023)* **Pg no.______**

Write short note on Trade bill vs. Accommodation bill.

Question 16 *(CA Foundation Dec 2023) (10 Marks)* **Pg no.______**

R draws a bill of exchange on P for ₹ 2,00,000 on 1st July,2022 for 4 months P accepted the bill and sent it to R. R discounts the bill with his bankers for ₹ 1,88,000 R. immediately remits ₹ 75,200 to P. On the due date, R, being unable to remit the amount due accepts a bill for ₹ 2,50,000 for 4 months which is discounted by P for ₹ 2,36,250. P sends ₹ 56,700 to R. Before the bill is due for payment R becomes insolvent and his estate is paying fifty paise in a rupee. Give the journal entries in the books of P. Also show R's account in P's books.

Question 17 *(CA Foundation Sep 2024) (10 Marks)* **Pg no.______**

Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000.

Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of ₹ 80,000 for a period of 3 months. This bill was discounted by Sejal for ₹ 74,600. Sejal after making the payment of first bill sent 3/4th of the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.

Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer.

Question 18 *(CA Foundation Jan 2025) (5 Marks)* **Pg no.______**

Mr. A accepts two bills of exchange on June 1, 2024 for ₹ 1,50,000 and ₹ 60,000 drawn on him by Mr. B. The bill of exchange for ₹ 1,50,000 is for two months while the bill of exchange for ₹ 60,000 is for three months. Mr. B got the first bill discounted with the bank for ₹ 1,49,000 on June 3, 2024. On August 2, 2024 Mr. A requested Mr. B to cancel both the bills and drew a new bill on him with the combined amount of both the bills along with interest @ 12% per annum for a period of two months. Before the due date of the renewed bill on September 3, 2024, Mr. A becomes insolvent and only 40 paise in a rupee could be recovered from his estate.

You are required to give the journal entries in the books of Mr. B.

Question 19 (RTP Jan 2025) / (RTP May 2025) Pg no.______

On 1st April,2024, X sells goods to Y for ₹ 25,000 plus IGST@ 18% and draws two bills of exchange on him; the first bill for ₹ 15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on 1st April,2024. In due course, X receives the information from the bank on the due date of the respective bill that the bill for ₹ 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonour of second bill are ₹ 500.
Pass the journal entries along with narrations in the books of X.

FINAL ACCOUNTS OF SOLE PROPRIETORS

CH 7

"Choice, not circumstances, determines your success. Success is a state of mind. If you want success, start thinking of yourself as a success."

FINANCIAL STATEMENTS

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

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

Final Accounts of Sole Proprietorship

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

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

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

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

TRADING ACCOUNT

The Trading Account shows the surplus of the Sale Value over the Cost of Goods Sold. This is called as Gross Profit. Since the Gross Profit is the basic indicator of business profitability, the preparation of the Trading Account assumes significance.

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

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

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

PROFIT AND LOSS ACCOUNT

1. The Profit and Loss Account shows the net result of operations, i.e. Profit and loss during the period.
2. From the Gross Profit, the other expenses (i.e. Administrative, Selling and Distribution, Financing, Provisions, etc.) are deducted and the Net profit/Loss is arrived at.
3. The P&L Account should facilitate the user to make informed decisions. Hence, too much information loading is not warranted. Where necessary, separate supporting schedules in respect of various expenses may be added.
4. Capital Expenditure and Personal Expenditure should not be debited to this account.
5. Care should be taken to adjust expenses for prepaid / unpaid items. Incomes should also be suitably adjusted for amounts not yet received / amounts received in advance.

FORMAT OF PROFIT AND LOSS ACCOUNT

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

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

ITEMS IN PROFIT AND LOSS ACCOUNT

	Item	Examples	
1.	**Administrative Expenses**	• Salaries of General Office Staff, etc. • Rent, Rates and Insurance • Printing and Stationery, • Repairs & Maintenance of Office building / Furniture,	• Telephone Expenses • Books and Periodicals • Legal Expenses • Audit Fees, etc.

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

BALANCE SHEET

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

2. **Features:**
   (a) Assets are shown on Right Hand Side and Liabilities are shown on Left Hand Side.
   (b) It is prepared **as at a particular date** and **not** for a period. So, it is a Position Statement, and not a Performance Statement.
   (c) The Balance Sheet is **not an account**, its two side represent Liabilities and Assets and not the Debit and the Credit sides of an account.
   (d) The Balance Sheet represents the confirmation of the **Basic Accounting Equation**, i.e. Equity + Liabilities =Assets. Hence, the total of both the sides should agree.
   (e) The Ledger Account Balance of all **Personal and Real Accounts** will flow into the Balance Sheet.

3. **Format:**

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

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

ARRANGEMENT OF ASSETS AND LIABILITIES

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

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

Example: Following is the Trial Balance of Mr. PopatLal as on 31.03.2023.

Trial Balance on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Opening Stock	1,00,000	
Purchases	10,00,000	
Purchase Return		50,000
Sales		18,00,000
Sales Return	1,00,000	
Carriage Inward	55,000	
Salary	1,50,000	
Office Expenses	20,000	
Selling Expenses	30,000	
Plant & Machinery	3,00,000	
Furniture	2,00,000	
Debtors	2,50,000	
Cash in Hand	40,000	
Cash at Bank	85,000	
Creditors		2,50,000
Capital		2,30,000
Total	**23,30,000**	**23,30,000**

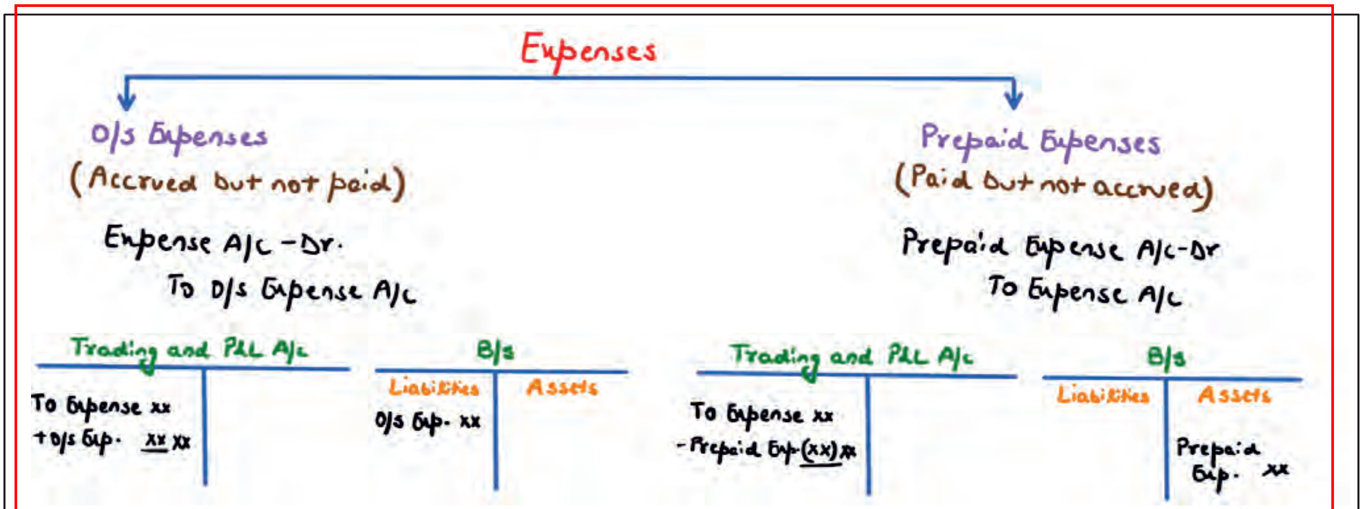
Value of Closing Inventory on 31st March 2023 was ₹ 2,00,000

Prepare closing entries for the above items. Prepare Trading Account, Profit & Loss Account & Balance Sheet. Also Pass Opening Entry as on 01.04.2023 for the next year.

ADJUSTMENT ENTRIES IN FINAL ACCOUNTS

1. EXPENSES

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



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

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	

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

Example: Trial Balance

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

2. INCOMES

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

Income

Accrued Income

(Accrued but not Received)

Accrued Income A/c - Dr

To Income A/c

P&L A/c

	By Income xx + Accrued Income xx xx

B/s

Liabilities	Assets
	Accrued Income xx

Pre Received Income

(Received but not accrued)

Income A/c - Dr

To Pre Received Income A/c

P&L A/c

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

B/s

Liabilities	Assets
Pre Rec. Income xx	

Note:

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

Example: Trial Balance

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

Adjustments:

1) Accrued Interest on F.D. 5000
2) Interest on Loan received in advance 3000

Example: Trial Balance

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

3. CLOSING STOCK

Closing Stock

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

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

Trading A/c

	By Closing Stock xx

B/s

Liabilities	Assets
	Closing Stock xx

Appearing in Trial Balance (Entry already passed)

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

B/s

Liabilities	Assets
	Closing Stock xx

Example: Trial Balance

	Dr.	Cr.
Opening stock	100000	
Purchases	1200000	
Sales		2000000

Adjustments:

Closing Stock 200000

Example: Trial Balance

	Dr.	Cr.
Purchases	1200000	
Closing stock	200000	
Sales		2000000

4. DEPRECIATION

Depreciation

Method 1 — Asset Credit Method

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

P&L A/c

To Dep. xx	

B/s

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

Method 2 — Provision for Depreciation Method

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

P&L A/c

To Dep. xx	

B/s

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

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

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	

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

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	
Dep. on Machinery	50000	

Example: Trial Balance

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

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

Example: Trial Balance

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

5. ABNORMAL LOSS

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

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

Trading A/c

	By Abnormal loss xx

P&L A/c

To Abnormal loss xx	

B/s

Liabilities	Assets
	Ins. claim Rec. xx

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

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

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

Trading A/c

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

Balance sheet

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

7. MANAGER COMMISSION

Manager Commission

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

Before charging

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

After charging

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

Example:

Net Profit before commission 110000

Commission

a) 10% of Profits before charging commission

b) 10% of Profits after charging commission

8. BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

If a customer fails to pay the amount due from him, the uncollectible amount is called Bad Debts. The accounting treatment is as under:

Method	Method1: General Treatment, i.e. Without having Provision for Bad & Doubtful Debts Account	Method 2: With Provision/Reserve for Bad & Doubtful Debts Account
Rule	Transfer Bad Debts as per TB, to the Debit Side of P&L A/c	• Transfer Bad Debts to Provision A/c. • Maintain provision upto desired amount
Bad Debts written off	Bad Debts A/c Dr. To Sundry Debtors (by name)	Bad Debts A/c Dr. To Sundry Debtors (by name)
Transfer of Bad Debts	Profit and Loss A/c Dr. To Bad Debts A/c	Prov. for Bad & Doubtful debts Dr. To Bad Debts A/c
Provision at year-end	There is no such requirement	Profit and Loss A/c Dr. To Prov. for Bad & Doubtful Debts
Treatment in B/sheet	Not Applicable	Closing Balance of Provision for Bad and Doubtful debts A/c is shown on Assets Side, as a reduction from Sundry Debtors

Note: Instead of the term "Provision for Bad and Doubtful Debts," Sometimes the word "Reserve for Bad debts" is used the word "Provision" is considered preferable.

Bad Debts

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

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

P&L A/c

To Bad debts xx	

B/s

Liabilities	Assets
	Debtors xx - Bad debts (xx) Xx

Example: Trial Balance

	Dr.	Cr.
Debtors	400000	

Adjustments:

Bad debts 10000

Example: Trial Balance

	Dr.	Cr.
Debtors	500000	
Bad debts	10000	

Adjustments:

Further Bad debts 15000

Provision for Doubtful Debts

P&L A/c - Dr

To Provision for Doubtful debts A/c

B/s

Liabilities	Assets
	Debtors xx
	- PDD (xx)
	xx

Provision for Doubtful Debts A/c

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

P&L A/c

To PDD xx	

Example:

Year 1: Debtors 500000

Create Provision for Doubtful debts @ 2%.

Year 2: Case (a)

Trial Balance

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

Create Provision for Doubtful Debts @ 2%.

Year 2: Case (b)

Trial Balance

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

Adjustments:

Further Bad debts 20000

Create Provision for Doubtful Debts @ 2%

9. DISCOUNT ALLOWED AND PROVISION FOR DISCOUNT ON DEBTORS

The different accounting treatments in respect of discount allowed to debtors is as under

Method	Method 1: General Treatment	Method 2
Description	Without having Provision for Discount on Debtors A/c	With Provision on Discount on Debtors A/c
Rule	Transfer discount allowed as per Tb, to the debit side of P&L A/c	Transfer discount allowed as per TB to the debit side of Provision A/c. Maintain Provision up to the desired amt.
Discount Allowed	Discount allowed A/c Dr. To Sundry Debtors	Discount allowed A/c Dr. To Sundry Debtors
Tfr of Dis Allowed	Profit & Loss A/c Dr. To Discount allowed A/c	Prov. for discount on debtors Dr. To Discount allowed A/c
Creating Provision at year end	There is no such requirement	Profit and Loss A/c Dr. To Prov. for discount on debtors
Treatment in Balance sheet	Not applicable	Closing balance of provision for discount is shown on the assets side as a reduction from debtors

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

Example:

Trial Balance

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

Adjustments:

Create Provision for Doubtful debts @ 3%

Create Provision for Discount @ 5%

10. DISCOUNT RECEIVED & RESERVE FOR DISCOUNT ON CREDITORS

The different accounting treatment in respect of discount received from supplier is as under:-

Method	Without having Reserves for Discount on Creditors A/c	With Reserves for Discount on Creditors A/c
Rule	Transfer discount received as per TB, to the credit side of P&L A/c	Transfer Discount received as per TB, to the reserve account. Maintain reserves up to desired amount
Discount received	Sundry Creditors A/c Dr. To Discount Received	Sundry Creditors A/c Dr. To Discount Received
Tfr of Disc received	Discount Received A/c Dr. To Profit and Loss A/c	Discount Received A/c Dr. To Reserve for disc. on creditors
Creating reserves	There is no such requirement	Reserves for dis. on creditors Dr. To Profit and Loss A/c
Treatment in Balance sheet	Not applicable	Closing balance of Reserve for discount is shown on liabilities side as reduction from sundry creditors.

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

Example :

Trial Balance

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

Create Provision @ 2%

11. GOODS USED OTHER THAN FOR SALE

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

12. OTHER MISC. ITEMS

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

SIGNIFICANCE OF MANUFACTURING ACCOUNT

1. **Meaning**:
   (a) The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of Cost.
   (b) The debits to this account consist of the cost of materials consumed, Manufacturing Wages and Expenses incurred directly or indirectly on manufacture.
   (c) This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

2. **Purposes**:
   (a) This Account provides details of Factory Cost and facilitates reconciliation of financial Books with Cost Records
   (b) It also serves as a basis of comparison of manufacturing operations from year to year.
   (c) Separate Columns provided for Quantity and Values, will enable the entity to ascertain the cost of production per unit of the product.
   (d) It may be useful to have a column for percentage in the Manufacturing A/c showing the cost of each item as a percentage of the total.
   (e) Where the output is carried to the Trading A/c at above cost, e.g. market prices, the Manufacturing Account discloses the Profit or loss on manufacture. This will be used to fix the amount of production or profit sharing bonus when such schemes are in force.

MANUFACTURING ACCOUNT

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

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

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

Particulars	₹	Particulars	₹
To Opening stock of finished goods To Manufacturing account – Cost of Products To Gross Profit c/d to P&L Account		By Sales By Closing stock of finished goods	
Total		**Total**	

ITEMS IN MANUFACTURING ACCOUNTS

Item	Explanation	Treatment
1. Material consumed	Cost of Raw Material Consumed during the period= Opening stock of Raw Material **Add:** Purchases of Raw Materials **Less:** Closing Stock of Raw Materials	Debit in Mfring Accounts
2. Direct Wages	Wages paid to workers engaged in production process, (i.e., in factory Departments) is debited to the Manufacturing Account.	Debit in Mfring Account
3. Direct Expenses	• Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product/ service. • **Examples:** (a) Royalty for use of license/ technology, (b) Hire Charges of Plant / Equipment, if based on units produced.	Debit in Mfring Account
4. Prime cost	**Prime cost** (or Direct Cost) = Raw Materials Consumed + Direct Wages + Direct Expenses	Sub-Total in Dr. side
5. Indirect Manufacturing Expenses	• These are called Factory Overheads/ Production Overheads/ Works Overheads/ Manufacturing Overheads etc. • It is the Total **Indirect costs** (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced. • **Examples:** Factory Rent, Depreciation on Machinery, Depreciation on Factory shed, Repair & Maintenance work, Supervisor's Salary, Consumables like Oils, Lubricants, etc.	Debit in Mfring Account
6. By-Product Revenues	• By-Product is an incidental product, arising during the production operations, having some saleable value. • **Examples:** Molasses is the by-product in sugar manufacturing • Net Realizable Value of By-product is credited to this account as they generally have insignificant value as compared to main product.	Credit in Mfring Account
7. Factory Cost	It is the Net Cost of Production as shown by Manufacturing A/c (**Balancing figure** in Manufacturing Account, and is transferred to Trading Account)	Tfd to Trading Acc

Example:

	Opening Stock	Closing Stock
Raw Material	10,000	15,000
Work in Progress	22,000	18,000
Finished Goods	34,000	24,000

Purchase of Raw Material = 2,45,000; Direct Wages = 82,000; Production Overheads = 64,000; Sales = 4,50,000

Compute:

a) Raw Material Consumed

b) Cost of Goods Manufactured

c) Cost of Goods Sold

d) Gross Profit

COMPARISON BETWEEN INCOME STATEMENT AND POSITION STATEMENT

Income Statement	Position Statement
Profit or loss is disclosed in Income Statement prepared at the close of the financial year	It exhibits assets and liabilities of the business as at the close of the financial year.
Income Statement discloses net profit of the business after adjusting from the income earned during the year, all the expenditures of the business incurred in that year.	Position statement discloses the assets and liabilities position as at a particular date
Income Statement is sub-divided into following two parts for a non-manufacturing concern: (i) Trading account; and (ii) Profit and Loss account	Apart from balance sheet, to judge financial position of the business, sometimes additional statements are also prepared like cash flow statement, value added statement etc. which is not mandatory for non-corporate entities. These are prepared for the better understanding of the financial position of the business.

ACCOUNTING TREATMENT - INCOME-TAX

	Sole Proprietorship Firms	Partnership Firms
Nature of Expenses	Income –Tax is considered as a personal expense of the proprietor	Income Tax relating to the firm is considered just like any other expense
Treatment	Income Tax is debited to capital account	Income Tax is debited to P&L A/c
Journal Entry	(a) For payment of Tax during the year: Income –Tax A/c Dr. To Cash/ Bank (b) For transfer to Capital A/c at year end: Capital A/c Dr. To Income-Tax A/c	(a) For payment of Tax during the year: Firm Income –Tax A/c Dr. To Cash/ Bank (b) For provision for tax at year end: Profit & Loss A/c Dr. To Provision for taxation

Effect on Balance sheet	Capital account is reduced to the extent of Income-Tax paid.	If Tax Amount paid > Provision for Taxation:- The difference is shown as "Receivable", i.e., Current Asset If Provision for Taxation > Tax Amount paid:- The difference is shown as " Payable", i.e. Current Liability

Note: In case of partnership firms, if the partners' Personal Income tax is paid out of the firm's resources, it should be treated as drawings and should be debited to their capital account individually.

PROVISION AND RESERVES

Particular	Provision	Reserves
Meaning	Provision is defined as "any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy."	Reserves may be defined as "portion of earning, receipts or other surplus of an enterprise appropriated by the management for a general or a specific purpose.
Relation to profit	Charge against profit	Appropriation of profit
When it can be created?	Provision (for Depreciation, other Expenses and liabilities) should be created even if there is no profit.	Reserve cannot be created unless there is a profit.
Nature	Provisions are a necessity, based on accounting principles.	Generally, reserves are optional, based on managerial discretion.
P& L A/c disclosure	Provisions are shown above the line.	Appropriation for reserve is made below the line
B/sheet disclosure	Provisions are shown as a deduction from the respective assets or shown on the liabilities side	Reserves are shown generally on the liabilities side.

Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Example: ***(ICAI Study Material)***

Crimpson traders Profit and Loss Account for the year ended 31st March, 2023 includes the following information:

1	Depreciation	57,500
2	Bad debts written off	21,000
3	Increase in provision for doubtful debts	18,000
4	Retained profit for the year	20,000
5	Liability for tax	4,000

State which one of the items (1) to (5) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

LIMITATIONS OF FINANCIAL STATEMENTS

Historical Cost	Financial statements are prepared only on the basis of the money value prevailing at the time the transaction were entered into. Thus, the effect of subsequent changes in the value of money is not taken into account.
Intangible strengths and weaknesses	An organization may have a number of strengths and weaknesses which cannot be shown in the balance sheet e.g., the loyalty and calibre of its staff.
Perpetual continuity and periodical account	Financial statements ordinarily are drawn up at the end of each year but the accounting record is maintained on the assumption that the business undertaking shall continue to exist forever on the basis of going concern assumption.
Different accounting policies	It is permissible for an organization within certain limits to adopt different policies for the preparation of accounts, valuation of various assets and distribution of expenditure over different periods of account.
Management policies	Management can have different accounting policies for welfare of the staff and public at large.

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)* Pg no._____

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

Trial Balance on 31st March, 2023

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

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

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

Question 2 *(ICAI Study Material)* Pg no._____

Trial Balance for financial year ended 31st March 2023 of Deepakshi shows following details:

Particulars	Debit (₹)	Credit (₹)
Purchase & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	4,00,000
Opening Stock	2,00,000	
Closing Stock	3,00,000	
Other Expenses & Incomes	7,00,000	9,00,000
Fixed Assets & Long Term Liabilities	25,00,000	6,00,000
Capital		21,00,000
Total	**52,00,000**	**52,00,000**

Additional Information: Creditors balance on 1st April 2022 is ₹ 3,00,000

You are required to calculate cost of goods sold and amount paid to creditors during year.

Question 3 *(ICAI Study Material)* Pg no._____

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

Liabilities	Amount	Assets	Amount
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,00,000
	66,50,000		**66,50,000**

During 2022-23, his Profit and Loss Account revealed a net profit of ₹18,30,000. This was after allowing for the following:
(a) Rent received from property let out ₹3,00,000
(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.
(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2023.
But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹1,80,000 and (2) prepaid insurance to the extent of ₹20,000.

His current assets and liabilities on 31st March, 2023 were: Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.
During the year he withdrew ₹6,00,000 for domestic use.
Draw up his Balance Sheet at the end of the year.

Question 4 *(ICAI Study Material)* Pg no.______

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

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

Commission is charged at the rate of 10%.
Selling Expenses amount to 1% of total sales.
You are required to compute the missing figures.

Question 5 *(ICAI Study Material)* Pg no.______

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2022. At the start of financial year 2022-23, the company raised salaries by 10% to ₹33,000 per month each.
On October 1, 2022 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.
You are required to calculate:
a) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2023.
b) Amount actually paid as salaries during 2022-23
c) Outstanding Salaries as on 31st March, 2023.

Question 6 *(ICAI Study Material)* Pg no.______

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2023 has been given below:

On 1.4.2022 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2022-23 while remaining pertains to year 2023-24. During the year 2022-23 he made cash sales of ₹ 5,00,000. You are required to compute:

a) Total income for the year 2022-23.

b) Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

Question 7

Pg no.______

From the following trial balance & additional information prepare Provision for Doubtful Debts Accounts & Provision for Discount on Debtors Account. Make balance sheet extract.

Particulars	Debit (₹)	Credit (₹)
Bad Debts	14,000	
Discount Allowed	11,000	
Provision for Doubtful Debts		10,000
Provision for Discount on Debtors		5,700
Sundry Debtors	5,15,000	

Additional Information:

1) Further Bad Debts ₹ 9,000 & Further Discount Allowed ₹ 6,000
2) Create Provision for Doubtful Debts @ 5% & Provision for Discount on Debtors @ 3%

Question 8

Pg no.______

From the following balances and information, prepare Trading and Profit and Loss Account of Mr. X for the year ended 31st March, 2023 and a Balance Sheet as on that date:

	Dr. (₹)	Cr. (₹)
X's Capital Account	-	10,000
Plant and Machinery	3,600	-
Depreciation on Plant and Machinery	400	-
Repairs to Plant	520	-
Wages	3,400	-
Salaries	2,100	-
Income-tax of Mr. X	100	-
Cash in Hand and at Bank	400	-
Land and Building	14,900	-
Depreciation on Building	500	-
Purchases	25,000	-
Purchases Return	-	300
Sales	-	49,800
Bank Overdraft	-	760
Accrued Income	300	-
Salaries Outstanding	-	400
Bills Receivable	5,000	-
Provision for Bad Debts	-	1,000
Bills Payable	-	1,600
Bad Debts	200	-
Discount on Purchases	-	708
Debtors	7,000	-
Creditors	-	6,252
Opening Stock	7,400	-
	70,820	**70,820**

Information:-

a) Stock on 31st March, 2023 was ₹ 6,000.
b) Write off further ₹600 for Bad Debt and maintain a provision for Bad Debts at 5% on Debtors.
c) Goods costing ₹ 1,000 were sent to customer for ₹ 1,200 on 30th March, 2023 on sale or return basis. This was recorded as actual sales.
d) Received ₹ 2,000 worth of goods on 28th March, 2023 but the invoice of Purchase was not recorded in Purchases Book.
e) ₹ 240 paid as rent of the office were debited to Landlord account and were included in the list of debtors.
f) General Manager is to be given commission at 10% of net profit after charging the commission of the works manager and his own.
g) Works manager is to be given commission at 12% of net profit before charging the commission of General Manager and his own.

Question 9 *(ICAI Study Material)* **Pg no.______**

From the following particulars extracted from the books of Ganguli, Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st March, 2023 after making the necessary adjustments:

Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2022	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 1.4.2022	25,000
Purchases	12,15,500	Furniture as on 1-4-2022	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 1-4-2022 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

a) Value of stock as on 31st March, 2023 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2023 to the value of ₹ 15,000 for which no entry has been passed in the books.
b) Purchases include furniture purchased on 1st January, 2023 for ₹10,000.
c) Depreciation should be provided on furniture at 10% per annum.
d) The loan account from Dena bank in the books of Ganguli appears as follows:

31.3.2023 To Balance c/d	1,00,000	01.4.2022 By Balance b/d	50,000
		31.3.2023 By Bank	50,000
	1,00,000		**1,00,000**

e) Sundry debtors include ₹ 20,000 due from Robert & sundry creditors include ₹ 10,000 due to him.

f) Interest paid include ₹ 3,000 paid to Dena bank.
g) Interest received represents ₹ 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.
h) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.
i) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

Question 10 - *(ICAI Study Material)* Pg no.______

The following is the schedule of balances as on 31.3.23 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of M/s Gavaskar & Co., at Mumbai:

Particulars	Dr.	Cr.
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2022	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Raj		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Raj	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
Total	**47,22,000**	**47,22,000**

Prepare Trading and Profit and Loss Account for the year ended 31st March 2023 and the Balance Sheet as at that date after making provision for the following:

a) Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
b) Value of stock at the close of the year was ₹ 4,40,000.
c) Two month's rent for godown is outstanding.
d) Interest on loan from Raj is payable at 12 % per annum, this loan was taken on 1.5.2022.
e) Reserve for bad debts is to be maintained at 5 percent of Sundry Debtors.
f) Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2022 to 30.6.23.

Question 11 *(ICAI Study Material) / (RTP May 2018)/(Nov 2019)/(Nov 2021) (Similar)* **Pg no.______**

The following are the balances as at 31st March, 2023 extracted from the books of Mr. XYZ

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

Additional Information:
a) Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
b) Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
c) Wages paid in the month of April for Installation of Plant and Machinery amounting to ₹ 450 were included in wages account.
d) Free samples distributed for Publicity costing ₹ 825.
e) Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
f) Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
g) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

Prepare Trading and Profit Loss Account for the year ended 31st March, 2023, and a Balance Sheet as on that date. Also show the rectification entries.

Question 12 *(RTP May 2019) / (RTP Nov 2020) / (RTP Nov 2022) / (RTP Sep 2024)* **Pg no.______**

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

Particulars	Dr. (₹)	Cr. (₹)
Capital		6,00,000
Drawings	70,000	
Fixed Assets (Opening)	1,40,000	
Fixed Assets (Additions 01.10.2022)	2,00,000	
Opening Stock	60,000	
Purchases	16,00,000	
Purchases Returns		69,000
Sales		22,00,000
Sales Returns	99,000	
Debtors	2,50,000	
Creditors		2,20,000
Expenses	50,000	
Fixed Deposit with Bank	2,00,000	
Interest on Fixed Deposit		20,000
Bank Overdraft		8,000
Suspense A/c		2,000
Depreciation	14,000	
Rent (17 months upto 31.8.2023)	17,000	
Investments 12% (01.08.2022)	2,50,000	
Cash & Bank Balance	1,69,000	
Total	**31,19,000**	**31,19,000**

Stock on 31st March, 2023 was valued at ₹ 1,00,000.

Depreciation is to be provided at 10% per annum on fixed assets purchased during the year.

A scrutiny of the books of account revealed the following matters:

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

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2023, but the goods were included in stock.

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

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2023.

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

Question 13 *(ICAI Study Material)* *Pg no._____*

1,00,000 units were produced in a factory. Per unit material cost was ₹10 and per unit labour cost was ₹5. That apart it was agreed to pay royalty @ ₹ 3 per unit to the Japanese collaborator who supplied technology.

Calculate Manufacturing Cost.

Question 14 *(ICAI Study Material)* *Pg no._____*

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2023:

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	

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2023.

Question 15 *(CA Foundation June 2024) (5 Marks)* Pg no.______

Mr. Prakash runs a factory which produces Pressure Cookers. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:

	Amount (₹)
Opening Work-in – Progress	6,25,000
Closing Work–in Progress	7,15,000
Opening Inventory of Raw material	5,85,000
Closing Inventory of Raw material	4,70,000
Purchases	18,74,000
Purchase Returns	95,000
Indirect Material	1,88,000
Direct Wages	3,97,000
Indirect Wages	82,000
Power & Electricity	1,76,000
Repairs and Maintenance	2,65,000
Depreciation on Factory Shed	1,44,000
Depreciation on Plant & Machinery	1,62,000
Sale of scrap	36,000

You are required to prepare Manufacturing Account for the year ended 31st March, 2024

Question 16 *(ICAI Study Material)* Pg no.______

Following are the Raw Material A/c, Creditors A/c and Manufacturing A/c provided by Ms. Shivi related to 2022-23. There are certain figures missing from these accounts.

Raw Material A/c

Particulars	Amount	Particulars	Amount
To Opening Stock A/c	1,00,000	By Raw Material Consumed	_______
To Creditors A/c	_______	By Closing Stock A/c	_______

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bank A/c	22,00,000	By Balance b/d	15,00,000
To Balance c/d	6,00,000		

Manufacturing A/c

Particulars	Amount	Particulars	Amount
To Raw Material Consumed	_______	By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:
1) Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2) Wages include the following
   - Paid to Factory Workers – ₹ 3,00,000
   - Paid to labour at office – ₹ 50,000
3) Direct Expenses include following:
   - Electricity charges of ₹ 80,000 of which 30% pertained to office.
   - Fuel Charges of ₹ 20,000
   - Freight Inwards of ₹ 35,000
   - Delivery charges to customers – ₹ 20,000.

You are required to prepare Revised Manufacturing A/c, Raw Material A/c & Creditors A/c.

Question 17 *(CA Foundation Dec 2021) (15 Marks)/(ICAI SM)(Sim)/ (RTP Jan 25) (Sim)* **Pg no.______**

On 31st March, 2023 the Trial Balance of Mr. Black were as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1st April 2022		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payable	75,000
Work in Progress	95,000	Sale of Scrap	25,000
Finished goods	1,55,000	Commission Received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriage on Purchases	15,000	Capital Account	10,00,000
Bills Receivable	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank Loan	85,000
Salaries	1,00,000		
Telephone, Postage etc.	10,000		
Repairs to Office Furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		**30,28,000**

The following additional information is available:
a) Stocks on 31st March, 2023 were:
   Raw Materials ₹1,62,000 Finished goods ₹1,81,000 Work in Progress ₹ 78,000
b) Salaries and wages unpaid for March 2023 were respectively, ₹ 9,000 and ₹ 20,000
c) Machinery is to be depreciated by 10% and office furniture by 7 1/2 %
d) Provision for doubtful debts is to be maintained @ 1% of sales
e) Rent is to be charged as to 3/4 to factory and 1/4 to office.
f) Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account, Profit and Loss Account for the year ended on 31st March 2023.

Question 18 *(RTP June 2024)* **Pg no.______**

The following is the trial balance of Mr. Samuel for the year ended 31st March,2024:

Trial Balance as on 31st March,2024

Particulars	Dr.	Cr.
Capital		9,50,000
Sundry Creditors		3,25,000
Purchase Returns		50,000
Loan from Mr. Sahil		4,00,000
Provision for Bad and Doubtful Debts		25,000
Sales		44,20,000
Bank overdraft		6,00,000
Opening Stock:		
Raw Materials	2,50,000	
Finished goods	4,25,000	
Purchase of Raw Materials	34,00,000	
Land	50,000	
Building	6,00,000	
Loose tools	1,50,000	
Plant & Machinery	3,00,000	
Investments	2,50,000	
Cash in Hand	15,500	
Cash in Bank	43,500	
Furniture & Fixtures	1,25,000	
Sundry Debtors	3,75,000	
Drawings	60,000	
Salaries	90,000	
Coal and Fuel	1,05,000	
Factory rent	77,000	
General Expenses	39,000	
Sales Return	55,000	
Bad Debts	15,000	
Direct Wages (Factory)	1,20,000	
Power	80,000	
Interest Paid on Bank overdraft	90,000	
Carriage Inwards	30,000	
Carriage Outwards	25,000	
	67,70,000	67,70,000

Additional Information:

(i) Stock of Raw materials and finished goods at the end of the year was ₹ 5,00,000 and ₹ 4,37,500 respectively.

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

(iii) Depreciate building by 10%, Plant and machinery by 15% and Furniture and fixtures by 10%,

(iv) One month Factory rent is outstanding.

(v) Interest has accrued on investment and rate of interest is 10% p.a.

(vi) Interest on loan from Mr. Sahil is payable @ 12% per annum. The loan was taken on 01.10.2023.

You are required to prepare Manufacturing Account, Trading Account, Profit and Loss Account and Balance sheet for the year ended 31 March,2024.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) A debit to an account may
   (a) increase expense
   (b) decrease an asset.
   (c) increase a liability.

2) Prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:
   (a) a liability and a debit balance.
   (b) an asset and a debit balance.
   (c) an asset and a credit balance.

3) Gross profit is the difference between:
   (a) Sales and purchases
   (b) Sales and cost of sales.
   (c) Sales and total expenses.

4) Payment made to a creditor subject to cash discount will :
   (a) reduce a liability, reduce an asset and add to expenses.
   (b) reduce a liability, add to an asset, and add to revenue.
   (c) reduce an asset, reduce a liability, and add to revenue.

5) A customer returns goods already charged to him. We should:
   (a) debit his account.
   (b) credit his account.
   (c) make no entry on his account.

6) Capital is the difference between
   (a) Income and expenses
   (b) Sales and Cost of goods sold
   (c) Assets and liabilities

7) The capital of a sole trader would change as a result of:
   (a) A creditor being paid his account by cheque.
   (b) Raw materials being purchased on credit.
   (c) Wages being paid in cash.

8) A decrease in the provision for doubtful debts would result in:
   (a) An increase in liabilities.
   (b) A decrease in working capital.
   (c) An increase in net profit.

9) A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?
   (a) 33%
   (b) 25%
   (c) 20%

10) If sales is ₹ 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be
    (a) ₹ 2,000.
    (b) ₹ 1,500.
    (c) ₹ 1,600.

11) Sales for the year ended 31st March, 2023 amounted to ₹ 10,00,000. Sales included goods sold to Mr. A for ₹ 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk. Therefore, such goods should be treated as part of
    (a) Sales.
    (b) Closing Inventory.
    (c) Goods in transit.

12) If sales revenues are ₹4,00,000; cost of goods sold is ₹ 3,10,000 and expenses are ₹60,000, the gross profit is
    (a) ₹ 30,000.
    (b) ₹ 90,000.
    (c) ₹ 3,40,000.

13) Under-statement of closing work in progress in the period will
    (a) Understate cost of goods manufactured in that period.
    (b) Overstate current assets.
    (c) Understate net income in that period.
    (d) None of the three.

14) Sales is equal to
    (a) Cost of goods sold – Gross profit.
    (b) Cost of goods sold + Gross profit.
    (c) Gross profit – Cost of goods sold.
    (d) Net profit + cost of goods sold.

15) Indirect Manufacturing expenses are also called
    (a) Manufacturing overhead.
    (b) Production overhead.
    (c) Works overhead.
    (d) All the three.

16) Sale value of the by-product is credited to
    (a) Manufacturing account.
    (b) Capital account.
    (c) Overheads account.
    (d) Trading account.

17) Manufacturing account shows
    (a) Total cost of manufacturing the finished products.
    (b) It provides details of factory cost.
    (c) It facilitates reconciliation of financial books with cost records.
    (d) All the three.

ANSWERS MCQs

1. (a)	**2. (c)**	**3. (b)**	**4. (c)**	**5. (b)**	**6. (c)**	**7. (c)**	**8. (c)**	**9.(b)**	**10.(c)**
11.(a)	**12. (b)**	**13.(c)**	**14.(b)**	**15. (d)**	**16.(a)**	**17.(d)**			

TRUE / FALSE

State with reasons whether the following statement is true or false:

1) The income statement shows either net profit or net loss for a particular period.
2) Gains from the sale or exchange of assets are not considered as the revenue of the business.
3) The salary paid in advance is not an expense because it neither reduces assets nor increases liabilities.
4) A loss is an expenditure which does not bring any benefit to the concern.
5) All liabilities which become due for payment within the year are classified as long-term liabilities.
6) The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.
7) An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.
8) If the balance of an account is on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.
9) Sales less cost of goods sold = gross profit.
10) If the debit side of the trading account exceeds its credit side then balance is termed as gross profit.
11) The provision for bad debts is debited to Sundry Debtors Account. ***(Dec 2021)***
12) The provision for discount on creditors is often not provided in keeping with the principle of conservatism. ***(Dec 2022)***
13) The debts written-off as bad, if recovered subsequently are credited to debtor's account.
14) The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account.
15) Premium paid on the life policy of a proprietor is debited to profit and loss account.
16) Depreciation account appear in the trial balance is taken only to profit and loss account.
17) Personal purchases included in the purchases day book are added to the sales account in the Trading account.
18) Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.
19) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
20) If Closing Stock appears in the Trial Balance, the closing inventory is then not entered in Trading Account. It is shown only in the balance sheet. ***(Nov 2018) / (June 2024)***
21) By-products valued at cost or net realisable value whichever is lower.
22) The manufacturing account is prepared to ascertain the profit or loss on the goods produced.
23) If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.
24) Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.
25) The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.
26) Overhead is defined as the total cost of direct material, direct wages and direct expenses. ***(June 2023)***
27) Manufacturing A/c is prepared by an enterprise engaged in trading activities.
28) Profit and Loss Account shows the financial position of the concern.

29) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from Debtors.
30) Freight paid on purchases of goods is added to the amount of purchases.
31) The debit balance in the Profit and Loss Account is surplus.
32) Capital is all assets less fictitious assets.
33) Under the 'Liquidity approach', assets which are most liquid are presented at the bottom of the Balance Sheet.
34) Goodwill is a fictitious asset.
35) Sundry debtors are liquid assets.
36) A withdrawal of cash from the business by the proprietor for personal use should be charged to profit and loss account as an expense.
37) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.
38) Inventory by-product should be valued at net realisable value where cost of any product can be separately determined.
39) All the personal & real accounts are recorded in P&L A/c.
40) Goodwill is intangible asset therefore it cannot be valued.
41) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
42) The gain from sale of capital assets is added to revenue to ascertain the net profit of the business. ***(Dec 2023)***
43) Sale of office furniture should be credited to Profit and Loss Account.
44) The sale value of by-product is credited to Trading Account.

Solution

1) **True**: Profit and loss account shows either net profit or net loss for a particular period.
2) **False**: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.
3) **True**: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.
4) **True**: A loss is an expenditure of the business which does not bring any gain to the business.
5) **False**: All liabilities which become due for payment within one year are classified as current liabilities.
6) **True**: Current assets are all the assets which are expected to be realized or sold or consumed within one year.
7) **True**: When an asset is purchased, capital expenditure is incurred and when asset is put to use expenses are incurred in consumption.
8) **True**: Debit balance of accounts are treated as expenses whose benefit is already received or expired.
9) **True**: Gross profit is obtained by deducting cost of goods sold from sales.
10) **False**: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.
11) **False**: Provision for bad debts is debited to Profit and Loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.
12) **True**: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.
13) **False**: It will be credited to Bad debtors Recovered Account & becomes an income

14) **False**: Income received in advance is reduced from the concerned income in profit and loss account. And, it is shown as a liability in the balance sheet under the head Current Liabilities.
15) **False**: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.
16) **True**: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.
17) **False**: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.
18) **True**: Any benefit given to the staff is debited to the salary account.
19) **False**: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.
20) **True**: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.
21) **False**: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.
22) **False**: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.
23) **True**: Manufacturing account deals with the raw material and work in progress & their opening & closing stock are shown in Manufacturing Account
24) **True**: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.
25) **False**: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.
26) **False**: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages & expenses cannot be directly linked to unit produced.
27) **False**: Manufacturing A/c is prepared by the entities engaged in manufacturing activities
28) **False**: Balance sheet shows the entire financial position of the business.
29) **True**: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who make their payment promptly after getting the discount.
30) **True**: Such freight paid on the purchases of goods is included in the cost of purchase.
31) **False**: The Debit balance in P & L A/c is a loss because expenses are more than revenue.
32) **False**: Capital is all assets less (fictitious assets and outside or external liabilities.)
33) **False**: When assets & liabilities are arranged according to their realizability and payment preferences in such case the assets which are most liquid are presented at the top of the Balance Sheet.
34) **False**: Goodwill is not a fictitious asset. It is an intangible asset.
35) **True**: Liquid asset are those assets which are readily converted into cash and will include cash balance, bills receivable, Sundry debtors and short term investments. But it does not include prepaid expenses and inventories.
36) **False**: Cash withdrawal for personal use by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietor's capital.

37) **True**: Because it depicts that one aspect of the double entry has been completed. The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.
38) **False**: Inventory of by-product is valued at NRV where the cost of by-product cannot be separately determined as they do not involve any intentional input for production.
39) **False**: All the personal & real account are recorded in balance sheet
40) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
41) **False**: It shall be disclosed as a current liability in the opening balance sheet.
42) **True**: Gains from the sale of capital assets are considered as the revenue of the business. But this revenue is not in the ordinary course of business so it is capital receipts.
43) **False**: Sale of office furniture should be credited to Furniture account since it is a capital receipt.
44) **False**: The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

Particulars	₹
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

From the above information, prepare Trading Account of M/s. ABC Traders for the year ended 31st March, 2023 and Pass necessary closing entries in the journal proper of M/s. ABC Traders

Question 2 *(ICAI Study Material)* Pg no.______

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

Trial Balance as on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		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 and 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**

(i) Closing Inventory was ₹ 1,80,000; (ii) Depreciate Furniture @ 10% p.a.

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2023 and Balance Sheet of Mr. Mohan as on that date.

Question 3 *(ICAI Study Material)* Pg no.______

Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		8,70,000
Purchases and Sales	6,05,000	12,10,000

Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	2,000	
Input CGST	9,000	
Input SGST	9,000	
Output IGST		15,000
Total	**26,07,000**	**26,07,000**

Closing Inventory on 31st March, 2023 was valued at ₹ 1,00,000. Prepare final accounts.

Question 4 *(ICAI Study Material)* Pg no.______

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2023 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	Debit	Credit
Trade receivables	3,50,000	
Inventory 1st April, 2022	5,00,000	
Cash in Hand	5,60,000	
Wages	3,00,000	
Bad Debts	50,000	
Furniture and Fixtures	1,50,000	
Depreciation	1,50,000	
Salaries	2,20,000	
Purchases	12,50,000	
Plant and Machinery	15,70,000	
Capital		25,00,000
Trade payables		9,00,000
Sales		17,00,000
	51,00,000	**51,00,000**

On 31st March, 2023 the Inventory was valued at ₹10,00,000.

Question 5 *(ICAI Study Material)* Pg no.______

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2023 were as follows:

Gross Profit ₹4,20,000, Salaries ₹1,10,000, Discount (Cr.), ₹18,000, Discount (Dr.) ₹ 19,000, Bad Debts ₹17,000, Depreciation ₹65,000, Legal Charges ₹ 25,000, Consultancy Fees ₹32,000, Audit Fees ₹ 1,000, Electricity Charges ₹17,000, Telephone, Postage and Telegrams ₹ 12,000, Stationery ₹ 27,000, Interest paid on Loans ₹70,000.

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2023. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

Question 6 *(ICAI Study Material)* Pg no.______

Given below Trial Balance of M/s Dayal Bros. as on 31st March, 2023:

Particulars	Debit (₹)	Credit (₹)
Capital Account		7,00,000
Land and Building	3,00,000	
14% Term Loan		4,00,000
Loan from M/s. D & Co.		4,60,000
Trade receivables	4,20,000	
Cash in hand	20,000	
Inventories in Trade	6,00,000	
Furniture	2,00,000	
Trade payables		40,000
Advances to Suppliers	1,00,000	
Net Profit		1,00,000
Drawings	60,000	
Total	**17,00,000**	**17,00,000**

Prepare Balance Sheet as on 31st March, 2023.

Question 7 *(ICAI Study Material)* Pg no.______

From the given balance sheet pass the relevant opening entry

BALANCE SHEET As at 31st March, 2023

Liabilities	Amount	Assets	Amount
Mahendra & Sons	5,60,000	Cash in hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery and Equipment	6,00,000
	25,60,000		**25,60,000**

Question 8 *(ICAI Study Material)* Pg no.______

The Balance Sheet of Mr. PopatLal, a merchant on 31st March, 2023 stood as below:

Liabilities	Amount	Assets		Amount
Capital	2,40,000	Fixed Assets		1,25,600
Trade payables	1,64,000	Inventories		2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000	
		Less: Provision	(6,200)	1,81,800
		Cash		36,200
	5,50,000			**5,50,000**

Show opening journal entry on 1st April, 2023 in the books of Mr. PopatLal.

Question 9 *(ICAI Study Material)* Pg no.______

On 1st April 2022 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2023 were ₹ 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.
Show how you would compute the amount debited to the Profit and Loss Account.

Question 10 *(CA Foundation Nov 2019) (10 Marks)* Pg no.______

The balance sheet of Mittal on 1st January, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expense payable	2,50,000	Furniture & Fixture	4,00,000

Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		**69,50,000**

During 2023, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

a. Interest on capital @ 6% p.a.
b. Depreciation on plant and machinery @ 10% and on Furniture &Fixtures @ 5%
c. A Provision for doubtful debts @5% of the trade receivables as at 31st December 2023.

But while preparing the profit and loss account he had forgotten to provide for
(1) outstanding expenses totalling ₹ 1,85,000 and
(2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2023 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end. You are required to draw up the revised Profit & Loss Account and Balance Sheet at the end of the year.

Question 11 *(CA Foundation Dec 2022) (10 Marks)* Pg no.______

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

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

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

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

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

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

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

Question 12 *(CA Foundation Nov 2018) (5 Marks)* Pg no.______

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

Trading and P&L A/c for the year ended 31st March, 2023

Particulars	Amount	Particulars	Amount
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	?		
	?		**45,00,000**

To Salaries paid	12,00,000	By Gross Profit b/d	?
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	?		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	?		
	?		?

Selling expenses amount to 1% of total Sales. You are required to compute the missing figures.

Question 13 ***(CA Foundation Nov 2020) (5 Marks)*** ***Pg no.______***

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

You are required to calculate:

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

(b) Amount actually paid as salaries during 2023.

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

Question 14 ***(CA Foundation Jan 2021) (5 Marks)*** ***Pg no.______***

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2023 has been given below:

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

You are required to compute :

a) Total income for the year 2022-23.

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

Question 15 ***(CA Foundation May 2019) (10 Marks)*** ***Pg no.______***

Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2023.

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

Furniture	1,600		
Bills receivables	3,000		
	35,000		**35,000**

Other information:

a) Closing stock was valued at ₹ 4,500

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

c) Commission received in advance is ₹ 100.

d) Interest accrued on investment is ₹ 210

e) Interest on overdraft is unpaid ₹ 300

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

g) Depreciation on furniture is to be charged @ 10%

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

Question 16

Pg no.______

Mr. Neel had prepared the following Trial Balance from his Ledger as on 31st March, 2023:

	Dr. (₹)	Cr. (₹)
Stock as on 1st April, 2022	5,00,000	-
Purchases and Returns	31,00,000	45,000
Sales and Returns	55,000	41,50,000
Cash in Hand	2,50,000	-
Cash at Bank	5,00,000	-
Trader's Capital	-	22,59,200
Rates and Taxes	50,000	-
Drawings	45,000	-
Salaries	95,000	-
Postage and Telegram	1,05,000	-
Insurance	90,000	-
Salesman Commission	78,000	-
Printing and Stationery	95,500	-
Advertisement	1,70,000	-
Furniture and Fittings	5,50,000	-
Motor Car	48,000	-
Discounts	50,000	75,000
General Expenses	65,700	-
Carriage Inward	10,000	-
Carriage Outward	22,000	-
Wages	50,000	
Sundry Debtors/Creditors	10,00,000	4,00,000
Total	**69,29,200**	**69,29,200**

You are required to prepare Trading Profit and Loss Account for the year ended on 31st March, 2023 and Balance Sheet as on that date after making the necessary adjustments.

You are provided with the following information:

a) Closing Stock as on 31st March, 2023 ₹ 1,45,000.

b) Neel had withdrawn goods worth ₹ 50,000 during the year.

c) Purchases include Purchase of furniture worth ₹ 1,00,000.

d) Debtors include ₹ 50,000 bad debts.

e) Sales include goods worth ₹ 1,50,000 sent out to NN & Co. on approval and remained unsold as on 31st March, 2023. The cost of the goods was ₹ 1,00,000.

f) Provision for Bad debts is to be created at 5% of Sundry Debtors.

g) Depreciate Furniture and Fittings by 10% and Motor Car by 20%.
h) The salesman is entitled to a commission of 10% on total sales.

Question 17 (RTP Nov 2018) / (RTP May 2021) / (RTP May 2023) (Similar) Pg no.______

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

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

The following adjustments are to be made:

a) Included amongst the Debtors is ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him.
b) Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.
c) Depreciation on Furniture & Fittings @ 10% shall be written off.
d) Personal Purchases of Hari amounting to ₹ 600 had been recorded in the Purchases Day Book.
e) Interest on Bank Loan shall be provided for the whole year.
f) A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
g) Credit Purchase Invoice amounting to ₹ 400 had been omitted from the Books.
h) Stock on 31.12.2023 was ₹ 78,600.

Prepare:
(i) Trading & Profit and Loss Account for the year ended 31.12.2023 and
(ii) Balance Sheet as on 31st December, 2023.

Question 18 (CA Foundation May 2018) (20 Marks) / (RTP May 2020)/ (RTP Nov 2023) Pg no.______

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

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

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

(a) Depreciate Building by 5%, Furniture & Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Question 19 *(RTP May 2022)* Pg no.______

Mr. Bansal submitted to you the following Trial Balance, which he has not been able to agree. Rewrite Trial Balance & prepare Trading and Profit & Loss Account for year ended 31.03.2023 and a Balance Sheet as on that date after giving effect to the undermentioned adjustments:

	Dr. (₹)	Cr. (₹)
Capital	-	16,000
Opening Stock	17,500	-
Closing Stock	-	18,790
Drawings	3,305	-
Return Inward	-	550
Carriage Inward	1,240	-
Deposit with X	-	1,400
Return outward	840	-
Carriage outward	-	725
Rent Paid	800	-
Rent Outstanding	150	-
Purchases	13,000	-
Sundry Debtors	5,000	-
Sundry Creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	46,505	**68,665**

Adjustments:

a) Write off ₹ 600 as Bad Debts and make Provision for doubtful debts at 5% on balance Sundry Debtors.

b) Stock valued at ₹ 2,000 was destroyed by fire on 25th March, 2023, but insurance Company admitted a claim for ₹ 1,500 only and paid the sum in April 2023.

c) Depreciation to be provided on furniture at 10% per annum.

Question 20 *(CA Foundation Nov 2019) (5 Marks)* Pg no.______

Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2023.

	₹
Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P	
Repairs and maintenance	1,80,000
Units produced-5,00,000 units	

Required a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2023.

Question 21 (ICAI Study Material) Pg no.______

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

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

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

Question 22 (CA Foundation Nov 2020) (10 Marks) Pg no.______

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

Raw Material A/c

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

Creditors A/c

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

Manufacturing A/c

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

Additional Information:

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

b) Wages include the following:

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

c) Direct expenses included the following:

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

Freight inwards	₹ 32,000
Delivery charges to customers	₹ 22,000

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

Question 23 *(ICAI Study Material)* Pg no.______

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

Particulars	Debit (₹)	Particulars	Credit (₹)
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 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 Receivable	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 Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		**12,54,000**

Additional Information:

a) Stock at the end of the year of Finished Goods ₹1,00,000
b) A provision for doubtful depts. at 5% on Sundry Debtors
c) Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided
d) Accrued commission of ₹ 12,500 is to be received for the year.
e) Interest has accrued on investment ₹ 15,000
f) Salary Outstanding ₹ 2,000
g) Prepaid Interest ₹ 1,500

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2023

Question 24 *(CA Foundation June 2022) (20 Marks)* Pg no.______

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

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

Additional Information:

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

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

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

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

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

Question 25 ***(CA Foundation July 2021) (10 Marks) / (RTP May 2025)*** *Pg no.______*

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2022. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready business for.
Loan and interest repaid by her in the first year are as follows:

30th June, 2022	15,000 principal + 9,000 interest
30th September, 2022	15,000 principal + 8,550 interest
31st December, 2022	15,000 principal + 8100 interest
31st March, 2023	15,000 principal + 7,650 interest

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

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

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

Other Information:

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

b) Depreciation on building @ 5% p.a. and furniture @ 10% p.a.

c) Closing stock in hand as on 31st March, 2023: ₹ 5,50,000

Prepare Trading account, Profit and Loss Account for the year ended 31-3-2023 and Balance Sheet as on that date.

Question 26 *(CA Foundation July 2021) (5 Marks)* Pg no.______

PQR Limited's Profit and Loss account for the year ended 31st March, 2023 includes the following information:

(1)	Liability for Income Tax	₹ 40,000
(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

Question 27 *(CA Foundation Dec 2023) (15 Marks)* Pg no.______

The following is the schedule of balances as on 31.03.23 extracted from the books of M/s RM & Co.

Particulars	Dr.₹	Cr. ₹
Bank charges	24,000	
Buildings	9,00,000	
Capital A/c		19,48,000
Carriage Outwards	30,000	
Cash at bank	39,000	
Cash at hand	21,000	
Discount allowed	36,000	
Discount received		24,000
Drawings	1,80,000	
Electricity Charges	33,000	

Freight on purchases	18,000	
Furniture & fixtures	3,21,000	
General office expenses	45,000	
Insurance Premium	82,500	
Interest on loan	35,000	
Loan		6,00,000
Printing and Stationery	27,000	
Purchase Returns		39,000
Purchases	21,30,000	
Rent for Godown	82,500	
Salaries	1,65,000	
Sales		35,50,000
Sales Returns	63,000	
Stock on 1.4.2022	9,30,000	
Sundry Creditors		6,45,000
Sundry Debtors	12,90,000	
Vehicles	3,00,000	
Vehicles running expenses	54,000	
TOTAL	**68,06,000**	**68,06,000**

Prepare Trading and Profit & Loss Account for the year ended 31st March 2023 and the Balance sheet as at that date after making provision for the following:

(i) Value of stock as on 31.03.2023 is ₹ 4,10,000. This includes goods returned by customers on 31st March, 2023 to the value of ₹ 22,000 for which no entry has been passed in the books.

(ii) Purchases include furniture purchased on 01.10.2022 for ₹ 30,000.

(iii) Depreciate:
- Building by 5%
- Furniture and Fixtures by 10%
- Vehicles by 20%

(iv) Sundry debtors include ₹ 35,000 due from Goku and Sundry creditors include ₹ 25,000 due to him.

(v) Provision for bad debts is to be maintained at 4% of Sundry Debtors.

(vi) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.05.2022 to 30.4.2023.

Question 28 *(CA Foundation Sep 2024) (10 Marks)* **Pg no.______**

The following Trial Balance is the Trial Balance of a Proprietor as on March 31 2024. Prepare Trading and Profit & Loss Account for the year ending March 31st 2024 and a Balance Sheet as at that date.

Particulars	Amount (₹)	Particulars	Amount (₹)
Plant and Machinery	5,00,000	Capital	4,00,000
Office Furniture	26,000	Sundry Creditors	5,20,000
Opening Stock	4,80,000	Sales	48,00,000
Motor Van	1,20,000	Bills Payable	56,000
Sundry Debtors	4,57,000	Provision for Doubtful Debts	25,000
Cash in hand	4,000	Return Outwards	55,000
Cash at Bank	65,000	Discount Received	37,000

Wages	15,00,000		
Salaries	1,40,000		
Purchases	21,35,000		
Bills Receivable	72,000		
Return Inwards	93,000		
Drawings	70,000		
Advertisements	60,000		
Factory Rent	8,000		
Insurance	63,000		
General Expenses	10,000		
Bad debts	25,000		
Discount allowed	65,000		
	58,93,000		58,93,000

Additional Information to be considered:

(i) Closing Stock on March 31st 2024 is ₹ 5,20,000.

(ii) During the year, Plant and Machinery was purchased for ₹ 3,00,000 but it was debited to Purchase Account.

(iii) 3 months factory rent is due but not paid ₹ 3,000.

(iv) Provide depreciation at 5% per annum on furniture and 10% on plant and machinery and motor van.

(v) Further bad debts ₹ 7,000.

(vi) Provision for doubtful debts to be increased to ₹ 30,000 at year- end.

(vii) Provision for discount on Debtors to be made at 2%.

Question 29 *(CA Foundation Jan 2025) (15 Marks)* Pg no.______

From the following schedule of balances extracted from the books of Mr. Piyush, prepare Trading and Profit and Loss Account for the year ended 31st March, 2024 and the Balance Sheet as on that date after making the necessary adjustments:

Particulars	Dr. (₹)	Cr. (₹)
Capital Account		8,85,000
Stock on 1.4.2023	3,86,000	
Cash in hand	18,500	
Cash at Bank	73,500	
Investments (at 9%) as on 1.4.2023	50,000	
Deposits (at 10%) as on 1.4.2023	3,00,000	
Drawings	78,000	
Purchases	24,95,000	
Sales		29,86,000
Return Inwards	1,10,000	
Return outwards		1,38,000
Carriage inwards	1,26,000	
Rent	66,000	
Salaries	1,15,000	
Sundry Debtors	2,35,000	
Sundry Creditors		1,37,500
Bank Loan (at 12%) as on 1.10.2023		2,00,000
Furniture as on 1.4.2023	25,000	
Interest paid	12,500	
Interest received		28,500

Advertisement	40,300	
Printing & Stationery	32,200	
Electricity Charges	57,700	
Discount allowed	55,200	
Discount received		24,600
Bad debts	18,500	
General expenses	36,800	
Motor Car Expenses	8,500	
Insurance Premium	30,000	
Travelling Expenses	21,800	
Postage & Courier	8,100	
	43,99,600	**43,99,600**

Adjustments:

(i) The value of stock as on 31st March, 2024 is ₹ 7,65,000. This includes goods returned by customers on 31st March, 2024 to the value of ₹ 25,000 for which no entry has been passed in the books.

(ii) Purchases include one furniture item purchased on 1st January, 2024 for ₹ 10,000. Depreciation @ 10% p.a. is to be provided on furniture.

(iii) One months' rent is outstanding and ₹ 12,000 is payable towards salary.

(iv) Interest paid includes ₹ 9,000 paid against Bank loan and Interest received pertains to Investments and Deposits.

(v) Provide for interest payable on Bank Loan and interest receivable on investments and deposits.

(vi) Make provision for doubtful debts at 5% on the balance under sundry debtors.

(vii) Insurance premium includes ₹ 18,000 paid towards proprietor's life insurance policy.