CA FOUNDATION

PRINCIPLES & PRACTICE OF ACCOUNTING

PROF.RAHUL MALKAN

COMPILER

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CHAPTER - 1

THEORERICAL FRAMEWORK

Question 1 : May 2020 – RTP

Differentiate between provision and contingent liability.

Solution :

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

Question 2 : May 2020 – RTP

State the advantages of setting Accounting Standards.

Solution :

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.

Question 3 : May 2020 – RTP

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 Rs. 5,000 to get fuel efficiency.

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

Solution :

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

Question 4 : Nov 2020 – RTP

Explain Cash and Mercantile system of accounting.

Solution :

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

Question 5 : Nov 2020 – RTP

Classify the following expenditures as capital or revenue expenditure:

(i) Travelling expenses of the directors for trips abroad for purchase of capital assets.
(ii) Amount spent to reduce working expenses.
(iii) Amount paid for removal of stock to a new site.
(iv) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution :

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

Question 6 : May 2021 – RTP

Distinguish between Money measurement concept and matching concept.

Solution :

(i) 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.

(ii) 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.

Question 7 : May 2021 – RTP

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

Solution :

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.

Question 8 : May 2021 – RTP

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

-- Inauguration expenses of a new manufacturing unit in an existing Business.
-- Installation of a new central heating system.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.
-- Legal fees on the acquisition of land.
-- Carriage costs on a replacement part for a piece of machinery.

Solution :

-- Inauguration expenses of new unit of existing business: revenue.
-- Installation of new heating system: capital.
-- Repainting van: revenue.
-- Drainage for new equipment: capital.
-- Legal fees on acquisition of land: capital
-- Carriage costs on replacement part: revenue.

Question 9 : Nov 2021 – RTP

Explain Cash and Mercantile system of accounting.

Solution :

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

Question 10 : Nov 2021 – RTP

State the advantages of setting Accounting Standards.

Solution :

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 Facilitates comparison.

Question 11 : Nov 2021 – RTP

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

-- Legal fees on the acquisition of land.
-- Complete repaint of existing building.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.
-- Carriage costs on a replacement part for a piece of machinery.

Solution :

-- Legal fees on acquisition of land: capital
-- Complete repaint: revenue
-- Repainting van: revenue.
-- Drainage for new equipment: capital.
-- Carriage costs on replacement part: revenue.

Thanks ....

CHAPTER - 2

ACCOUNTING PROCESS

Question 1 : Nov 2019 – Paper

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

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

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account.

Solution :

Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. Rs.	Cr. Rs.
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–

Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	-
Total	**25,630**	**25,630**

* considered as opening inventory

Question 2 : May 2020 – RTP

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

2019			Rs.
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

Solution :

Triple Column Cash Book

Dr. Cr.

Date	Particulars	Discount	Cash	Bank	Date	Particulars	Discount	Cash	Bank
2019		Rs.	Rs.	Rs.	2019		Rs.	Rs.	Rs.
Nov. 1	To Balance b/d	-	3,000	12,000	Nov. 2	By Bank (C)	-	1,000	-
Nov. 2	To Cash (C)	-	-	1,000	Nov. 5	By Furniture A/c	-	-	1,500
Nov. 12	To Mohan	20	980	-	Nov. 8	By Purchase A/c	-	500	-
Nov. 14	To Sales A/c	-	5,000	-	Nov. 16	By Amar	50	-	1,450
Nov. 19	To Cash (C)	-	-	500	Nov. 19	By Bank (C)	-	500	-
Nov. 24	To Parul (Note 2)	20	1,430	-	Nov. 23	By Drawings A/c	-	-	600
Nov. 26	To Cash (C)	-	-	1,430	Nov. 26	By Bank (C)	-	1,430	-

Nov. 28	To Bank (C)	-	2,000	-	Nov. 28	By Cash (C)	-	-	2,000
					Nov. 30	By Rent A/c	-	-	800
					Nov. 30	By Balance c/d	-	8,980	8,580
		40	**12,410**	**14,930**			**50**	**12,410**	**14,930**
Dec. 1	To Balance b/d	-	8,980	8,580					

Note:

(1) Discount allowed and discount received Rs. 40 and Rs. 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Question 3 : Nov 2020 – RTP

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ Rs. 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ Rs. 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ Rs. 260.
30.01.2020		Returned one typewriter (being defective) @ Rs. 3,500 to B & Co.

Solution :

Purchase Returns Book

Date	Debit Note No.		L.F.	Amount
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

Question 4 : Nov 2020 – Paper

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

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

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

(iii) Sold 15 shirts to Aman @ Rs. 750 each for cash.

Solution :

Sales Book

Date	Particulars	Details Rs.	L.F.	Amount Rs.
31.03.2020	M/s. Ashok & Mukesh			
	40 shirts @ Rs. 900 per shirt	36,000		
	30 Trousers @ Rs.1,000 per trouser	30,000		
	Less : 10% Trade Discount	66,000		
	(Sales as per invoice no. dated .....)	-6,600		59,400

Note:

1. Cash sale entered in cash book and sale of furniture are entered in journal not in Sales Book.
2. It has been assumed that M/s Kamal & Sons is in business of selling shirts and trousers.

Question 5 : May 2021 – RTP

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

2020			Rs.
Sep.	1	Cash in hand	6,000
	1	Cash at bank	24,000
	2	Paid into bank	2,000
	5	Bought furniture and issued cheque	3,000
	8	Purchased goods for cash	1,000
	12	Received cash from Mohan	1,960
		Discount allowed to him	40
	14	Cash sales	10,000
	16	Paid to Amar by cheque	2,900
		Discount received	100
	19	Paid into Bank	1,000
	23	Withdrawn from Bank for Private expenses	1,200
	24	Received cheque from Parul	2,860
		Allowed him discount	40
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	4,000
	30	Paid rent by cheque	1,600

Solution :

Triple Column Cash Book

Dr. **Cr.**

Date 2020	Particulars	Discount Rs.	Cash Rs.	Bank Rs.	Date 2020	Particulars	Discount Rs.	Cash Rs.	Bank Rs.
Sep. 1	To Balance b/d	-	6,000	24,000	Sep. 2	By Bank (C)	-	2,000	-
Sep. 2	To Cash (C)	-	-	2,000	Sep. 5	By Furniture A/c	-	-	3,000
Sep. 12	To Sapna	40	1,960	-	Sep. 8	By Purchase A/c	-	1,000	-
Sep. 14	To Sales A/c	-	10,000	-	Sep. 16	By Amar	100	-	2,900
Sep. 19	To Cash (C)	-	-	1,000	Sep. 19	By Bank (C)	-	1,000	-
Sep. 24	To Parul (Note 2)	40	2,860	-	Sep. 23	By Drawings A/c	-	-	1,200
Sep. 26	To Cash (C)	-	-	2,860	Sep. 26	By Bank (C)	-	2,860	-
Sep. 28	To Bank (C)	-	4,000	-	Sep. 28	By Cash (C)	-	-	4,000
					Sep. 30	By Rent A/c	-	-	1,600
					Sep. 30	By Balance c/d	-	17,960	17,160
		80	**24,820**	**29,860**			**100**	**24,820**	**29,860**
Oct. 1	To Balance b/d	-	17,960	17,160					

Note:

(1) Discount allowed and discount received Rs. 80 and Rs. 100 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Question 6 : July 2021 – Paper

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 7 : July 2021 – Paper

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

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

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

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

Solution :

Purchases Book

Date	Particulars	L.F.	Amount Rs.
(i)	Red & Co. 10 pair of black shoes @ Rs. 800 5 pair of Brown shoes @ Rs. 900		 8,000 4,500 12,500

	Less: 10% trade discount		(1,250) 11,250

Note:
1. Purchases made in cash are entered in cash book not in purchase book.
2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

Question 8 : July 2021 – Paper

What are the advantages of Subsidiary Books ?

Solution :

Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

(i) **Division of work**: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) **Specialization and efficiency**: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

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

(iv) **Availability of information**: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) **Facility in checking**: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

Question 9 : Nov 2021 – RTP

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

2021		Rs.
1-Jun	Received Rs. 1,00,000 for petty cash	
2-Jun	Paid taxi fare	2,000
3-Jun	Paid cartage	10,000
4-Jun	Paid for courier	2,000
5-Jun	Paid wages	2,400
5-Jun	Paid for stationery	1,600
6-Jun	Paid for the repairs to machinery	6,000
6-Jun	Auto fare	400
7-Jun	Cartage	1,600
7-Jun	Paid for courier	2,800
8-Jun	Cartage	12,000
9-Jun	Stationery	8,000
10-Jun	Sundry expenses	20,000

Solution :

Receipts Rs.	Date 2021	V. No.	Particulars	Total Rs.	Conveyance Rs.	Cartage Rs.	Stationery Rs.	Courier Rs.	Wages Rs.	Sundries Rs.

1,00,000	1-Jun		To Cash							
	2	1	By Conveyance	2,000	2,000					
	3	2	By Cartage	10,000		10,000				
	4	3	By Courier	2,000				2,000		
	5	4	By Wages	2,400					2,400	
	5	5	By Stationery	1,600			1,600			
	6	6	By Repairs to machine	6,000						6,000
	6	7	By Conveyance	400	400					
	7	8	By Cartage	1,600		1,600				
	7	9	By Courier	2,800				2,800		
	8	10	By Cartage	12,000		12,000				
	9	11	By Stationery	8,000			8,000			
	10	12	By Sundry Expenses	20,000						20,000
				68,800	2,400	23,600	9,600	4,800	2,400	26,000
			By Balance c/d	31,200						
1,00,000				1,00,000						
31,200			To Balance b/d							
68,800	11		To Cash							

Thanks ....

CHAPTER - 3

RECTIFICATION OF ERRORS

Question 1 : Nov 2019 – Paper

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

(1) The sales book has been totalled Rs. 2,100 short.
(2) Goods worth Rs. 1,800 returned by Gaurav & Co. have not been recorded anywhere.
(3) Goods purchased Rs. 2,250 have been posted to the debit of the supplier Sen Brothers.
(4) Furniture purchased from Mary Associates, Rs. 15,000 has been entered in the purchase Daybook.
(5) Discount received from Black and White Rs. 1,200 has not been entered in the books.
(6) Discount allowed to Radhe Mohan & Co. Rs. 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

Solution :

(i) If a Suspense Account is not opened.

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

Sales A/c

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
				By Wrong Totaling of Sales Book	2,100

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

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

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

Sen Brothers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
				By errors in posting	4,500

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

Furniture Account Dr. Rs.15,000
To Purchases Account Rs.15,000

(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)

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

Black & White Dr. Rs.1,200

To Discount Account Rs.1,200

(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)

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

Discount A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Omission of entry in the Cash Book	180			2,100

(ii) **If a Suspense Account is opened:**

	Particulars		L.f.	Dr. Rs.	Cr. Rs.
(a)	Suspense Account To Sales Account Being the correction arising from under-casting of Sales Day Book)	Dr.		2,100	 2,100
(b)	Return Inward Account To Gaurav & Co Being the recording of unrecorded returns)	Dr.		1,800	 1,800
(c)	Suspense Account To Sen Brothers Being the correction of the error by which Sen Brothers was debited instead of being credited by Rs.2,250).	Dr.		4,500	 4,500
(d)	Furniture Account To Purchases Account (Being the correction of recording purchase of furniture as ordinary purchases)	Dr.		15,000	 15,000
(e)	Black & White To Discount Account (Being the recording of discount omitted to be recorded)	Dr.		1,200	 1,200
(f)	Discount Account To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).	Dr.		180	 180

Question 2 : May 2020 – RTP

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

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

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

Solution :

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

Suspense A/c

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

Question 3 : Nov 2020 – RTP

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

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

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

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

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

(c) they were detected after preparing Final Accounts.

Solution :

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

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

(ii) Purchase of Rs. 420 is wrongly recorded through sales day book as Rs. 240.

Correct Entry	Entry Made Wrongly
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

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

Question 4 : Nov 2020 – Paper

M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - Rs. 12,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by Rs. 1,500.

(iii) Goods to the value of Rs. 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 Rs. 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 Rs. 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

Solution :

Rectification entries in the books of M/s Applied Laboratories

	Particulars		**L.F.**	**Dr. Rs.**	**Cr. Rs.**
1.	Profit and Loss Adjustment Account	Dr.		12,500	
	To Building Account				12,500
	(Repairs amounting Rs. 12,500 wrongly debited to building account, now rectified)				
2.	Profit and Loss Adjustment Account	Dr.		1,500	
	To Suspense Account				1,500
	(Addition of freight column in purchase journal was under casted, now rectification entry made)				
3.	Suspense Account	Dr.		2,100	
	To Rani & Co.				2,100
	(Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)				
4.	Profit and Loss Adjustment Account	Dr.		30,000	
	To Furniture account				30,000
	(Being sale of furniture wrongly entered in sales book, now rectified)				
5.	Raja & Co.	Dr.		20,000	
	To Bills receivable account				20,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)				

Question 5 : Jan 2021 – Paper

Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered :

(i) The total of the Purchases Book of one page, Rs.5,615 was carried forward to the next page as Rs.6,551.

(ii) A sale of Rs.281 was entered in the Sales Book as Rs.821 and posted to the credit of the customer.

(iii) A return to creditor, Rs.295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, Rs.895 was posted to debit of Sethu.

(v) Goods worth Rs.1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth Rs.1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) Rs.600 due from Mr. Q was omitted to be taken to the trial balance.

(viii) Sale of goods to Mr. R for rs.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.

Solution :

Journal Entries

	Particulars		**L.F.**	**Dr. Rs.**	**Cr. Rs.**
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	Correction of error by which Purchase Account was over debited last year- Rs.5,615 carried forward instead of Rs.6,551)				
(ii)	Profit & Loss Adjustment A/c	Dr.		540	
	Customer's Account	Dr.		1,102	
	To Suspense Account				1,642
	Correction of the entry by which (a) Sales A/c was over credited by Rs. 540 (b) customer was credited by Rs.821 instead of being debited by Rs.281)				
(iii)	Suspense Account	Dr.		590	
	To Profit & Loss Adjustment A/c				590
	(Correction of error by which Returns Inward Account was debited by Rs.295 instead of Returns Outwards Account being credited by Rs.295)				
(iv)	Suspense Account	Dr.		1,790	
	To Senu				895
	To Sethu				895
	(Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				
(v)	Customer's Account	Dr.		1,400	
	To Profit & Loss Adjustment A/c				1,400
	(Rectification of the error arising from nonpreparation of invoice for goods delivered)				
(vi)	Profit & Loss Adjustment A/c	Dr.		1,600	
	To Customer's Account				1,600
	(The Customer's A/c credited with goods yet purchased by him)				
(vii)	Inventory A/c	Dr.		1,280	
	To Profit & Loss Adjustment A/c				1,280
	Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)				
(viii)	Trade receivable/ Q's Account	Dr.		600	
	To Suspense Account				600
	(Rs.600 due by Q not taken into trial balance, now rectified)				
(ix)	R's account/Trade receivable	Dr.		3,000	

	To Profit & Loss Adjustment A/c				3,000
	(Sales to R omitted, now rectified)				
(x)	Profit & Loss Adjustment A/c	Dr.		5,066	
	To Joshi's Capital Account				5,066
	(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)				

Question 6 : May 2021 – RTP

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

(1) Goods of the value of Rs.5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of Rs.7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;

(3) A sale of Rs.20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as Rs. 2,000;

(4) Bad Debts aggregating Rs.15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

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

Solution :

	Particulars		L.F.	Dr. Rs.	Cr. Rs.
(1)	Sales Account	Dr.		5,000	
	Sales Returns Account	Dr.		5,000	
	To Suspense Account				10,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		15,000	
	To Mr. Hari				15,000
	(Wrong debit to Mr. Hari for goods returned by him, now rectified)				
(3)	Mr. Amit	Dr.		20,000	
	To Mr. Sumit				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of Rs.20,000, now rectified)				
(4)	Bad Debts Account	Dr.		15,000	
	To Suspense Account				15,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		12,500	
	To Suspense Account				12,500

	(The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)				

Question 7 : July 2021 – Paper

Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(i) Purchase of a scooter was debited to conveyance account Rs. 30,000. Mr. Ratan charges 10% depreciation on scooter.
(ii) Purchase account was over cast by Rs. 1,00,000.
(iii) A credit purchase of goods from Mr. X for Rs. 20,000 was entered as sale.
(iv) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar Rs. 10,000.
(v) Receipt of cash from Mr. Chandu was posted to the debit of his account, Rs. 5,000.
(vi) Rs. 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
(vii) Sale of goods to Mr. Ram for Rs. 20,000 was omitted to be recorded.
(viii) Amount of Rs. 23,950 of purchase was wrongly posted as Rs. 25,930.

Suggest the necessary rectification entries.

Solution :

Date	Particulars		Dr. Rs.	Cr. Rs.
(1))	Scooter Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of Rs.27,000, i.e., Rs.30,000 less 10% depreciation)	Dr.	27,000	 27,000
(2)	Suspense Account To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,000	 1,00,000
(3)	Profit & Loss Adjustment A/c To X's Account (Credit purchase from XRs.20,000, entered as sales last year, now rectified)	Dr.	40,000	 40,000
(4)	Bhaskar's Account To Anand's Account (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	 10,000
(5)	Suspense Account To Chandu's Account (Rs. 5,000 received from Chandu wrongly debited to his account; now rectified)	Dr.	10,000	 10,000
(6)	Trade receivables (Ramesh) / Ramesh To Suspense Account (Rs.5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	 5,000

(7)	Ram's Account To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense Account To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, Rs.25,930, instead of Rs.23,950, now adjusted)	Dr.	1,980	1,980
(8)	Profit & Loss Adjustment A/c To Ratan's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980
(10)	Ratan's Capital Account To Suspense Account (Balance of Suspense Account transferred to Capital Account)	Dr.	1,06,980	1,06,980

Question 8 : Nov 2021 – RTP

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

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

Solution :

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

Thanks ....

CHAPTER - 4

BANK RECONCILIATION STATEMENT

Question 1 : Nov 2019– Paper

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

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

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

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

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

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

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

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

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

You are required:

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

Solution :

Cash Book (Bank Column)

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

Bank Reconciliation Statement as on 30th September, 2018

Particulars	Amount Rs.
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30thSept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

Question 2 : May 2020– RTP

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

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

Solution :

Bank Reconciliation Statement as on 31st March, 2018

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

Question 3 : Nov 2020– RTP

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

(i) Balance as per Pass Book is Rs. 10,000.

(ii) Bank collected a cheque of Rs. 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 Rs. 1,589 as Rs. 1,598.
(iv) Withdrawal column of the Pass Book undercast by Rs. 100.
(v) The credit balance of Rs. 1,500 on page 5 was recorded on page 6 as debit balance.
(vi) The payment of a cheque of Rs. 350 was recorded twice in the Pass Book.
(vii) The Pass Book showed a credit for a cheque of Rs. 1,000 deposited by Shri Hari (another customer of the bank).

Solution :

Bank Reconciliation Statement as at 31.03.2020

		Rs.
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

Question 4 : Nov 2020– Paper

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

(1) Out of the total cheques of Rs. 8,900 issued on 27th March, one cheque of Rs. 7,400 was presented for payment on 4th April and the other cheque of Rs. 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 Rs. 6,800 deposited in the Bank on 24th March, one cheque of Rs. 2,600 was cleared on 3rd April and the other cheque of Rs. 500 was returned dishonoured by the bank on 4th April.
(3) Bank charges Rs. 35 and Bank interest Rs. 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 Rs. 1,550 wrongly credited to this account by the bank.
(5) A cheque of Rs. 800, drawn on this account, was wrongly debited in another account by the bank.
(6) A debit of Rs. 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.
(7) The bank allowed interest on deposit Rs. 1,000.
(8) A customer who received a cash discount of 4% on his account of Rs. 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

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

Solution :

(i) Adjusted Cash Book as on 31-03-2020

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

(ii) Bank Reconciliation Statement as on 31st March, 2020

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

Question 5 : Jan 2021– Paper

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

Particulars	Rs.
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	4,000

Solution :

Adjusted Cash Book as on 31st December, 2020

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000

	2,98,000		**2,98,000**

Bank Reconciliation Statement as on 31st December, 2020

Particulars	Rs.	Rs.
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	4,000	49,000
		3,08,000
LESS: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book		2,83,000

Question 6 : May 2021– RTP

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

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

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

Solution :

Cash Book as on 31.3.2020
(After making necessary adjustments)

Dr. **Cr.**

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

Bank Reconciliation Statement as on 31.3.2020

Particulars	Details	Amount Rs.
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000	
Wrong credit given by bank	1,50,000	37,12,000
		66,73,600

Less: Cheques deposited but not yet credited by bank		(44,75,000)
Balance as per the pass book		21,98,600

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

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

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

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

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

Question 7 : July 2021– Paper

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

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

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

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

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

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

Solution :

Bank Reconciliation Statement as on 31st March,2021

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

Question 8 : Nov 2021– RTP

Bank Reconciliation Statement

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

Cheques issued to 'X' for Rs. 60,000 and to 'Y' for Rs. 3,84,000 were not yet presented for payment.

Bank charged Rs. 350 for bank charges and 'Z' directly deposited Rs. 1,816 into the bank account, which were not entered in the cash book.

Two cheques-one from 'A' for Rs. 5,15,000 and another from 'B' for Rs. 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.

Interest allowed by bank Rs. 4,500.

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

Solution :

Bank Reconciliation Statement as on 31st March, 2021

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

Thanks ....

CHAPTER - 5

INVENTORIES

Question 1 : Nov 2019 – Paper

Distinguish between Periodic Inventory System and Perpetual Inventory System.

Solution :

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

Question 2 : May 2020 – RTP

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

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

  (a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.

  (b) The total of a page had been undercast by Rs. 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.

(iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.

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

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

Solution :

Valuation of Physical Stock as at March 31, 2018

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

Question 3 : Nov 2020 – RTP

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

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

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

(v) The trader had also received goods costing Rs. 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

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

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

Solution :

Statement of Valuation of Stock on 31st March, 2020

		Rs.	Rs.
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800

			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of Rs. 8,000)	2,400	7,434
			79,366

Question 4 : Nov 2020 – Paper

Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was Rs. 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 Rs. 2,30,000 were unsold.

(2) Purchases of Rs. 3,00,000 were made out of which goods worth Rs. 1,20,000 were delivered on 5th March, 2020.

(3) Sales were Rs. 13,60,000 which include goods worth Rs. 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 Rs. 2,40,000 had been sold for Rs. 1,50,000.

Determine the value of stock on 29th February, 2020.

Solution :

Statement of Valuation of Stock on 29thFebruary, 2020

		Rs.
Value of stock as on 23rd February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23rd February, 2020 to 29th February, 2020	1,80,000	
Goods in transit on 29th February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	6,58,000
		34,58,000
Cost of sales during the period from 23rdFebruary, 2020 to 29thFebruary, 2020		
Sales (Rs. 13,60,000-Rs. 1,60,000)	12,00,000	
Less: Gross profit	1,20,000	10,80,000
Value of stock as on 29th February, 2020		23,78,000

Working Notes:

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

Question 5 : Jan 2021 – Paper

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

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

At the time of valuing inventory as on 31st March, 2019, a sum of Rs.20,000 was written off on a particular item which was originally purchased for Rs.55,000 and was sold during the year for Rs.50,000.
Except the above mentioned transaction, gross profit earned during the year was 20% on sales.

Solution :

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

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

Question 6 : May 2021 – RTP

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

Solution :

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

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

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

Question 7 : July 2021 – Paper

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	-	Rs. 5,00,000
Sales during the year	-	Rs. 7,50,000
Opening Inventory		Nil
Closing Inventory at selling price	-	Rs. 1,00,000

Solution :

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

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

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

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at Rs. 58,824 OR as 41.17% in that case, the closing inventory will be valued at Rs. 58,830

Question 8 : Nov 2021 – RTP

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

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was Rs. 2,40,000.

(ii) On 30th September, stock sheet showed the following discrepancies:

- (a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 16,000.
- (b) The total of a page had been undercast by Rs. 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 30thSeptember, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled Rs.12,000.

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

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

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

Solution :

Valuation of Physical Stock as at March 31, 2021

		Rs.
Stock at cost on 30.09.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during September March, 2021 Rs. (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return Rs. (3,000 – 600)	2,400	2,16,000
		4,56,000
Less: (1) Overcasting of a page total Rs. (16,000 – 15,000)	1,000	
(2) Goods sold and dispatched during January – March, 2021 Rs. (2,70,000 – 15,000 +12,000) 2,67,000		
Less: Profit margin $\left(2,67,000\times\frac{25}{125}\right)$ 53,400	2,13,600	2,14,600
Value of stock as on 31st March, 2021		2,41,400

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

Thanks ....

CHAPTER - 6

CONCEPT & ACCOUNTING OF DEPRECIATION

Question 1 : Nov 2019 – Paper

X purchased a machinery on 1st January 2017 for Rs. 4,80,000 and spent Rs. 20,000 on its installation. On July 1, 2017 another machinery costing Rs. 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for Rs. 2,90,000 and on the same date fresh machinery was purchased for Rs. 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

Solution :

Machinery Account

Dr. **Cr.**

2017		**Rs.**	**2017**		**Rs.**
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000
Jan. 1	To Bank A/c – erection charges	20,000	2018	By Balance c/d	6,40,000
Jul-01	To Bank A/c	2,00,000			
		7,00,000			**7,00,000**
2018			2018		
Jan. 1	To Balance b/d	6,40,000	Jul-01	By Depreciation on sold machine	22,500
Jul-01	To Bank A/c	5,00,000		By Bank A/c	2,90,000
				By Profit and Loss A/c	1,37,500
			Dec. 31	By Depreciation A/c	44,000
				By Balance c/d	6,46,000
		11,40,000			**11,40,000**

Working Note:

Book Value of Machines

	Machine I Rs.	**Machine II Rs.**	**Machine III Rs.**
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000

Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

Question 2 : May 2020 – RTP

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

Solution :

In the books of Firm

Calculation of depreciation for 5th year

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

Question 3 : Nov 2020 – RTP

M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for Rs. 1,60,000. Overhauling and erection charges amounted to Rs. 40,000.

Another machine was purchased for Rs. 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,00,000. Another machine amounted to Rs. 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Solution :

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

		Rs.			Rs.
1.1.2017	To Bank A/c	1,60,000	31.12.2017	By Depreciation A/c	24,000
	To Bank A/c	40,000		(Rs. 20,000 + Rs. 4,000)	
	(Erection charges)		31.12.2017	By Balance c/d	2,56,000
1.7.2017	To Bank A/c	80,000		(Rs. 1,80,000 + Rs. 76,000)	
		2,80,000			**2,80,000**
			31.12.2018	By Depreciation A/c	28,000
1.1.2018	To Balance b/d	2,56,000		(Rs. 20,000 + Rs. 8,000)	
			31.12.2018	By Balance c/d	2,28,000
				(Rs. 1,60,000 + Rs. 68,000)	
		2,56,000			**2,56,000**
1.1.2019	To Balance b/d	2,28,000	1.7.2019	By Bank A/c	1,00,000
30.9.2019	To Bank A/c	30,000		By Profit and Loss A/c	50,000
				(Loss on Sale – W.N. 1)	
			31.12.2019	By Depreciation A/c	18,750
				(Rs. 10,000 + Rs. 8,000 + Rs. 750)	
				By Balance c/d	89,250
				(Rs. 60,000 + Rs. 29,250)	
		2,58,000			**2,58,000**
1.1.2020	To Balance b/d	89,250	31.12.2020	By Depreciation A/c	13,387.50
				(Rs. 9,000 + Rs. 4,387.5)	

				By Balance c/d (Rs. 51,000 + Rs. 24,862.5)	75,862.50
		89,250			**89,250**

Working Notes:

Book Value of machines (Straight line method)

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

Question 4 : Nov 2020 – Paper

Discuss the factors taken into consideration for calculation of depreciation.

Solution :

Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Question 5 : Jan 2021 – Paper

M/s. Dayal Transport Company purchased 10 trucks @ Rs.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 rs.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 Rs.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.

Solution :

Truck A/c.

Date 2019	**Particulars**	**Amount**	**Date 2019**	**Particulars**	**Amount**
1-Jan	To balance b/d	35,000,000	1-Oct	By bank A/c	35,00,000
	To Profit & Loss A/c				
1-Oct	Profit on settlement of Truck (W.Note 1)	7,50,000	1-Oct	By Depreciation on lost assets	7,50,000
1-Oct	To Bank A/c	60,00,000	31-Dec	By Depreciation A/c (W Note 3)	93,00,000
			31-Dec	By balance c/d	2,82,00,000
		4,17,50,000			**4,17,50,000**
2020			**2020**		
1-Jan	To balance b/d	2,82,00,000	31-Dec	By Depreciation A/c (W Note 3)	1,02,00,000
			31-Dec	By balance c/d	1,80,00,000
		2,82,00,000			**2,82,00,000**

Working Note:

1. Profit on settlement of truck

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

2. Calculation of WDV of 10 trucks as on 01.01.2018

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

3. Calculation for Depreciation for 2018 and 2019

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

On new truck (Rs 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

Question 6 : May 2021 – RTP

M/s Roxy purchased a brand new machinery on 1st January 2017 for Rs. 3,20,000 and also incurred Rs. 80,000 on its installation. Another machinery was purchased on 1st July 2017 for Rs. 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for Rs. 2,50,000. Another machinery was purchased and installed on 30th September 2019 for Rs. 60,000.

Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year.

Solution :

In the books of M/s Roxy

Machinery A/c

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

Working Note: Calculation of Book Value of Machines under SLM

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

Question 7 : July 2021 – Paper

The balance of Machinery Account of a firm on 1st April, 2020 was Rs. 28,54;000. Out of this, a plant having book value of Rs. 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for Rs. 82,000. On the same date a new plant was purchased for Rs. 4,58,000 and Rs. 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for Rs. 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.

Solution :

Calculation of depreciation for the year ended 31.3.21

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

Total depreciation (I + II + III + IV) Rs. 4,92,800

Question 8 : Nov 2021 – RTP

Concept and Accounting of Depreciation

The M/s Nishant Transport purchased 10 Buses at Rs. 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 Rs. 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 Rs. 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.

Solution :

Buses A/c

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

			31-Dec	By balance c/d	1,00,12,500
		1,15,42,500			**1,15,42,500**

Working Note :

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

Thanks ....

CHAPTER - 7

BILLS OF EXCHANGE

Question 1 : May 2020 – RTP

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

Solution :

Journal Entries in the books of Akshay

2018			**Dr. (Rs.)**	**Cr. (Rs.)**
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
4-Mar	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
4-Mar	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
25-Mar	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bills No.2 before the due date)			
7-May	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
7-May	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200

	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
7-May	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

Question 2 : Nov 2020 – RTP

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

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

Solution :

In the books of Siriman

Journal Entries

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

Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

Question 3 : Nov 2020 – Paper

Suresh draws a bill for Rs.15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for Rs. 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of Rs. 17,500 for 3 months, which Anup discounts for Rs. 17,100 and remits Rs. 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2020.
Pass necessary Journal entries for the above transactions in the books of Suresh.

Solution :

In the books of Suresh
Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
2020				
Apr-15	Bills receivable account	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup for mutual accommodation)			
Apr-18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
Apr-18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100
	(Being one-third proceeds of the bill sent to Anup)			
Jul-18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
Jul-18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received from Anup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50
	To Deficiency account			6,562.50
	(Being insolvent, only 50% amount paid to Anup)			

Question 4 : May 2021 – RTP

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

(i) Samarth's acceptance to Aarav for Rs. 1,250 discharged by a cash payment of Rs. 500 and a new bill for the balance plus Rs. 25 for interest.

(ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid Rs. 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for Rs. 5,000 drawn on him by Samarth for Rs. 20 discount.

(iv) Samarth's acceptance to Patel for Rs. 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

Solution :

Books of S. Samarth

Journal Entries

			Dr. (Rs.)	Cr. (Rs.)
(i)	Bills Payable Account	Dr.	1,250	
	Interest Account	Dr.	25	
	To Cash A/c			500
	To Bills Payable Account			775
	(Bills Payable to Aarav discharged by cash payment of Rs. 500 and a new bill for Rs.1,250 including Rs. 25 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To Sahni			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to Sahni dishonoured, Rs. 20 paid by Sahni as noting charges)			
	(b) Sahni	Dr.	4,020	
	To Bank Account			4,020
	(Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	4,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			5,000
	(Payment received from Harshad against his acceptance for Rs. 5,000. Allowed him a discount of Rs. 20)			
(iv)	Bills Payable Account	Dr.	19,000	
	To Bills Receivable Account			19,000
	(Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier)			

Question 5 : Nov 2021 – RTP

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

(i) David's acceptance to Samuel for Rs. 5,000 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 100 for interest.

(ii) Samantha's acceptance for Rs. 8,000 which was endorsed by David to Flex was dishonoured. Flex paid Rs. 50 noting charges. Bill withdrawn against cheque.

(iii) Simon retires a bill for Rs. 2,000 drawn on him by David for Rs. 20 discount.

(iv) David's acceptance to Ralph for Rs. 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

Solution :

Books of David
Journal Entries

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

Thanks ....

CHAPTER - 8

SALE OF GOODS ON APPROVAL OR RETURN BASIS

Question 1 : Nov 2019 – Paper

A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs.)	17,000	22,000	25,000	5,500	2,000	28,000

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019.

Solution :

Sale or Return Account

Date 2018	Particulars	Rs.	Date 2018	Particulars	Rs.
May-31	To Sundries: Sales	29,500	May-31	By Sundries (Goods sent on sale or return basis)	99,500
Jun-15	To Sundries: Returned	42,000			
Jun-15	To Balance c/d	28,000			
		99,500			**99,500**
			Jun-16	By Balance b/d	28,000

Q's Account

Date 2018	Particulars	Rs.	Date 2018	Particulars	Rs.
May-31	To Sale or Return A/c	25,000	Jun-15	By Sale or Return A/c	25,000

Question 2 : May 2020 – RTP

Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at Rs. 75,000 which included Rs. 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to-

Mr. Adhitya Rs. 3,900 and Mr. Bakkiram Rs. 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was Rs. 50,000.

Solution :

In the Books of Mr. Ganesh
Journal Entries

Date			L.F.	Dr. (Rs.)	Cr. (Rs.)
2018 31-Mar	Sales A/c To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)	Dr.		6,500	 6,500
31-Mar	Inventories with Customers on Sale or Return A/c To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.		5,000	 5,000
25-Apr	Trade receivables A/c To Sales A/c (Being goods costing worth Rs. 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)	Dr.		3,900	 3,900

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	Rs.	Assets	Rs.	Rs.
		Trade receivables (Rs. 75,000 - Rs. 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x Rs. 6,500 = Rs. 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Question 3 : Nov 2020 – RTP

X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount Rs.	Remarks
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth Rs. 2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.
Goods on "sales or return, sold and returned day books".
Goods on sales or return total account.

Solution :

Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	Party to whom goods sent	L.F.	Amount Rs.	Date 2019	Sold Rs.	Returned Rs.
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		**47,000**	**17,000**

Goods on Sales or Return Total Account

2019		Amount Rs.	2019		Amount Rs.
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent on sales or return	77,000
	To Sales	47,000			
	To Balance c/d	13,000			
		77,000			**77,000**

Question 4 : Jan 2021 – Paper

From the following information show the journal entries in the books of ABC Limited for the year ended 31st March, 2020:

(1) 100 units of goods costing Rs.500 each sent to XYZ Limited on Sales or Return Basis @ Rs.750 per unit. This transaction was however treated as actual sales in the books of accounts.

(2) Out of the above 100 units, only 60 units were accepted by XYZ Limited during the year @ Rs.700 per unit. No information was received about acceptability of balance units by the year end.

Solution :

In the books of ABC. Ltd.
Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
March. 31	Sales A/c (Rs. 50 X 60)	Dr.		3,000	
	To XYZ Limited A/c				3,000
	(Being the 60 units of goods accepted by XYZ limited at 700 per unit.)				
	Sales A/c (40 X Rs. 750)	Dr.		30,000	
	To XYZ Limited A/c				30,000

	Being the cancellation of original entry for sale in respect of 40 units of goods not yet returned or approved by customers)				
March. 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)	Dr.		20,000	20,000

Note: Quantity of goods lying with XYZ as on 31.3.2020 = 100-60 = 40

Question 5 : May 2021 – RTP

Ms. Madhu has supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	Party's name	Amount Rs.	Remarks
01.03.2020	M/s. Piya	20,000	Awaiting approval from customers as on 31.03.2020
08.03.2020	M/s. Riya	25,000	Returned on 16.03.2020
15.03.2020	M/s. Ciya	24,000	Goods worth Rs. 4,000 returned on 20.03.2020
19.03.2020	M/s. Diya	22,500	Goods accepted on 24.03.2020
25.03.2020	M/s. Tiya	18,250	Good accepted on 28.03.2020
30.03.2020	M/s. Bhavya	23,000	Awaiting approval from customers as on 31.03.2020

Goods are sent on the terms of 10 days return window from the date of dispatch, failing which it will be treated as sales. The books of Madhu are closed on the 31st March, 2020.

Prepare the following accounts in the books of Madhu.

(a) Goods on "sales or return, sold and returned day books".

(b) Goods on sales or return total account.

Solution :

In the books of 'Madhu'

Goods on sales or return, sold and returned day book.

Date 2020	Party to whom goods sent	L.F	Amount Rs.	Date 2020	Sold Rs.	Returned Rs.
Mar.01	M/s. Priya		20,000	Mar.11	20,000	-
Mar.08	M/s. Riya		25,000	Mar. 16	-	25,000
Mar.15	M/s. Chiya		24,000	Mar. 20	20,000	4,000
Mar.19	M/s. Diya		22,500	Mar. 24	22,500	-
Mar.25	M/s. Tiya		18,250	Mar. 28	18,250	-
Mar.30	M/s. Bhavya		23,000	Pending approval		
			1,32,750		**80,750**	**29,000**

Goods on Sales or Return Total Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2020			2020		
Mar. 31	To Returns	29,000	Mar. 31	By Goods sent on sales or return	1,32,750

	To Sales	80,750			
	To Balance c/d	23,000			
		1,32,750			**1,32,750**

Question 6 : July 2021 – Paper

ABC Limited supplied goods on sale or return basis to customers.
Goods are to be returned within 15 days from the date of dispatch, failing which it is treated as sales. The books of BC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	Party Name	Amount	Remarks
10.03.2021	PQR	25,000	No information till 31.03 .2021
12.03.2021	DEF	15,000	Returned on 16.03.2021
15.03.2021	GHI	40,000	Goods worth Rs. 8,000 Returned on 20.03.2021
20.03.2021	DEF	10,000	Goods Retained on 24.03.2021
25.03.2021	PQR	22,000	Goods Retained on 28.03.2021
30.03.2021	XYZ	35,000	No information till 31.03.2021

You are required to prepare the following accounts in the books of ABC Limited:
(i) Goods on sale or return, sold and returned day books
(ii) Goods on sales or return total account

Solution :

In the books of 'ABC'

Goods on sales or return, sold and returned day book

Date 2021	Party to whom goods sent	L.F	Amount Rs.	Date 2021	Sold Rs.	Returned Rs.
Mar.10	M/s PQR		25,000	Mar. 25	25,000	-
Mar.12	M/s DEF		15,000	Mar. 16	-	15,000
Mar.15	M/s GHI		40,000	Mar. 20	32,000	8,000
Mar.20	M/s DEF		10,000	Mar. 24	10,000	-
Mar.25	M/s PQR		22,000	Mar. 28	22,000	-
Mar.30	M/s GHI		35,000			
			1,47,000		**89,000**	**23,000**

Goods on Sales or Return Total Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2021			**2021**		
Mar. 31	To Returns	23,000	Mar. 31	By Goods sent on sales or return	1,47,000
	To Sales	89,000			
	To Balance c/d	35,000			
		1,47,000			**1,47,000**

Question 7 : Nov 2021 – RTP

On 31st December, 2020 goods sold at a sale price of Rs. 6,000 were lying with customer, Sapna to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapna, you are required to pass adjustment entries presuming goods were sent on approval /at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Solution :

Journal Entries

Date 2020	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
31st Dec.	Sales A/c	Dr.	6,000	
	To Sapna's A/c			6,000
	Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	4,500	
	To Trading A/c			4,500
	Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.6,000
Less: Profit (6,000 x 20/120)	Rs. 1,000
Cost of goods	Rs.5,000
Market price = 5,000 - (5,000 x 10%) =	Rs. 4,500

Thanks ....

CHAPTER - 9

CONSIGNMENT

Question 1 : Nov 2019 – Paper

Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were Rs. 12,000. The account sales received by Anand shows that Raj has effected sales amounting to Rs. 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 9,600 10% of consignment goods of the value of Rs. 15,000 were destroyed in fire at the Pune godown and the insurance company paid Rs. 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and the account of Raj in the books of Anand along with the necessary calculations.

Solution :

Books of Anand

Consignment to Raj (Pune) Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,50,000	By Goods sent on Consignment A/c(loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which Rs. 12,000 received from insurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on Consignment A/c	24,300
To Inventories Reserve A/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		**1,89,225**

Raj's Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		**1,20,000**

Working Notes:

1. Calculation of Loading of goods sent on consignment:
   Abnormal Loss at Invoice price = Rs.15,000.
   Abnormal Loss as a percentage of total consignment = 10%.
   Hence the value of goods sent on consignment = Rs.15,000 x 100/ 10 = Rs.1,50,000.
   Loading of goods sent on consignment = Rs.1,50,000 X 25/125 = Rs.30,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	Rs.15,000
Abnormal Loss at cost = Rs.15,000 x 100/125	=	Rs.12,000
Proportionate expenses of Anand (10 % of Rs.12,000)	=	Rs. 1,200
		Rs.13,200

3. Calculation of closing Inventories (15%):

Anand's Basic Invoice price of consignment	=	Rs.1,50,000
Anand's expenses on consignment	=	Rs. 12,000
		Rs.1,62,000
Value of closing Inventories = 15% of Rs.1,62,000	=	Rs.24,300

Loading in closing Inventories = Rs.4,500 (30,000 x 15%)

4. Calculation of commission:
Invoice price of the goods sold = 75% of Rs.1,50,000 = Rs.1,12,500
Excess of selling price over invoice price = (Rs.1,20,000- Rs.1,12,500) = 7,500
Total commission = 10% of Rs.1,12,500 + 25% of Rs.7,500
= Rs.11,250 + Rs.1,875
= Rs.13,125
Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

Question 2 : May 2020 – RTP

Ganpath of Nagpur consigns 500 cases of goods costing Rs. 1,500 each to Rawat of Jaipur. Ganpath pays the following expenses in connection with the consignment:

Particulars	Rs.
Carriage	15,000
Freight	45,000
Loading Charges	15,000

Rawat sells 350 cases at Rs. 2,100 per case and incurs the following expenses:

Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Ganpath.

Solution :

In the books of Ganpath
Consignment to Rawat of Jaipur Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses : 15,000+45,000+15,000)	75,000	By Goods lost in Transit 50 cases @ Rs. 1,650 each (WN1)	82,500
To Rawat (Expenses : 18,000+25,000+7,000)	50,000	By Consignment Inventories : In hand 50 @ Rs. 1,695 each (WN2)	84,750
To Rawat (Commission)	73,500	By Consignment Inventories : In transit 50 @ Rs. 1,650 each (WN3)	82,500

To Profit on Consignment ts/f to Profit & Loss A/c	36,250		
	9,84,750		**9,84,750**

Rawat's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c (Expenses) By Consignment A/c(Commission) By Balance c/d	50,000 73,500 6,11,500
	7,35,000		**7,35,000**

Working Notes:

1. Consignor's expenses on 500 cases amounts to Rs. 75,000; it comes to Rs. 150 per case. The cost of cases lost will be computed at Rs. 1,650 per case i.e. 1,500+150.
2. Rawat has incurred Rs. 18,000 on clearing 400 cases, i.e., Rs. 45 per case; while valuing closing inventories with the agent Rs. 45 per case has been added to cases in hand with the agent i.e. 1,500+150+45.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of Rs. 6,11,500 is not yet paid.

Question 3 : Nov 2020 – RTP

Mr. A of Assam sent on 18th February, 2020 a consignment of 1,000 DVD players to B of Bengal costing Rs. 100 each. Expenses of Rs. 1,500 were met by the consignor. B spent Rs. 3,000 for clearance and selling expenses were Rs. 20 per DVD player.

B sold on 15th March, 2020, 600 DVD players @ Rs. 160 per DVD player and again on 20th May, 2020, 300 DVD players @ Rs. 170 each.

B is entitled to a commission of Rs. 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per DVD player sold. B sent the amount due to A on 30th June, 2020.

You are required to prepare the consignment account and B's account in the books of A.

Solution :

In the books of A

Consignment Account

Dr. **Cr.**

2020		Amount Rs.	2020		Amount Rs.
Feb. 18	To Goods sent on consignment account	1,00,000	Mar.15	By B's account (Sales) (600 × Rs. 160)	96,000
Feb. 18	To Cash/Bank account (Expenses)	1,500	May 20	By B's account (Sales) (300 × Rs. 170)	51,000
Feb. 18	To B's account (Clearance charges)	3,000	June 30	By Consignment Stock (Working note 2)	10,450
June 30	To B's account:				
	Selling expenses (900 × Rs. 20)	18,000			
	Commission (Working note 1)	24,900			

June 30	To Profit and loss account (profit on consignment transferred)	10,050			
		1,57,450			**1,57,450**

B's Account

Dr. **Cr.**

2020		**Amount Rs.**	**2020**		**Amount Rs.**
Mar.1	To Consignment account (Sales)	96,000	Feb.17	By Consignment account (Clearance charges)	3,000
May 20	To Consignment account (Sales)	51,000	Jun.30	By Consignment account:	18,000
				Selling expenses Commission	24,900
			Jun.30	By Cash/Bank account	1,01,100
		1,47,000			**1,47,000**

Working Notes:

1. Calculation of total commission:

Let total commission be x

$$x = 900 \times \text{Rs. } 25 + \frac{1}{4}\,[(\text{Rs. } 96{,}000 + \text{Rs. } 51{,}000) - x - (900 \times \text{Rs. } 125)]$$

$$x = \text{Rs. } 22{,}500 + \frac{1}{4}\,[\text{Rs. } 1{,}47{,}000 - x - \text{Rs. } 1{,}12{,}500]$$

$$x = \text{Rs. } 22{,}500 + \frac{1}{4}[\text{Rs. } 34{,}500 - x]$$

$4x + x = \text{Rs. } 90{,}000 + \text{Rs. } 34{,}500$

$5x = \text{Rs. } 1{,}24{,}500$

$x = \text{Rs. } 24{,}900$

2. Valuation of consignment stock:

	Rs.
100 DVD players @ Rs. 100 each	10,000
Add: Proportionate expenses of A $\frac{(Rs.1{,}500 \times 100)}{1{,}000}$	150
Proportionate expenses paid by B $\frac{(Rs.3{,}000 \times 100)}{1{,}000}$	300
	10,450

Question 4 : Nov 2020 – Paper

Maya consigned 400 boxes of shaving brushes, each box containing 100 shaving brushes. Cost price of each box was Rs. 3,000. Maya spent Rs. 500 per box as cartage, freight, insurance and forwarding charges. One box was lost on the way and Maya lodged claim with insurance company and could get 2,700 as claim on average basis. Consignee took delivery of the rest of the boxes and spent Rs. 1,99,500 as non recurring expenses and Rs. 1,12,500 as recurring expenses. He sold 370 boxes at the rate of Rs. 65 per shaving brush. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare Consignment Account.

Solution :

Consignment Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Goods sent on consignment A/c (400x Rs.3,000)	12,00,000	By Consignee's A/c-Sales (370 x100xRs. 65)	24,05,000
To Cash A/c (expenses 400xRs.500)	2,00,000	By Insurance Co./ Cash A/c (insurance claim)	2,700
To Consignee's A/c:		By Profit and loss account (abnormal loss)	800
Recurring expenses	1,12,500	By Consignment stock A/c	1,16,000
Non-recurring expenses	1,99,500		
Commission @ 2% on Rs.24,05,000	48,100		
Del-credere commission @ 1% on Rs. 24,05,000	24,050		
To Profit and loss A/c (profit on consignment)	7,40,350		
	25,24,500		**25,24,500**

Working note:

	Rs.
Abnormal loss:	
Cost of boxes lost during transit	3,000
Add: Expenses incurred by Maya	500
Gross Abnormal loss	3,500
Less: Insurance claim received	(2,700)
Net Abnormal loss	800
Closing inventories	**No. of Boxes**
Boxes consigned	400
Less: Boxes lost in transit	(1)
	399
Less: Boxes sold	370
Closing inventories	29
Cost of inventories at the end:	Rs.
29 boxes @ Rs.3,000	87,000
Add: Expenses incurred by Maya (29xRs.500)	14,500
Add: Proportionate (non-recurring) expenses incurred by the consignee 29/399x Rs.1,99,500)	14,500
	1,16,000

Question 5 : Jan 2021 – Paper

A Products Limited of Kolkata has given the following particulars regarding tea sent on consignment to C Stores of Mumbai:

	Cost Price	Selling Price	Qty consigned
5 Kg. Tin	Rs.100 each	Rs.150 each	1,000 Tins
10 Kg. Tin	Rs.180 each	Rs.250 each	1,000 Tins

(i) The consignment was booked on freight "To Pay" basis. The freight was charged @ 5% of selling value.
(ii) C Stores sold 500, 5 kg Tins and 800, 10 kg Tins. It paid insurance of Rs.10,000 and storage charges of Rs.20,000.
(iii) C Stores is entitled to a fixed commission @ 10% on Sales.
(iv) During transit 50 quantity of 5 kg Tin and 20 quantity of 10 kg Tin got damaged and the transporter paid Rs.5,000 as damage charge.

Prepare the Consignment Account in the books of A Products Limited.

Solution :

A Products Ltd.

Dr. Consignment to Mumbai Account Cr.

Particulars		**Rs.**	**Particulars**		**Rs.**
To Goods sent on Consignment A/c			By C Stores		
1,000 5 kg. tins @ Rs 100	1,00,000		500, 5 kg. tins @ Rs. 150	75,000	
1,000 10 kg. tins. @ Rs. 180	1,80,000	2,80,000	800,10 kg. tins. @ Rs.250	2,00,000	2,75,000
To C Stores:			By Bank A/c (Damage charges)		5,000
Freight	20,000		By Profit & Loss A/c - abnormal loss (Net)		4,225
Insurance	10,000		By Inventory on consignment A/c		83,025
Storage charge	20,000				
Commission	27,500	77,500			
To Profit & Loss A/c – Profit		9,750			
		3,67,250			**3,67,250**

Working Notes:

(i) Calculation of Freight

Sale value of total consignment:

1,000 5 kg. tins @ Rs. 150	1,50,000
1,000 10 kg. tins @ Rs. 250	2,50,000
	4,00,000
Freight @ 5% of above	20,000

(ii) Inventories at the end:

450, 5 kg. tins @ Rs. 100 (Selling Price Rs. 67,500)	45,000
180,10 kg. tins. @ Rs. 180 (Selling Price Rs. 45,000)	32,400
	77,400
Add: Freight 5% of (Selling Price Rs. 1,12,500)	5,625
	83,025

(iii) Loss in transit:

Cost of 50,5 kg. tins @ Rs. 100 & 20, 10 kg tins @ 180	8,600
Freight @ 5% of Selling Price Rs. 12,500	625
Gross abnormal Loss	9,225
Less : Damage charges received	(5,000)
Net abnormal Loss	4,225

Question 6 : May 2021 – RTP

Mr. Divik of Jaipur purchased, 5,000 pieces of sarees at Rs. 500 per saree. Out of these 3,000 sarees were sent on consignment to Mr. Manoj of Pillani at the selling price of Rs. 600 per saree. The consignor paid Rs. 30,000 for packing and freight. Mr. Manoj sold 2,500 sarees at Rs. 625 per saree and incurred Rs. 10,000 for selling expenses and remitted Rs. 5,00,000 to Jaipur on account of Mr. Divik. Mr. Manoj is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Divik and Mr. Divik's account in the books of agent Mr. Manoj.

Solution :

In the Books of Mr. Divik
Consignment A/c

	Rs.		Rs.
To Goods sent on Consignment A/c (3,000 × Rs. 600)	18,00,000	By Manoj's A/c – Sales (2500 × Rs. 625)	15,62,500
To Bank A/c – Packing, Freight charges	30,000	By Goods sent on Consignment A/c (3000 × Rs. 100)	3,00,000
To Manoj's A/c – Selling expenses	10,000	By Consignment stock account (Refer working note)	3,05,000
To Manoj's Account – Commission 5% on Rs. 15,62,500= 78,125 20% on Rs. 62,500= 12,500	90,625		
To Stock reserve A/c (500 × Rs. 100)	50,000		
To Profit and Loss account	1,86,875		
	21,67,500		**21,67,500**

In the Book of Mr. Manoj
Mr. Divik's Account

	Rs.		Rs.
To Bank – Selling expense	10,000	By Sales	15,62,500
To Commission	90,625		
To Bank	5,00,000		
To Balance c/d	9,61,875		
	15,62,500		**15,62,500**

Working Note:
Closing Stock valuation:

		Rs.
	Cost price of 500 sarees (500 × 600)	3,00,000
Add:	Proportionate expenses (30,000 × 500/3,000)	5,000
		3,05,000

Question 7 : July 2021 – Paper

Max Chemical Works consigned 700 boxes of medicines to Raja Medical Stores at an invoice price of Rs. 1,68,000 which was 20% above the actual cost price and paid Rs. 14,000 for Insurance and freight. In the course of transit, 50 boxes were lost and the transporter paid Rs. 22,000 for the loss. The Consignee took the delivery of the remaining boxes and incurred Rs. 9,750 for carriage. The Consignee sold 500 boxes for Rs. 1,60,000 and incurred Rs. 6,000 for selling expenses. The Consignee is entitled to a commission of 6% on gross sales.

Show the Consignment Account.

Solution :

Books of Max Chemical works
Consignment to Raja Medical store Account

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c (700 box)		1,68,000	By Goods sent on Consignment A/c (loading)	28,000
To Cash A/c		14,000	By Abnormal Loss (50 box)	11,000
to Raja Medial Store -			By Raja medical store (Sales- 500 box)	1,60,000
Carriage Expenses on 650 box		9,750		
Selling exp		6,000	By Inventories on Consignment A/c	41,250
To Commission		9,600		
To Inventories Reserve A/c		6,000		
to General Profit & Loss A/c		26,900		
		2,40,250		**2,40,250**

Working Notes:

1. Calculation of value of goods sent on consignment
   Value of goods sent on consignment = 1,68,000
   Loading of goods sent on consignment 1,68,000 × 20 / 120 =28,000
2. Calculation of abnormal loss (50 boxes in transit):
   Abnormal Loss paid by transporter = Rs. 22,000.
   Abnormal Loss at Invoice price = Rs. 1,68,000 / 700 * 50 = Rs. 12,000
   Abnormal Loss at cost = 12,000/120*100 = Rs. 10,000
   Add: Proportionate expenses of Max chemical works (Rs. 14,000/700 × 50) = Rs. 1,000
   Rs. 11,000
3. Calculation of closing Inventories (700-50-500 boxes = 150 box):
   Invoice price per box =1,68,000 / 700= Rs.240

Max chemical works Basic Invoice price of consignment (150 x240)	36,000
Add: consigner expenses 14,000/700X 150	3000
Add: consignee expenses 9,750/650X150	2,250
Closing Inventory	41,250

Loading in closing Inventories = Rs.28,000 / 700 x 150 = Rs.6,000
Where Rs.36,000 (150/700 of Rs. 1,68,000) is the basic invoice price of the goods sent on consignment remaining unsold.

Note :

1. In the above solution, abnormal loss has been shown at the full amount of cost Rs. 11,000 without considering the amount of Rs. 22,000 received from transporter. Otherwise, there would have been gain of Rs. 11,000 (Money received from transporter Rs. 22,000 less cost of boxes lost Rs. 11,000)
2. Consignment account given above has been prepared at the loaded price. The alternative way of preparing the consignment account at cost is also possible.

Question 8 : Nov 2021 – RTP

Shikha of Delhi consigned to Reema of Mumbai, goods to be sold at invoice price which represents 125% of cost. Reema is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Shikha were Rs. 45,000. The account sales received by Shikha shows that Reema has effected sales amounting to Rs. 4,50,000 in respect of 75% of the consignment. Her selling expenses to be reimbursed were Rs. 36,000. 10% of consignment goods of the value of Rs. 56,250 were destroyed in fire at the Mumbai godown. Reema remitted the balance in favour of Shika.

You are required to prepare consignment account in the books of Shikha along with the necessary calculations.

Solution :

Consignment to Mumbai Account in the Books of Shikha

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	5,62,500	By Goods sent on Consignment A/c (loading)	1,12,500
To Cash A/c	45,000	By Abnormal Loss	49,500
To Reema(Expenses)	36,000	By Reema(Sales)	4,50,000
To Reema(Commission)	49,219	By Inventories on Consignment A/c	91,125
To Inventories Reserve A/c	16,875	By General Profit & Loss A/c	6,469
	7,09,594		**7,09,594**

Working Notes:

1. Calculation of value of goods sent on consignment:
   Abnormal Loss at Invoice price = Rs. 56,250
   Abnormal Loss as a percentage of total consignment = 10%.
   Hence the value of goods sent on consignment = Rs. 56,250 X 100/ 10 = Rs. 5,62,500
   Loading of goods sent on consignment = Rs. 5,62,500 X 25/125 = Rs. 1,12,500
2. Calculation of abnormal loss (10%):
   Abnormal Loss at Invoice price = Rs. 56,250.
   Abnormal Loss at cost = Rs. 56,250 × 100/125 = Rs. 45,000
   Add: Proportionate expenses of Shikha (10 % of Rs. 45,000) = Rs. 4,500
   Rs. 49,500
3. Calculation of closing Inventories (15%):
   Shikha's Basic Invoice price of consignment = Rs. 5,62,500
   Shikha's expenses on consignment = Rs. 45,000
   Rs. 6,07,500
   Value of closing Inventories = 15% of Rs. 6,07,500 = Rs. 91,125
   Loading in closing Inventories = Rs. 1,12,500 x 15/100 = Rs. 16,875
   Where Rs. 84,375 (15% of Rs. 5,62,500) is the basic invoice price of the goods sent on consignment remaining unsold.
4. Calculation of commission:
   Invoice price of the goods sold= 75% of Rs. 5,62,500 = Rs. 4,21875
   Excess of selling price over invoice price = Rs. 28,125 (Rs. 4,50,000 - Rs. 4,21,875)
   Total commission = 10% of Rs. 4,21,875 + 25% of Rs. 28,125
   = Rs. 42187.5 + Rs. 7,031.25 = Rs. 49218.75

Thanks ....

CHAPTER - 10

ACCOUNTING FOR SPECIAL TRANSACTIONS

Question 1 : Nov 2019 – Paper

The following amounts are due to X by Y. Y wants B to pay on 10th July,2019. Interest rate of 9% p.a. is taken into consideration.

Due dates	Rs.
10th January	750
26th January (Republic Day)	1,200
23rd March	3,300
18th August (Sunday)	4,100

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date.

Solution :

Taking 10th January as the base date

Due Date (Normal)	Due Date (Actual)	No. of days from 10th January. .	Amount Rs.	Product
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

Average Due Date $= 10\text{th Jan.} + \dfrac{11,53,500}{9,350}$

= 10th Jan + 124 days (rounded off upward) = 14th May

If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days.

Interest $= 9,350 \times \dfrac{9}{100} \times \dfrac{57}{365} = 131.41\ 9$

The amount to be paid on 10th July: Rs.9,350+ 131.41 = Rs.9481.41

Question 2 : Nov 2019 – Paper

Ramesh has a Current Account with Partnership firm. He had a debit balance of Rs. 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	Amount (Rs.)
14-07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (Rs.)
29-07-2018	92,000
09-09-2018	11,500

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

Solution :

Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)	Balance (Rs.)	Dr.or Cr.	Days	Dr. Product (Rs.)	Cr. Product (Rs.)
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						
30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	**1,89,441**				**38,90,000**	**5,70,000**

Interest Calculation:

On Rs. 38,90,000 × 10% × 1/365 = 1,066

On Rs. 5,70,000 × 8% × 1/365 = Rs. 125

Net interest to be debited = Rs. 941

Question 3 : May 2020 – RTP

Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2018	Rs. 3,000	for 4 months
18th April 2018	Rs. 5,500	for 3 months
25th May 2018	Rs. 3,000	for 6 months
5th June 2018	Rs. 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for Rs. 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.

Solution :

Calculation of Average Due Date
Taking Base Date 21.07.2018

Date of bill	Period	Due Date	Amount Rs.	Number of Days from Base Date	Product Rs.
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		**7,50,000**

Average Due Date = 21st July + $\frac{7,50,000}{17,500}$ = 21.7.2018 + 43 days = 2.09.2018

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;
Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on Rs. 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)
= Rs. 10,000 x 10% x 63/365 = Rs. 172.60

2nd bill = Interest will be charged on Rs. 7,500 (Rs. 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2018 to 4.1.2019)
= Rs. 7,500 x 10% x 124/365 = Rs. 254.80.

Therefore, the value of the two bills:
First bill = Rs. 10,000
Second bill = Rs. (7,500+ 172.60+ 254.80) = Rs. 7,927.4

Question 4 : May 2020 – RTP

From the following transactions in the books of Mr. Perfact, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2019. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2019		Rs.
1-Jan	Balance in Smart's Account (Credit)	3,500
12-Jan	Sold goods to Smart (due 1st February)	30,000
31-Jan	Sold goods to Smart (due 15th February)	27,500
15-Feb	Cash received	40,000
20-Feb	Cash received	7,500
10-Mar	Goods returned by Smart	7,000
25-Mar	Cash received	6,500

Solution :

In the books of Mr. Perfact
Mr. Smart in Account Current with Mr. Perfact
(Interest to 31st March, 2019 @ 12% p.a.)
(By means of product)

Date 2019	Particulars	Due Date	Amount Rs.	Days	Product	Date 2019	Particulars	Due Date	Amount Rs.	Days	Product
Jan.12	To Sales A/c	Feb.1	30,000	58	17,40,000	Jan.1	By Balance b/d	Jan.1	3,500	90	3,15,000
Jan.31	To Sales A/c	Feb.15	27,500	44	12,10,000	Feb.15	By Cash A/c	Feb.15	40,000	44	17,60,000
Mar.31	To Interest 3,96,500/365 $\times \frac{12}{100}$		130			Feb.20	By Cash A/c	Feb.20	7,500	39	2,92,500
Mar.31	To Balance c/d		6,870			Mar.10	By Sales returns	Mar.10	7,000	21	1,47,000
						Mar.25	By Cash A/c	Mar.25	6,500	6	39,000
						Mar.31	By Balance of products				3,96,500
			64,500		**29,50,000**				**64,500**		**29,50,000**

Question 5 : Nov 2020 – RTP

The following are the transactions that took place between G and H during the period from 1st October, 2019 to 31st March, 2020 :

2019		Rs.
Oct.1	Balance due to G by H	3,000
Oct.18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7	Goods sold by H to G (invoice dated December, 17)	3,500
2020		**Rs.**
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2020 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.(1 year =365 Days)

Solution :

In the books of G
H in Account Current with G
(interest to 31st March,2020@10%p.a.)

Date 2019	Due date 2019	Particulars	No. of days till 31.3.20	Amt. Rs.	Product Rs.	Date 2019	Due date 2019	Particulars	No. of days till 31.3.20	Amt. Rs.	Product Rs.
Oct. 1	Oct. 1	To Balance b/d	182	3,000	5,46,000	Nov.16	Nov.26	By Purchases	125	4,000	5,00,000
Oct.18	Oct.18	To Sales	164	2,500	4,10,000	Dec.7	Dec. 17	By Purchases	104	3,500	3,64,000
2020	2020					2020	2020				
Jan.3	Apr.6	To Bills payable	(6)	5,000	(30,000)	Mar.28	Apr.8	By Purchases	(8)	2,700	(21,600)
Feb.4	Feb.4	To Cash	55	1,000	55,000	Mar.31	Mar.31	By Balance of product		-	1,81,600
Mar.21	Mar.21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar.31	Mar.31	To Interest		50	-						
				15,850	**10,24,000**					**15,850**	**10,24,000**

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = Rs.50 (approx.)

Question 6 : Nov 2020 – Paper

From the following particulars prepare an account current, as sent by Mr. Raju to Mr. Sunil as on 31st October 2020 by means of product method charging interest @ 12% p.a.

2020	Particulars	Amount (Rs.)
1st July	Balance due from Sunil	840
15th August	Sold goods to Sunil	1,310
20th August	Goods returned by Sunil	240
22nd September	Sunil paid by cheque	830
15th October	Received cash from Sunil	560

Solution :

Mr. Sunil in Account Current with Mr. Raju
for the period ending on 31stOctober, 2020

Date 2020	Particulars	Amount Rs.	Days	Products	Date 2020	Particulars	Amount Rs.	Days	Products
Jul-01	To Balance b/d	840	123	1,03,320	Aug. 20	By Sales Returns	240	72	17,280
Aug-15	To Sales A/c	1,310	77	1,00,870	Sept. 22	By Bank A/c	830	39	32,370
Oct. 31		47.73			Oct. 15	By Cash A/c	560	16	8,960
					Oct .31	By Balance of products			1,45,580
					Oct.31	By Balance c/d	567.73		
		2,197.73		**2,04,190**			**2,197.73**		**2,04,190**

Calculation of interest:

Interest = 1,45,580/366 X 12 % = Rs.47.73

Note: Year 2020 is a leap year; hence 366 days are taken for interest calculation.

On the assumption of 365 days interest will be as below:-

Interest = 1,45,580/355 x 12% = Rs.47.86 (or) Rs.48.

Note: The alternative answer based on backward method i.e. Epoque method is also possible.

Question 7 : Nov 2020 – Paper

Rakesh had the following bills receivable and bills payable against Mukesh.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1st June	3,400	3 month	29th May	2,500	2 month
5th June	2,900	3 month	3rd June	3,400	3 month
9th June	5,800	1 month	9th June	5,700	1 month
12th June	1,700	2 month			
20th June	1,900	3 month			

15th August was a public holiday. However, 6th September, was also declared as sudden holiday. Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

Solution :

Let us take 12.07.2020 as Base date.

Bills receivable

Due date	No. of days from 12.07.2020	Amount	Product
04-09-2020	54	3,400	1,83,600
08-09-2020	58	2,900	1,68,200
12-07-2020	0	5,800	0
14-08-2020	33	1,700	56,100
23-09-2020	73	1,900	1,38,700
		15,700	**5,46,600**

Bills Payable

Due date	No. of days from 12.07.2020	Amount	Product
01-08-2020	20	2,500	50,000
07-09-2020	57	3,400	1,93,800
12-07-2020	0	5,700	0
		11,600	**2,43,800**

Excess of products of bills receivable over bills payable = 5,46,600 -2,43,800= 3,02,800
Excess of bills receivable over bills payable = 15,700 – 11,600 = 4,100

Number of days from the base date to the date of settlement is $\frac{3,02,800}{4,100}$ = 73.85 (appox.)

Hence date of settlement of the balance amount is 74 days after 12th July i.e. 24th September.
On 24thSeptember, 2020 Mukesh has to pay Rakesh Rs.4,100 to settle the account.

Question 8 : Jan 2021 – Paper

From the following particulars prepare an account current, as sent by Mr. Amit to Mr. Piyush as on 31st December, 2020 by means of product method charging interest @ 8% p.a.

Date	Particulars	Rs.
01.09.2020	Balance due from Piyush	900
15.10.2020	Sold good to Piyush	1,450
20.10.2020	Goods returned by Piyush	250
25.11.2020	Piyush paid by Cheque	1,200
15.12.2020	Received cash from Piyush	600

Solution :

Piyush in Account Current with Amit
for the period ending on 31st December, 2020

Date 2020	Particulars	Amount Rs.	Days	Products	Date 2020	Particulars	Amount Rs.	Days	Products
Sept. 1	To Balance b/d	900	122	1,09,800	Oct.20	By Sales	250	72	18,000
Oct. 15	To Sales A/c	1,450	77	1,11,650	Nov.22	By Bank A/c	1,200	39	46,800
Dec.31	To Interest A/c	32			Dec.15	By Cash A/c	600	16	9,600
					Dec.31	By Balance of products			1,47,050
						By Balance c/d	332		
		2,382		**2,21,450**			**2,382**		**2,21,450**

Calculation of interest:
Interest = 1,47,050/ 366 days × 8% = Rs. 32 (Rounded off)

Note: 366 days taken for interest calculation since 2020 is a leap year. Alternatively,365 days can also be taken. In that case amount of interest will be Rs. 32.23 (Rounded off Rs. 32) and amount of balance c/d will be Rs. 332.23 (Rounded off Rs. 332).

Question 9 : Jan 2021 – Paper

Mahesh had the following bill receivables and bills payables against Rajesh. Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
12.06.20	5,000	3 months	27.05.20	3,700	3 months
10.07.20	6,200	1 month	07.06.20	4,000	3 months
15.07.20	3,500	3 months	10.07.20	5,000	1 month
12.06.20	1,500	2 months			
28.06.20	2,500	2 months			

15th August, 2020 was Public holiday. However, 10th September, 2020 was also suddenly declared as holiday.

Solution :

Let us take 13.08.2020 as Base date.

Bills receivable

Bill Date	Tenure	Due date	No. of days from 13.08.2020	Amount	Product
12/6/2019	3 months	15/09/2020	33	5,000	1,65,000
10/7/2019	1 month	13/8/2020	0	6,200	0
15/07/19	3 months	18/10/2020	66	3,500	2,31,000
12/6/2019	2 months	14/08/2020	1	1,500	1,500
28/06/19	2 months	31/8/2020	18	2,500	45,000
				18,700	4,42,500

Bills payables

Bill Date	Tenure	Due date	No. of days from 13.08.2020	Amount	Product
27/05/19	3 months	30/08/2020	17	3,700	62,900
7/6/2019	3 months	11/9/2020	29	4,000	1,16,000
10/7/2019	1 month	13/08/2020	0	5,000	0
				12,700	**1,78,900**

Excess of products of bills receivable over bills payable = 4,42,500 - 1,78,900= 2,63,600
Excess of bills receivable over bills payable = 18,700 – 12,700 = 6,000
Number of days from the base date to the date of settlement is 2,63,600 /6,000 = 43.94 (approx.)
Hence date of settlement of the balance amount is 44 days after 13.08.2020 i.e.
26th September, 2020.

On **26th September, 2020**, Rajesh has to pay Mahesh Rs. 6,000 to settle the account.

Question 10 : May 2021 – RTP

From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2020	2,500	1 month
20th March, 2020	2,000	2 months
12th July, 2020	3,500	1 month
10th August, 2020	3,000	2 months

Solution :

Calculation of Average Due Date
(Taking 3rd March, 2020 as base date

Date of bill	Term	Due date	Amount	No. of days from the base date i.e. 3rd March,2020	Product
2020		**2020**	**(Rs.)**	**(Rs.)**	**(Rs.)**
28th January	1 month	3rd March	2,500	0	0
20th March	2 months	23rd May	2,000	81	1,62,000

12th July	1 month	14th Aug.	3,500	164	5,74,000
10th August	2 months	13th Oct.	3,000	224	6,72,000
			11,000		**14,08,000**

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2020 + $\frac{14,08,000}{11,000}$

= 3rd March, 2020 + 128 days = 9th July, 2020

Working Note : Bill dated 12th July, 2020 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2020. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2020.

Note: 365 days are taken for calculation.

Question 11 : May 2021 – RTP

On 1st January, 2020, Kamal 's account in Vimal's ledger showed a debit balance of Rs. 15,000. The following transactions took place between Vimal and Kamal during the quarter ended 31st March, 2020:

2020			Rs.
Jan.	11	Vimal sold goods to Kamal	18,000
Jan.	24	Vimal received a promissory note from Kamal after 3 months	15,000
Feb.	1	Kamal sold goods to Vimal	30,000
Feb.	4	Vimal sold goods to Kamal	24,600
Feb.	7	Kamal returned goods to Vimal	3,000
March	1	Kamal sold goods to Vimal	16,800
March	18	Vimal sold goods to Kamal	27,600
March	23	Kamal sold goods to Vimal	12,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Vimal to Kamal as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

Solution :

In the books of Vimal
Kamal in Account Current with Vimal
(Interest to 31st March, 2020 @ 10% p.a.)

Date 2020	Particulars	Amount Rs.	Days	Product Rs.	Date 2020	Particulars	Amount Rs.	Days	Product Rs.
Jan.1	To Balance b/d	15,000	91	13,65,000	Jan.24	By Promissiory	15,000	-26	(3,90,000)
Jan.11	To Sales	18,000	80	14,40,000	Feb. 1	Note (due date 26th April)			
Feb. 4	To Sales	24,600	56	13,77,600	Feb. 7	By Purchases	30,000	59	17,70,000
Mar.18	To Sales	27,600	13	3,55,800	Mar. 1	By Sales Return	3,000	53	1,59,000
Mar.31	To Interest	442			Mar.23	By Purchases	16,800	30	5,04,000
					Mar.31	By Purchases	12,000	8	96,000
					Mar.31	By Balance of Products			16,19,400
						By Bank	8,842		
		85,642		**45,38,400**			**85,642**		**45,38,400**

Working Note:

Calculation of interest:
Interest = = 16,19,400/366 x 10/100 = Rs.442.45 (approx.)
Note : 366 days are taken for calculation since year 2020 is a leap year.

Question 12 : July 2021 – Paper

Ramesh lent Rs. 1,50,000 to Deepak on 1st January, 2016 at the rate of 12% per annum. The loan is repayable as under:

(i) Rs. 10,000 on 1st January, 2017
(ii) Rs. 20,000 on 1st January, 2018
(iii) Rs. 30,000 on 1st January, 2019
(iv) Rs. 40,000 on 1st January, 2020
(v) Rs. 50,000 on 1st January, 2021

You are required to determine the average due date for settling all the above installments by a single payment and compute interest.

Solution :

Due date	Amount (in Rs.)	No. of months from 1.1.2016	Products
1st January 2017	10,000	12	1,20,000
1st January 2018	20,000	24	4,80,000
1st January 2019	30,000	36	10,80,000
1st January 2020	40,000	48	19,20,000
1st January 2021	50,000	60	30,00,000
	1,50,000		66,00,000

Average due date= Base date + $\frac{\text{Total of product}}{\text{Total of amount}}$

1st January 2016 + $\frac{66,00,000}{1,50,000}$ = 44 months

Average due date= 1st January 2016+ 44 months = 1st September 2019.

Interest for the 44 months = $\frac{1,50,000 \times 12 \times 44/12^{*}}{100}$ = Rs. 66,000.

*May be considered as 3.67 years, in this case, interest will be calculated as Rs. 66,060.

Question 13 : Nov 2021 – RTP

Calculate average due date from the following information:

Date of bill	Term	Amount (Rs.)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

Solution :

Calculation of Average Due Date
(Taking 4th May, 2021 as the base date)

Date of bill	Term	Due date	Amount	No. of days from the base date i.e. May 4, 2021	Product

2021		2021	Rs.		Rs.
1st March	2 months	4th May	20,000	0	0
10th March	3 months	13th June	15,000	40	6,00,000
5th April	2 months	8th June	10,000	35	3,50,000
23rd April	1 month	26th May	18,750	22	4,12,500
10th May	2 months	13th July	25,000	70	17,50,000
			88,750		**31,12,500**

Average due date = Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$= \text{4th May, 2021} + \frac{\text{Rs.3,11,2500}}{\text{88,750}} = \text{4th May, 2021} + \text{35 days} = \text{8th June, 2021}$

Question 14 : Nov 2021 – RTP

Mr. P owed Rs. 12,000 on 1st January, 2021 to Mr. Q. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	Rs.
15 January, 2021 Mr. Q sold goods to Mr. P	6,690
29 January, 2021 Mr. Q bought goods from Mr. P	3,600
10 February, 2021 Mr. P paid cash to Mr. Q	3,000
13 March, 2021 Mr. P accepted a bill drawn by Mr. Q for one month	6,000

They agree to settle their complete accounts by one single payment on 15th March, 2021. Prepare Mr. P in Account Current with Mr. Q and ascertain the amount to be paid. Ignore days of grace.

Solution :

Mr. P in Account Current with Mr. Q

(Interest upto 15th March, 2021 @ 10% p.a.)

Dr. **Cr.**

Date 2021	Particulars	Amount	Days	Product	Date 2021	Particulars	Amount	Days	Product
Jan.1	Balance b/d	12,000	74	8,88,000	Jan.29	Purchase account	3,600	45	1,62,000
Jan.15	Sales account	6,690	59	3,94,710	Feb.10	Cash account	3,000	33	99
Mar.13	Red Ink product (Rs. 6,000 × 29)			1,74,000	Mar.13	Bills Receivable account	6,000		
Mar.15	Interest account $\left(\frac{11,95,710\times10\times1}{100\times365}\right)$	328			Mar.15	Balance of product	6,418		11,95,710
						Balance c/d (amount to be paid)	19,018		
		19,018		**14,56,710**			**19,018**		**14,56,710**

Thanks ....

CHAPTER - 11

PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS

Question 1 : Nov 2019 – Paper

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

Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ Rs. 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted@ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of closing W.I.P.	
Repairs and maintenance	1,80,000
Units produced - 5,00,000 units	

Solution :

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

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

Working Notes:

(1) Direct Wages – 5,00,000 units @ Rs.0.80 = Rs.4,00,000
14,000 units @ Rs.0.40 = Rs. 5,600
Rs. 4,05,600

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

Question 2 : Nov 2019 – Paper

The balance sheet of Mittal on 1st January, 2018 was as follows :

Liabilities	Amount Rs.	Assets	Amount Rs.
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		**69,50,000**

During 2018, his profit and loss account revealed a net profit of Rs. 15,10,000. This was after allowing for the following:

(i) Interest on capital @ 6% p.a.
(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @5% p.a..
(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling Rs. 1,85,000 and (2) prepaid insurance to the extent of Rs. 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables Rs. 21,00,000; Cash at bank Rs. 5,20,000 and Trade payables Rs. 13,84,000. During the year he withdrew Rs. 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

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

Solution :

Profit and Loss Account (Revised)

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

Balance Sheet of Mittal
as on 31st December, 2018

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

Outstanding expenses		1,85,000	Less: Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			**77,05,000**

Question 3 : May 2020 – RTP

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (Rs.)	Credit (Rs.)
Capital A/c	12,00,000	14,11,400
Purchases		
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Building	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
(b) Value of stock at the close of the year was Rs.4,10,000.
(c) One month rent for godown is outstanding.
(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
(e) Provision for bad debts is to be maintained at 5% of Sundry debtors.
(f) Insurance premium includes Rs.42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

Solution :

M/s Raghuram & Associates
Trading Account for the year ended 31st March 2018

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

M/s Raghuram & Associates
Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount Rs.	Particulars	Details	Amount Rs.
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000		By Discount received		12,000
Add: Outstanding	5,000	60,000			
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			

To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			**3,34,000**

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

Liabilities	**Details**	**Amount Rs.**	**Assets**	**Details**	**Amount Rs.**
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: Proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			**14,85,200**

Working Notes:

(1) Insurance premium Rs.

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

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

(3) Interest on Loan

Interest on Loan Rs. 60,000 × 10% × 9/12 = 4,500

Less: interest as per Trial Balance =	(4,400)
Amount (Outstanding)	100

(4) Provision for bad debts A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		**26,200**

Question 4 : Nov 2020 – RTP

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

	Dr. Rs.	Cr. Rs.
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	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
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	**31,19,000**

Stock on 31st March, 2019 was valued at Rs. 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) Rs. 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn Rs. 12,000 was used in the business for day-to-day expenses.

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

(iii) Purchase returns of Rs. 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 Rs. 6,000 in respect of the period after 31st March, 2019.

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

Solution :

Journal Entries

	Particulars		Dr. (Rs.)	Cr. (Rs.)
(i)	Expenses A/c	Dr.	12,000	

	To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)			12,000
(iv)	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	16,000	 16,000
(iii)	Suspense A/c To Purchase Returns To Sales Returns (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	2,000	 1,000 1,000
(iv)	Prepaid Expenses A/c To Expenses (Prepaid expenses adjusted)	Dr.	6,000	 6,000

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

Dr. **Cr.**

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

Balance Sheet as on 31st March, 2019

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings (70,000 – 12,000)	58,000	10,86,000		3,40,000	
Creditors	2,20,000		Less: Depreciation	10,000	3,30,000

Add: Purchases not recorded	16,000	2,36,000	Stock		
Overdraft		8,000	Debtors		1,00,000
			Investments		2,50,000
			Interest accrued		2,50,000
			Bank fixed deposit		20,000
			Prepaid Expenses		2,00,000
			(6000+5000)		11,000
			Bank		1,69,000
		13,30,000			**13,30,000**

Question 5 : Nov 2020 – Paper

Max & Co. employs a team of 9 workers who were paid Rs. 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to Rs. 44,000 per month each. On 1 July, 2019 the company hired 2 trainees at salary of Rs. 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

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

(ii) Amount actually paid as salaries during 2019.

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

Solution :

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

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

(ii) Amount actually paid as salaries during 2019

Employees = 9 x Rs. 44,000 x 11 + 9 x Rs. 40,000 = Rs. 47,16,000
Trainees = 2 x Rs.21,000 x 5 = Rs. 2,10,000
Amount paid as salaries Rs. 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees = 9 x Rs. 44,000 = Rs. 3,96,000
Trainees = 2 x Rs. 21,000 = Rs. 42,000
Outstanding salaries Rs. 4,38,000

Question 6 : Nov 2020 – Paper

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

Raw Material A/c

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

Creditors A/c

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

Additional Information:

(i) Purchase of machinery worth Rs. 12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

(ii) Wages include the following:
Paid to factory workers - Rs. 3,15,000
Paid to labour at office - Rs. 50,000

(iii) Direct expenses included the following :
Electricity charges - Rs. 80,000 of which 25% pertained to office
Fuel charges - Rs. 25,000
Freight inwards - Rs. 32,000
Delivery charges to customers - Rs. 22,000

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

Solution :

Manufacturing A/c

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

Raw Material A/c

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

Working Notes:

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

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

(3) Expenses to be excluded from direct expenses :
Office Electricity Charges (80,000 X 25%) 20,000

Delivery Charges to Customers 22,000
Total expenses not part of Direct Expenses 42,000
=> Revised Direct Expenses = Rs. (2,49,000 - 42,000)
= Rs. 2,07,000

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

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

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

(5) **Creditors A/c**

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

Question 7 : May 2021 – RTP

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

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

Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1740	-
Drawings	60,000	-
	10,22,660	**10,22,660**

The following adjustments are to be made:

(1) Included amongst the debtors is Rs. 6,000 due from Rahul and included among the creditors Rs. 2,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Manan amounting to Rs. 1200 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to Rs. 800 had been omitted from the books.

(8) Stock on 31st March 2020 was Rs. 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2020 and (ii) Balance sheet as on 31st March, 2020.

Solution :

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

Particulars	**Rs.**	**Amount Rs.**		**Rs.**	**Amount Rs.**
To Opening stock		93,600	By Sales	7,79,200	
To Purchases	6,43,400		Less: Returns	17,200	7,62,000
Add: Omitted invoice	800		By Closing stock		1,57,200
	6,44,200				
Less: Returns	11,600				
	6,32,600				
Less: Drawings	1,200	6,31,400			
To Carriage		39,200			
To Gross profit c/d		1,55,000			
		9,19,200			**9,19,200**
To Rent and taxes		9,400	By Gross profit b/d		1,55,000
To Salaries and wages		18,600	By Discount		8,880
To Bank interest	2,200				
Add: Due	3,400	5,600			
To Printing and stationary	28,800				
Less: Prepaid (1/4)	7,200	21,600			
To Discount allowed		3,600			
To General expenses		22,900			
To Insurance		2,600			

To Postage & telegram expenses		4,660			
To Travelling expenses		1,740			
To Provision for bad debts [W.N.(2)]		2,300			
To Provision for discount on debtors [W.N.(2)]		874			
To Depreciation on furniture & fittings		1,000			
To Net profit		69,006			
		1,63,880			**1,63,880**

Balance Sheet of Manan as at 31st March,2020

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	69,006		Less: Depreciation	1000	
	2,22,386		Sundry debtors (W.N.1)	46,000	9,000
Less: Drawings:			Less: Provision for bad & doubtful debts (W.N.2)	2,300	
Cash 60,000				43,700	
Goods 1,200	61,200	161,186	Less: Provision for discount (W.N.2)	874	42,826
Bank loan		40,000	Stock		1,57,200
Bank interest due		3,400	Prepaid expenses:		
Sundry creditors (W.N.3)		28,400	Printing & stationary		7,200
			Bank balance		16,000
			Cash balance		760
		2,32,986			**2,32,986**

Working Notes :

(1)	**Sundry debtors**	
	Balance as per trial balance	48,000
	Less: Due to Rahul	2,000
		46,000
(2)	**Provision for bad & doubtful debts:**	
	@ 5% on Rs. 46,000	2,300
	Provision for discount:	
	2% on Rs. 43,700 (46,000 -2,300)	874
(3)	**Sundry creditors**	
	Balance as per trial balance	29,600
	Less: Set off in respect of Rahul	2,000
		27,600
	Add: Purchase invoice omitted	800
		28,400

Question 8 : July 2021 – Paper

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about Rs. 10,00,000. She invested Rs. 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for Rs. 5,00,000 and further spent Rs. 1,00,000 on its renovation to make it ready for business

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

30th June, 2020	-	Rs. 15,000 principal+ Rs. 9,000 interest
30th September, 2020	-	Rs. 15,000 principal+ Rs. 8,550 interest
31st December, 2020	-	Rs. 15,000 principal+ Rs. 8,100 interest
31st March, 2021	-	Rs. 15,000 principal+ Rs. 7,650 interest.

In view of further capital requirement, she transferred Rs. 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of Rs. 7,000 for telephone connection. Furniture of Rs. 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

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

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

Other Information:

(i) She withdrew Rs. 5,000 by cheque each month for her personal expenses.

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

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

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

Solution :

In the books of M/s Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2021)

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

	8,50,000		8,50,000

Balance Sheet as on 31st March, 2021

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

Working note:

Bank Account

Particulars	Rs.	Particulars	Rs.
To Capital	3,00,000	By Building	6,00,000
To Further capital	2,00,000	By Furniture	10,000
To Bank loan	3,00,000	By Bank loan repaid	60,000
To Sales	20,00,000	By Interest	33,300
		By Security deposit	7,000
		By Drawings	60,000
		By Purchase	17,00,000
		By Telephone charges	50,000
		By Travelling expenses	45,000
		By Maintenance expenses	25,000
		By Entertainment expenses	5,000
		By Electricity	40,000
		By Carriage outward	60,000
		By Misc. expenses	15,000
		By Balance c/d	89,700
	28,00,000		**28,00,000**

Question 9 : Nov 2021 – RTP

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

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

Additional Information:

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

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

Solution :

Rectification Entries

	Particulars		Dr. Amount Rs.	Cr. Amount Rs.
(i)	Returns inward account	Dr.	10,300	
	Sales account	Dr.	6,900	
	To Purchases account			10,300
	To Returns outward account			6,900
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	14,000	
	To Purchases account			14,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	1,800	
	To Wages account			1,800
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	3,300	
	To Purchases account			3,300
	(Being free samples distributed for publicity out of purchases, now rectified)			

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

Dr. Cr.

	Rs.	Amount Rs.		Rs.	Amount Rs.
To Opening stock		1,29,000	By Sales	8,54,300	
To Purchases	6,12,400		Less: Sales return	10,300	8,44,000
Less: Purchases return	6,900	6,05,500	By Closing stock		5,00,000

			Rs.3,20,000$\times\frac{100}{80}\times\frac{100}{80}$		
To Carriage inward		4,500			
To Wages		46,860			
To Gross profit c/d		5,58,140			
		13,44,000			**13,44,000**
To Salaries		90,200	By Gross profit b/d		5,58,140
To Rent		17,200	By Bad debts recovered		1800
To Advertisement expenses		16,700			
To Printing and stationery		5,000			
To Bad debts		4,400			
To Carriage outward		5,400			
To Provision for doubtful debts 5% of Rs. 4,80,000	24,000				
Less: Existing provision	12,800	11,200			
To Provision for discount on debtors 2.5% of Rs. 4,56,000	11,400				
Less: Existing provision	5,500	5,900			
To Depreciation:					
Plant and machinery	16,000				
Furniture and fittings	4,100	20,100			
To Office expenses		40,640			
To Interest on loan		12,000			
To Net profit (Transferred to capital account)		3,31,200			
		5,59,940			**5,59,940**

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

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,31,200		Less: Depreciation	16,000	64,000
	5,91,200		Furniture and fittings	41,000	
Less: Drawings	46,000	5,45,200	Less: Depreciation	4,100	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Sundry creditors		1,90,000	Sundry debtors	4,80,000	
Payable salaries		9,800	Less: Provision for doubtful debts	35,400	4,44,600
			Prepaid rent		1,200
			Cash in hand		5800
			Cash at bank		12,500
		10,65,000			**10,65,000**

Thanks ....

CHAPTER - 12

PARTNERSHIP ACCOUNTS

Question 1 : Nov 2019 – Paper

Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and -Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three yearsRs. purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (Rs.)	Credit (Rs.)
ArupRs.s Capital		90,000
SwarupRs.s Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	20,000
Trade payables		
Total	**2,15,000**	**2,15,000**

The profits for the three year were 2016: Rs. 51,000; 2017: Rs. 39,000 and 2018: Rs. 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up SwarupRs.s Executor Account as would appear in the firmsRs. ledger transferring the amount to the Loan account.

Solution :

(i)	**Ascertainment of SwarupRs.s Share of Profit**		(ii)	**Ascertainment of Value of Goodwill**	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 monthsRs. Profit	15,000		Goodwill - 3 years	
	SwarupRs.s Share in Profit	6,000		Purchase of Average Profit	1,35,000
	(2/5th of Rs.15,000)			SwarupRs.s Share of goodwill	54,000

				(2/5 of Rs.1,35,000)	

Working Note:

Profit sharing ratio between Arup and Swarup = 1/2; 1/3; = 3: 2, Therefore SwarupRs.s share of Profit = 2/5

SwarupRs.s Executors Account

Date 2019	Particulars	Rs.	Date 2019	Particulars	Rs.
May-01	To SwarupRs.s Loan A/c	1,38,000	Rs.. 1	By Capital A/c	60,000
			May-01	By Reserves (2/5th of Rs.45,000)	18,000
			May-01	By ArupRs.s Capital A/c (Share of goodwill)	54,000
			May-01	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			**1,38,000**

Question 2 : May 2020 – RTP

A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that CRs.s share of profit after charging interest on capitals at 5% p.a. would not be less than Rs.30,000 in any year. Capitals of A, B and C were Rs.3,20,000, Rs.2,00,000 and Rs.1,60,000 respectively.

Profits for the year ending 31.12.2019 before providing for interest on partners capital was Rs.1,59,000. You required to prepare the Profit and Loss Appropriation Account.

Solution :

Profit and Loss Appropriation Account
for the year ended 31st December, 2019

Dr. **Cr.**

	Rs.	Rs.		Rs.
To Interest on capital			By Net profit b/d	1,59,000
A (5% of Rs. 3,20,000)	16,000			
B (5% of Rs. 2,00,000)	10,000			
C (5% of Rs. 1,60,000)	8,000	34,000		
To PartnersRs. capital accounts: [profit (Rs. 1,59,000 – Rs. 34,000) transferred]				
A $\left(\frac{5}{10}\text{ of Rs.1,25,000}\right)$	62,500			
Less: Transferred to C	5,000	57,500		1,59,000
B $\left(\frac{3}{10}\text{ of Rs.1,25,000}\right)$		37,500		
C $\left(\frac{2}{10}\text{ of Rs.1,25,000}\right)$	25,000			
Add: Transferred from A	5,000	30,000		
		1,59,000		**1,59,000**

Question 3 : May 2020 – RTP

J and K are partners in a firm. Their capital are J Rs.3,00,000 and K Rs.2,00,000. During the year ended 31st March, 2019 the firm earned a profit of Rs.1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 yearsRs. purchase of Super Profit.

Solution :

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average profit} \times 100}{\text{Normal Rate of Return}} = \frac{Rs.1{,}50{,}000 \times 100}{20} = \text{Rs.}7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= Rs. 7,50,000 – Rs. 5,00,000 [i.e., Rs. 3,00,000 (J) + Rs. 2,00,000 (K)]

Goodwill = Rs. 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed × 20/100 = Rs. 1,00,000

Average Profit = Rs. 1,50,000

Super Profit = Average profit – Normal Profit

= Rs. 1,50,000 – Rs. 1,00,000 = Rs. 50,000

Goodwill = Super Profit × Number of yearsRs. purchase

= Rs. 50,000 × 2 = Rs. 1,00,000

Question 4 : May 2020 – RTP

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities		**(Rs.)**	**Assets**	**(Rs.)**
Trade payables		22,500	Land & Buildings	37,000
Outstanding Liabilities		2,200	Furniture & Fixtures	7,200
General Reserve		7,800	Closing stock	12,600
Capital Accounts:			Trade Receivables	10,700
Dinesh	15,000		Cash in hand	2,800
Ramesh	15,000		Cash at Bank	2,200
Naresh	10,000	40,000		
		72,500		**72,500**

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

(i) Suresh shall bring Rs.8,000 towards his capital.

(ii) The value of stock to be increased to Rs.14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 5% of the trade receivables.

(iv) The value of Land & Buildings to be increased by Rs.5,600 and the value of the goodwill be fixed at Rs.18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include Rs.700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Solution :

Revaluation Account

2018			Rs.	2018		Rs.
1-Apr	To Provision for bad and doubtful debts		535	1-Apr	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			**7,000**

PartnersRs. Capital Accounts

Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.	Particulars	Dinesh Rs.	Ramesh Rs.	Naresh Rs.	Suresh Rs.
To Dinesh & Ramesh	-	-	1,500	4,500	By Balance b/d	15,000	15,000	10,000	-
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By General Reserve	3,900	2,600	1,300	-
					By Cash	-	-	-	8,000
					By Naresh & Suresh	4,500	1,500	-	-
					By Outstanding Liabilities (Ram)	700	-	-	-
					By Revaluation A/c	2,872.50	1,915	957.5	-
	26,972.50	**21,015**	**12,257.50**	**8,000**		**26,972.50**	**21,015**	**12,257.50**	**8,000**

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	1/4	3/6	6/24	
Ramesh	1/4	2/6	2/24	
Naresh	1/4	1/6		2/24
Suresh	1/4			6/24

Entry for goodwill adjustment

Naresh (2/24 of Rs.18,000)	Dr.	1,500	
Suresh (6/24 of Rs.18,000)	Dr.	4,500	
To Dinesh (6/24 od Rs.18,000)			4,500
To Ramesh (2/24 of Rs.18,000)			1,500

Balance Sheet of Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480

Capital Accounts of Partners:			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			**86,245**

Question 5 : Nov 2020 – RTP

J and K are partners in a firm. Their capitals are: J Rs. 3,00,000 and K Rs. 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of Rs. 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 yearsRs. purchase of Super Profit.

Solution :

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average profit}}{\text{Normal Rate of Return}} = \frac{\text{Rs.}1{,}50{,}000 \times 100}{20} = \text{Rs.}7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= Rs. 7,50,000 – Rs. 5,00,000 [i.e., Rs. 3,00,000 (J) + Rs. 2,00,000 (K)]

Goodwill = Rs. 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed × 20/100 = Rs. 1,00,000

Average Profit = Rs. 1,50,000

Super Profit = Average profit – Normal Profit

= Rs. 1,50,000 – Rs. 1,00,000 = Rs. 50,000

Goodwill = Super Profit x Number of yearsRs. purchase

= Rs. 50,000 x 2 = Rs. 1,00,000

Question 6 : Nov 2020 – RTP

On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		**80,000**

On 1st April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at Rs.10,000.

(iv) Old credit balances of Sundry creditors, Rs.2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained Rs. 7,550.

(vii) Goodwill of the entire firm is valued at Rs.14,000 and PRs.s share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2020..

Solution :

(a) **Revaluation Account**

Date 2020	Particulars	Rs.	Date 2020	Particulars	Rs.
April	To Plant & Machinery	6,000	April	By Land and building	6,000
	To Stock of goods	2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts	550		By Cash & Bank - Joint life Policy surrendered	7,550
	To Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000			
		15,550			**15,550**

(b) **PartnersRs. Capital Accounts**

Dr. **Cr.**

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)
To PRs.s Capital A/c - goodwill	-	1,000	3,000	By Balance b/d	20,000	30,000	20,000
To Cash & bank A/c - (50% dues paid)	13,000	-	-	By Revaluation A/c	2,000	3,000	2,000
To PRs.s Loan A/c - (50% transfer)	13,000	-	-	By Q & RRs.s Capital A/cs - goodwill	4,000	-	-
To Balance c/d	-	35,000	35,000	By Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
	26,000	**36,000**	**38,000**		**26,000**	**36,000**	**38,000**

(c) **Cash and Bank Account**

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Balance b/d	7,000	By PRs.s Capital A/c - 50% dues paid	13,000
To Revaluation A/c – surrender value of joint life policy	7,550	By Balance b/d	20,550
To QRs.s Capital A/c	3,000		
To RRs.s Capital A/c	16,000		
	33,550		**33,550**

(d) **Balance Sheet of M/s Q & R as on 01.04.2020**

Liabilities		**Rs.**	**Assets**		**Rs.**
PartnersRs. Capital account			Land and Building	30,000	
Mr. Q	35,000		Add: Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. PRs.s Loan account		13,000	Less: Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			**91,000**

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. PRs.s Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1 : 3	

Question 7 : Nov 2020 – Paper

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
ARs.s Capital A/c	1,24,000	Land	1,20,000
BRs.s Capital A/c	96,000	Building	2,20,000
CRs.s Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000

	10,77,000		**10,77,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at Rs. 3 lakhs due to the firmRs.s location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at Rs. 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

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

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

You are required to prepare Revaluation Account and PartnersRs. Capital Accounts after reconstitution, along with working notes.

Solution :

Revaluation Account

2020		**Rs.**	**2020**			**Rs.**
Jul-01	To Building	11,000	Jul-01	By Investments (46,000 - 42,000)		4,000
	To Plant and Machinery	80,000		By PartnersRs. Capital A/cs		
	To Trade receivable (Bad Debts)	23,850		(loss on revaluation)		
				A (3/10)	33,255	
				B (2/10)	22,170	
				C (5/10)	55,425	1,10,850
		1,14,850				**1,14,850**

Partners' Capital Accounts

Dr. **Cr.**

	A Rs.	B Rs.	C Rs.	D Rs.		A Rs.	B Rs.	C Rs.	D Rs.
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	–	–	–	90,000	By D's Capital A/c (W.N.1)	–	60,000	30,000	–
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255	–	25,425	2,10,000
To B's loan A/c	–	87,830	–	–					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	**1,56,000**	**2,15,425**	**2,10,000**		**1,53,255**	**1,56,000**	**2,15,425**	**2,10,000**

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 3 lakhs

Sacrificing ratio:

A 3/10 - 3/10 = 0
B 2/10 - 0 = 2/10
C 5/10 - 4/10 = 1/10
Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.
Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		Rs.
B: 90,000 x 2/3 = 60,000		
C: 90,000 x 1/3 = 30,000	90,000	

2. Capital of partners in the reconstituted firm:

	Rs.
Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

Question 8 : Jan 2021 – Paper

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are Rs.30,000, Rs.12,000 and Rs.8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.
(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.
(iii) That an insurance policy of Rs.25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.
(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was Rs.5,000 and from that date to the date of death he had withdrawn Rs.30,000 from the business.

An unrecorded liability of Rs.6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows :

2017 : Profit Rs.29,340
2018 : Profit Rs.26,470
2019 : Loss Rs.8,320
2020 : Profit Rs.13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note : Impact for unrecorded liability not to be given in earlier years.

Solution :

P's Capital Account

2020		Rs.	2020		Rs.

Sep.30	To Current A/c (30,000 - 5000)	25,000	Rs..1	By Balance b/d	30,000
			Dec.31	By Profit and Loss A/c :	
Dec.31	To Profit and Loss Adjt. (Unrecorded Liability)	3,000		Interest on Capital	2,400
			Dec.31	Share of Profit	4,735
Dec.31	To Balance Transferred to P's Executor's A/c	38,465		Q&R (Goodwill)	11,830
			Dec.31	Insurance Policies A/c	17,500
		66,465			**66,465**

Working Notes :

(i) Valuation of Goodwill

Year	**Profit before Interest on fixed capital**	**Interest**	**Profit after interest**
	Rs.	**Rs.**	**Rs.**
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

	Rs.
Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

(ii) Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of Rs. 50,000	10,000
	35,000
Share of P (1/2)	17,500

(iii) Share in profit for 2020:

Profit for the year	13,470
Less : Interest on capitals	-4,000
	9,470
P's share in profit (1/2)	4,735

Question 9 : Jan 2021 – Paper

Discuss the rules if there is no Partnership Agreement.

Solution :

As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

Question 10 : May 2021 – RTP

Rose, Lilly and Lotus start business with capital of Rs. 2,00,000/-, Rs. 3,00,000/- and Rs.4,00,000 on 1st April 2019. Lotus is entitled to a salary of Rs. 50,000 per annum. Interest is allowed on capitals at 12% p.a.

and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of Rs. 50,000 by Lotus. Partners drawings during the year were Rose Rs. 40,000/-Lilly Rs. 30,000/- Lotus Rs. 20,000/-. Lotus had paid Rs. 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was Rs.3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

Solution :

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars		Rs.	Particulars			Rs.
To Salary to Lotus		50,000	By Net Profit b/d		3,34,600	
To Interest on capital			Add: Drawings of Lotus wrongly debited as salaries		10,000	3,44,600
Rose	24,000		By Interest on drawings			
Lilly	36,000		Rose	2,400		
Lotus	48,000	1,08,000	Lilly	1,800		
To Net Profit transferred to			Lotus	1,200		5,400
Rose	50,000					
Lilly	64,000					
Lotus	78,000	1,92,000				
		3,50,000				**3,50,000**

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Balance c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

Question 11 : May 2021 – RTP

The profits and losses for the previous years are: 2017 Profit Rs. 5,000, 2018 Loss Rs. 8,500, 2019 Profit Rs. 25,000, 2020 Profit Rs. 37,500. The average Capital employed in the business is Rs. 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor Rs. 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Solution :

Total Profit for 4 years = Rs. 5000+ Rs. (8,500) +Rs. 25,000+Rs. 37,500= Rs. 59,000.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No. of years}} = \frac{\text{Rs.}59{,}000}{4} = \text{Rs.}14{,}750$$

Average Profits for Goodwill = Rs. 14,750 – Proprietor Remuneration
= Rs. 14,750 – Rs. 3,000 = Rs. 11,750

Normal Profit = Interest on Capital employed
= Rs. 10,000 (i.e. Rs. 1,00,000 x10/100) = Rs. 10,000
Super Profit = Average Profit-Normal Profit = Rs. 11,750 – Rs. 10,000 = Rs. 1,750
Goodwill = Super Profit x No of years purchases = Rs. 1,750 x 3 =Rs. 5,250

Question 12 : May 2021 – RTP

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2
Their Balance Sheet as on 31st March, 2020 was as follows :

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		**5,06,000**

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring Rs. 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at Rs. 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at Rs. 60,000
5. Machinery to be depreciated by 20%. Debtors of Rs. 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to Rs.40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Solution :

In the books of Ramu, Mamu and Damu

Revaluation A/c

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

Partner's Capital A/cs

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

Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		**1,74,000**

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	Rs.	Assets		Rs.
Capital Accounts:		Land & Building		2,25,000
Ramu	2,50,000	Machinery		1,44,000
Mamu	1,50,000	Furniture		40,000
Damu	1,00,000	Trade Receivables	40000	
Loan from HDFC bank	25,000	Reserve for Bad debts	2,000	38,000
Trade Payables	21,000	Inventory		60,000
		Bank		39,000
	5,46,000			**5,46,000**

Working Note:

Partner	Old Share		Sacrificed Share		New Share
Ramu	3/5	–	1/10	=	5/10
Mamu	2/5	–	1/10	=	3/10
Damu		–	2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu -	Rs. 1,50,000
His share of goodwill- 2,50,000 x 1/5	Rs. (50,000)
Amount brought in as capital	Rs.1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = Rs. 5,00,000
Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio
Closing capital of Ramu (5/10th share) = 5,00,000 × 5/10 = 2,50,000
Closing capital of Mamu (3/10th share) = 5,00,000 × 3/10 = 1,50,000
Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

Question 13 : July 2021 – Paper

Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for Rs. 50,000, a premium of Rs. 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017	Nil
2018	Rs. 900
2019	Rs. 2,000
2020	Rs. 3,600

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

Solution :

Joint Life Policy Account

		Rs.			Rs.
10th June, 2017	To Bank Account	3,000	31st Dec., 2017	By Profit and Loss A/c	3,000
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st Rs.uary, 2019	To Balance b/d	900	31st Dec., 2019	By Profit and Loss A/c	1,900
10th June, 2019	To Bank Account	3,000		By Balance c/d	2,000
		3,900			3,900
1st Rs.uary, 2020	To Balance b/d	2,000	31st Dec., 2020	By Profit and Loss A/c	1,400
10th June, 2020	To Bank Account	3,000		By Balance c/d	3,600
		5,000			5,000
1st Rs.uary, 2021	To Balance b/d	3,600	15th April, 2021	By Bank	3,600
		3,600			3,600

Question 14 : July 2021 – Paper

PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:

(1)	Liability for Income Tax	Rs. 40,000
(2)	Retained Profit	Rs. 2,00,000
(3)	Proposed Dividend	Rs. 20,000
(4)	Increase in Provision for Doubtful Debts	Rs. 25,000
(5)	Bad Debts written off	Rs. 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.

Solution :

(a) Transfer to provisions - (i), (iv)
(b) Transfer to reserves - (ii)
(c) Neither related to provisions nor reserves - (iii), (v).

Question 15 : July 2021 – Paper

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.
(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - Rs. 21,600, Laxman - Rs. 12,800 and Bharat - Rs. 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of Rs. 1,920.

Firm profits were for the year ended

- 31st March, 2017 Rs. 70,400
- 31st March, 2018 Rs. 56,320
- 31st March, 2019 Rs. 48,160
- 31st March, 2020 · Rs. 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

Solution :

Ram's Capital Account

Date 2020	Particulars	Rs.	Date 2020	Particulars	Rs.
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			**1,02,722**

Ram's executor Account

Date 2020	Particulars	Rs.	Date 2020	Particulars	Rs.
31.3.2021	To Bank A/c (25,200.50+2,520)	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
	To Balance c/d	75,601.50	31.3.2021	By Interest (1,00,802 x 2.5%)	2,520.00
		1,03,322.00			**1,03,322.00**
30.9.2021	To bank A/c (25,200.50+1,890)	27,090.50	1.4.2021	By Balance b/d	75,601.50
31.3.2022	To bank A/c	26,460.50	30.9.2021	By Interest (75,601.50 x 2.5%)	1,890.00

31.3.2022	(25,200.50+1,260) To balance c/d	25,200.50	30.3.2022	By Interest (25,200.50 x 2) x 2.5%	1,260.00
		78,751.50			**78,751.50**
30.9.2022	To bank A/c (25,200.50+630)	25,830.50	1.4.2022 30.9.22	By balance b/d By Interest (25,200.50 x 2.5%)	25,200.50 630.00
		25,830.50			**25,830.50**

Working notes :

1	**Ascertainment of Value of Goodwill**	
	2017	70,400
	2018	56,320
	2019	48,160
	2020	17,408
	Total Profit for 4 years	1,92,288
	Average Profit	48,072
	Goodwill - 3 years	
	Purchase of Average Profit	1,44,216
	Ram's Share of goodwill (9/16 of Rs.1,44,216)	81,122
* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16		

2. Calculation of amount of each instalment (without interest) = Rs.1,00,802 / 4 = 25,200.50

Question 16 : Nov 2021 – RTP

X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than Rs. 15,000 in any year. Capitals of X, Y and Z were Rs. 1,60,000, Rs. 1,00,000 and Rs. 80,000 respectively. Profits for the year ending 31.12.2020 before providing for interest on partners capital was Rs. 79,500. You are required to prepare the Profit and Loss Appropriation Account.

Solution :

Profit and Loss Appropriation Account
for the year ended 31st December, 2020

Dr. **Cr.**

	Rs.	Rs.		Rs.
To Interest on capital			By Net profit b/d	79,500
X (6% of Rs. 1,60,000)	9,600			
Y (6% of Rs. 1,00,000)	6,000			
Z (6% of Rs. 80,000)	4,800	20,400		
To Partners' capital accounts: [profit (Rs. 79,500 Rs. 20,400) transferred]				
X $\left(\frac{5}{10}\text{ of Rs.59,100}\right)$	29,550			
Less: Transferred to Z	3,180	26,370		
Y $\left(\frac{3}{10}\text{ of Rs.59,100}\right)$		17,730		

Z $\left(\frac{2}{10} \text{ of Rs.59,100}\right)$	11,820			
Add: Transferred from X	3,180			
		79,500		**79,500**

Question 17 : Nov 2021 – RTP

Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		**13,10,000**

The partnership earned profit Rs. 4,00,000 in 2020 and the partners withdrew Rs. 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Solution :

Valuation of Goodwill:		**Rs.**
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50,000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
		12,00,000
(2)	Super Profit :	
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on Rs. 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	
	3 Years' Purchase of Super profit (Rs. 40,000 × 3) = Rs. 1,20,000	

Question 18 : Nov 2021 – RTP

Death of Partner

The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities	**Rs.**	**Assets**		**Rs.**
Capital		Machinery		30,000

Tina	24,600	Furniture		16,800
Meena	24,600	Fixture		12,600
Rita	27,000	Cash		9,000
General Reserve	9,000	Inventories		5,700
Trade payables	14,100	Trade receivables	27,000	
		Less: Provision for Doubtful debts	1800	25,200
	99,300			**99,300**

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

(d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment.

Solution :

(i)

Journal Entry in the books of the M/s TMR

Date	Particulars		Dr. Rs.	Cr.Rs.
April,5 2021	Tina's Capital A/c Meena's Capital A/c To Rita's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts)	Dr. Dr.	3,000 3,000	 6,000

(ii)

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Furniture A/c (Rs. 16,800-13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To Inventory A/c (Rs. 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Tina - Rs. 300, Meena - Rs. 300, Rita Rs. 300)	900		
	5,100		**5,100**

Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	–	By Tina (Goodwill)	–	–	3,000
				By Meena (Goodwill)	–	–	3,000
	27,900	**27,900**	**36,300**		**27,900**	**27,900**	**36,300**

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	**Tina**	**Meena**	**Rita**
Right of goodwill before death	3-Jan	3-Jan	3-Jan
Right of goodwill after death	2-Jan	2-Jan	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Thanks ....

CHAPTER - 13

FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANIZATIONS

Question 1 : Nov 2019 – Paper

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

Income & Expenditure Account for the year 2018-19

Particulars	Rs.	Particulars	Rs.
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		**25,960**

Balance sheet as at 31st March 2019

Liabilities		Rs.	Assets	Rs.
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		**86,900**

The following adjustments have been made in the above accounts:

(i) Upkeep of ground Rs. 660 and printing Rs. 264 relating to 2017-18 were paid in 2018-19.

(ii) One fourth of entrance fee has been capitalized by transfer to General Fund.

(iii) Subscription outstanding in 2017-18 was Rs. 880 and for 2018-19 Rs. 770.

(iv) Subscription received in advance in 2017-18 was Rs. 220 and in 2018-19 for 2019-20 was Rs.110.

(v) Furniture was purchased during the year.

Solution :

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

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

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

Subscription Account

		Rs.			Rs.
2018 April	To Subscription Outstanding (2017-18)	880	2018 Apr-01	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052
2019 March	To Income & Expenditure A/c	19,052			
		20,042			**20,042**

Question 2 : May 2020 – RTP

Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with Rs.1,00,000 of his own and Rs.1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	Rs.	Payments	Rs.
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and Rs.15,000 of salaries are in respect of domestic servants.
The stock of medicines in hand on 31st March, 2019 was valued at Rs.47,500.
You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Solution :

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

		Rs.		Rs.
To Medicines consumed			By Prescription fees	3,30,000
Purchases	1,22,500		By Visiting fees	1,25,000
Less: Closing Stock	(47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)		40,000		
To Salaries (Rs. 52,500 – Rs. 15,000)		37,500		
To Rent for clinic		30,000		
To General charges		24,500		
To Interest on loan		18,000		
To Excess of Income over expenditure		2,42,000		
		4,67,000		**4,67,000**

Capital Account
for the year ended 31st March, 2019

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

Balance Sheet as on 31st March, 2019

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		**3,97,000**

Question 3 : Nov 2020 – RTP

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

(1)

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

(2) Subscription received during the year Rs. 3,75,000

(3) Payments for Sports Material during the year Rs. 2,25,000

You are required to:

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

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

Solution :

Subscription for the year ended 31.3.2020

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

Sports material consumed during the year end 31.3.2020

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

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

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

will be 2,000 hours × Rs. 20 = Rs. 40,000.

Question 4 : Nov 2020 – Paper

From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

Particulars	Amount (Rs.)	Amount (Rs.)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund		19,10,000
Tuition Fee Received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)		2,05,000
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		
Building	-	-
Plant & Equipment	-	4,90,000
Furniture & Fittings	-	5,05,000
Cash at Bank	3,16,000	3,26,000
Library	3,20,000	-
	75,45,000	**75,45,000**

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching - Rs. 52,000.

Research - Rs. 1,45,000

Students Welfare - Rs. 78,000

Games or Sports - Rs. 24,000

(b) Tuition fee receivable from Government for backward class Scholars Rs. 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

Solution :

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

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

AS College
Balance Sheet as on 31st March, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of Income over Expenditure	3,14,500	16,22,500	Building Cost	15,50,000	
Building Fund		19,10,000	Less: Dep.	(5,67,500)	9,82,500
Current Liabilities:			Plant & Machinery Cost	8,50,000	
Outstanding Expenses		2,35,000	Less: Dep.	(5,90,000)	2,60,000
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000

			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			**39,22,500**

Working Notes:

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

Question 5 : Jan 2021 – Paper

Dr. Deku started private practice on 1st April, 2019 with Rs.2,00,000 of his own fund and Rs.3,00,000 borrowed at an interest of 12% p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account :

Receipts	**Rs.**	**Payments**	**Rs.**
Own Capital	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lectures Fees	24,000	Wages and Salaries	1,05,000
Pension Received	3,00,000	Rent of Clinic	60,000
		General Charges	49,000
		Household Expenses	1,80,000
		Household Furniture	25,000
		Expense on Daughter's Marriage	2,15,000
		Interest on Loan	36,000
		Balance at Bank	1,10,000

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

1/3rd of the motor car expenses may be treated as applicable to the private use of car and Rs.30,000 of salaries are in respect of domestic servants.
The stock of medicines in hand on 31st March, 2020 was valued at Rs.95,000. You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

Solution :

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

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

Capital Account
for the year ended 31st March, 2020

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

Question 6 : Jan 2021 – Paper

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:
On 1st April, 2019 he had a balance of Rs.3,00,000 advance from customers of which Rs.2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of Rs.7,50,000.
You are required to compute :

(i) Total income for the year 2019-20.

(ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is Rs.2,55,000.

Solution :

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

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

(ii) Advance from Customers A/c

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

So, total money received during the year is:

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

Question 7 : Jan 2021 – Paper

From the following Income and Expenditure Account and additional information of ATK Club, prepare Receipts and Payments Accounts and Balance Sheet of the Club as on 31st March, 2020.

ATK Club

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

Expenditure	Rs.	Income	Rs.
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		**8,40,000**

Additional Information :

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Rs. Premises	7,60,000	7,60,000
Cash in Han	?	1,14,000

Solution :

ATK Club
Receipts and Payments Account
for the year ended 31st March, 2020

Receipts	Rs.	Rs.	Payments	Rs.	Rs.
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N.2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000	By Telephone		6,000
To Misc. Income		1,44,000	By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000
			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			**8,68,000**

Balance Sheet of ATK Club. as at March31, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Club Premises		7,60,000
Balance as per previous			Sport Equipment		2,52,000
Balance Sheet	8,82,400		Subscription Outstanding		72,000
Add: Surplus for 2020	1,20,000	10,02,400	Cash in hand		1,14,000
Bank Loan		1,20,000			
Subscription received in advance		33,600			
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		11,98,000			**11,98,000**

Balance Sheet of ATK Club. as at 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		**10,86,400**

Working Notes :

1	Subscription received in 2019-20	
	Add: Subscription for 2019-20 on accrual basis	6,80,000
	Add: Amount received in advance on 31.03.2020	33,600
	Outstanding as on 01.04.2019 received in 2019-20	64,000
		7,77,600
	Less: Outstanding to be received on 31.03.2020	72,000
	Amount of 2019-20 received in 2018-19	52,000
		Rs.6,53,600
2	Salary paid in 2019-20	
	Salary for 2019-20 on accrual basis	4,80,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
	Less: Outstanding to be paid on 31.03.2020	32,000
		Rs.4,72,000
3	Audit Fees paid in 2019-20	
	Audit Fees for 2019-20 on accrual basis	10,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
	Less: Outstanding to be paid on 31.03.2020	10,000
		Rs.8,000
4	Sports Equipment purchased during 2019-20	
	WDV as on 31.03.2020	2,52,000
	Add: Depreciation	28,000
	Less: WDV as on 31.03.2019	2,08,000
		Rs 72,000

Question 8 : May 2021 – RTP

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

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

Receipts	Rs.	Payments	Rs.
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800

To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		**84,000**

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:
   Assets- Sports equipment- Rs. 32,000; Subscription in arrears- Rs. 7,600; furniture- Rs. 12,480
   Liabilities- Outstanding Electricity charges- Rs. 5,400; Subscription in advance- Rs. 6,250
2. Following are the assets and liabilities on 31st March, 2020-
   Assets- Sports equipment- Rs. 50,500; Subscription in arrears- Rs. 5,200; furniture- Rs. 11,180
   Liabilities- Outstanding Electricity charges- Rs. 3,800; Subscription in advance- Rs. 4,850
3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2019

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

Solution :

In the books of Rotary Club

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

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		**45,850**

Balance sheet as on 31st March, 2020

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

Working notes

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

2. **Balance sheet as on 31st March, 2019**

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

3. Computation of depreciation-

Sports equipment

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

Furniture

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

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

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

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

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

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

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

Question 9 : July 2021 – Paper

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

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

		Equipment Purchase Charity Show Expenses	1,50,000 15,000

Additional Information:

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

You are required to prepare:

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

(ii) Balance Sheet as on 31st March, 2021

Solution :

In the books of AMA society
Income and Expenditure Account for the year ending 31st March, 2021

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Medicine		2,90,000	By Subscription		5,12,000
To Honorarium		1,00,000	By donation		1,50,000
To Salaries		2,80,000	By Interest on investment		90,000
To Sundry expenses		10,000	By Charity show	1,25,000	
To Depreciation			Less: Charity show expenses	(15,000	1,10,000
Equipment		60000			
Building		20000			
To Surplus		1,02,000			
		8,62,000			**8,62,000**

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

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Equipments	2,10,000	
Opening balance	18,03,000		Add: Purchases.	1,50,000	
Add: Surplus	1,02,000	19,05,000		3,60,000	
Adv subscription		7,000	Less: dep. (bal. fig)	(60,000)	3,00,000
Creditors (medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	(20,000)	4,80,000
			Investment (Rs. 90,000/9%)		10,00,000
			Closing outstanding subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		90,000
		20,42,000			**20,42,000**

Working Note:

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

Particulars	Amount
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1" April, 2020	(15,0000
Add: Subscription outstanding as on 31" March, 2021	22,000
Add: Subscription received in advance as on 1" April, 2020	12,000
Less: Subscription received in advance as on 31°' March, 2021	(7,000)
Total	5,12,000

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

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

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

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

(iv) Depreciation on Equipment

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

Question 10 : Nov 2021 – RTP

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

Receipts and Payments Account

Receipts	Rs.	Amount Rs.	Payments	Amount Rs.
To Balance b/d		900	By Expenses (including Payment for sports material Rs. 5,400)	12,600
Annual Income from Subscription	9,180		By Loss on Sale of Furniture (cost price Rs. 900)	360
To Add: Outstanding of last year received this year	360		By Balance c/d	1,80,900
	9,540			
Less: Prepaid of last year	180	9,360		
To Other fees		3,600		
To Donation for Building		1,80,000		

		1,93,860		**1,93,860**

Additional information:

Peppapig club had balances as on 1.4.2020 : -

Furniture Rs. 3,600; Investment at 5% Rs. 54,000;

Sports material Rs. 13,320;

Balance as on 31.3.2021 : Subscription Receivable Rs. 540;

Subscription received in advance Rs. 180;

Stock of sports material Rs. 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Solution :

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

Receipts	Rs.	Rs.	Payments	Rs.
To Balance b/d		900	By Expenses (Rs. 12,600 – Rs. 5,400)	7,200
To Subscription			By Sports Material	5,400
Annual Income	9,180		By Balance c/d	1,81,440
Less: Receivable as on 31.3.2020	540		(Cash in Hand and at Bank)	
Add: Advance received for the year 2020–2021	180			
Add: Receivable as on 31.3.2020	360			
Less: Advance received as on 31.3.2020	180	9,000		
To Other Fees		3,600		
To Donation for Building		1,80,000		
To Sale of Furniture		540		
		1,94,040		**1,94,040**

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

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

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

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund	72,000		Furniture	3,600	
Less: Excess of Expenditure over Income	7,200	64,800	Less: Sold	900	2,700
Building Fund		1,80,000	5% Investment		54,000
Subscription Received in Advance		180	Interest Accrued on Investment		2,700
			Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at Bank		1,81,440
		2,44,980			**2,44,980**

Working Note:

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

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

Thanks ....

CHAPTER - 14

COMPANY ACCOUNTS

Question 1 : Nov 2019 – Paper

B Limited issued 50,000 equity shares of Rs. 10 each payable as Rs. 3 per share on application, Rs. 5 per share (including Rs. 2 as premium) on allotment and Rs. 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of Rs. 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Solution :

In the books of B Ltd.
Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
	Bank A/c	Dr.	1,50,000	
	To Equity Share Application A/c			1,50,000
	(Application money on 50,000 shares @ Rs. 3 per share received.)			
	Equity Share Application A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Transfer of application money to Equity Share Capital on 50,000 shares @ Rs. 3 per share as per Directors resolution no… dated…)			
	Equity Share Allotment A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium A/c			1,00,000
	(Amount due from members in respect of allotment on 50,000 shares @ Rs. 5 per share including premium Rs. 2 per share as per Directors resolution no… dated…)			
	Bank A/c	Dr.	2,45,000	
	To Equity Share Allotment A/c			2,45,000
	Amount received against allotment on 49,000 shares @ Rs. 5 per share including premium Rs. 2 per share.)			
	'OR'			
	Bank A/c	Dr.	2,45,000	
	Calls in Arrear A/c	Dr.	5,000	
	To Equity Share Allotment A/c			2,50,000

	(Amount received against allotment on 49,000 shares @ Rs. 5 per share including premium Rs. 2 per share. X, holding 1,000 shares failed to pay allotment money.)			
	Equity Share Call A/c To Equity Share Capital A/c Amount due from members in respect of call on 50,000 shares @ Rs. 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c Amount received against the call on 47,000 shares @ Rs. 4 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ Rs. 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr. Dr. Dr.	1,88,000 1,88,000 12,000	 1,88,000 2,00,000
	Equity Share Capital A/c (3,000 x Rs. 10) Securities Premium A/c (1,000 x Rs. 2) To Equity Share Allotment A/c (1,000 X Rs. 5) To Equity Share Call A/c (3,000 X Rs. 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No…..dated ….) **'OR'** Equity Share Capital A/c (3,000 x Rs. 10) Securities Premium A/c (1,000 x Rs. 2) To Calls in Arrear A/c (Rs. 5,000 + Rs. 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No… dated…)	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ Rs.8 each as per Board's Resolution No…..dated….)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	Notes No.	Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		**6,03,000**
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		**6,03,000**

*(5,83,000 +20,000)

Notes to accounts :

		Rs.	Rs.
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of Rs. 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of Rs. 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	Rs. 3	Amount forfeited per share of Y	Rs. 6
Less: Loss on re-issue per share	(Rs. 2)	Less: Loss on re-issue per share	(Rs. 2)
Surplus	Rs. 1	Surplus	Rs. 4

Transferred to Capital Reserve: X share (1,000 x Rs. 1) Rs. 1,000

Y's Share (1,500 x Rs. 4) Rs. 6,000

Total Rs. 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment = 1,00,000

less: Amount reversed on forfeiture = (2,000)

Balance remaining = 98,000

Question 2 : May 2020 – RTP

Piyush Limited is a company with an authorized share capital of Rs.2,00,00,000 in equity shares of Rs.10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of Rs.10 each at a price of Rs.12 each, the arrangements for payment being:

(i) Rs.2 per share payable on application, to be received by 1st July, 2018;

(ii) Allotment to be made on 10th July, 2018 and a further Rs.5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2019.

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

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

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

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

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

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

Solution :

Journal of Piyush Limited

Date 2018	Particulars		Dr. Rs.	Cr. Rs.
1-Jul	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ Rs. 2 per share)			
10-Jul	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ Rs. 5 each including premium at Rs. 2 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ Rs. 5 per share as per Board's Resolution No…..dated….)			
2019				
30-Apr	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ Rs. 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1 x Rs.2)	Amount Required on Application (2 x Rs.2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	-1	-2	-3	-4	-5	-6	-7	-8
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000

(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

Question 3 : May 2020 – RTP

Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 10 each.
The amounts were payable as follows:
On application - Rs. 3 per share
On allotment - Rs. 5 per share
On first and final call - Rs. 2 per share
Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 6 per share.
Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

Solution :

In the books of Bhagwati Ltd.
Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at Rs. 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x Rs. 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at Rs. 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at Rs. 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at Rs. 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c	Dr.	6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x Rs. 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x Rs. 8)			24,000
To Calls in arrears A/c (3,000 xRs. 2)			6,000

(Being forfeiture of 3,000 shares of Rs. 10 each fully called-up for non payment of first and final call @ Rs. 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x Rs.6)	Dr.	15,000	
Forfeited share A/c (2,500 x Rs.4)	Dr.	10,000	
To Equity Share Capital A/c (2,500 x Rs. 10)			25,000
(Being re-issue of 2,500 shares @ Rs. 6)			
Forfeited share A/c (2,500 x Rs. 4)	Dr.	10,000	
To capital reserve A/c (2,500 x Rs. 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			**Rs.**
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			<u>4</u>
Surplus per share			<u>4</u>
Transfer to capital reserve	Rs. 4 x 2,500	Rs. 10,000	

Question 4 : May 2020 – RTP

Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.
Calculate the amount of discount to be written-off in each of the 5 years.

Solution :

Total amount of discount comes to Rs. 60,000 (Rs. 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
2nd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
3rd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
4th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
5th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000

Question 5 : Nov 2020 – RTP

Konica Limited registered with an authorised equity capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, issued for subscription of 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Solution :

Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000

(Money received on application for 1,000 shares @ Rs. 25 per share)			
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital)	Dr.	25,000	 25,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 1,000 shares @ Rs. 30 per share)	Dr.	30,000	 30,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	30,000	 30,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 1,000 shares @ Rs. 20 per share)	Dr.	20,000	 20,000
Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 900 shares and calls-in-advance on 50 shares @ Rs. 25 per share)	Dr. Dr.	19,250 2,000	 20,000 1,250

Question 6 : Nov 2020 – RTP

A Ltd. issued 3,50,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Solution :

In the books of A Limited

Date	Particulars		Rs. '000	Rs. '000
Apr.1	Bank A/c To 12% Debentures Application A/c (Being money received on 3,85,000 debentures)	Dr.	38,500	 38,500
Apr.7	12% Debentures Application A/c To Bank A/c (Being money on 35,000 debentures refunded as per Board's Resolution No…..dated…)	Dr.	3,500	 3,500
Apr.7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 3,50,000 debentures of Rs. 100 each at par, as per Board's Resolution No….dated…)	Dr.	35,000	 35,000

Question 7 : Nov 2020 – Paper

ABC Limited issued 20,000 equity shares of Rs. 10 each payable as:
Rs. 2 per share on application
Rs. 3 per share on allotment
Rs. 4 per share on first call
Rs. 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of Rs. 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Solution :

	Particulars		**Dr. Rs.**	**Cr. Rs.**
1.	Bank A/c	Dr.	40,000	
	To Equity Share Application A/c			40,000
	(Being the application money received for 20,000 shares at Rs. 2 per share)			
2.	Equity Share Application A/c	Dr.	40,000	
	To Equity Share Capital A/c			40,000
	(Being share allotment made for 20,000 shares at Rs. 2 per share)			
3.	Equity Share Allotment A/c	Dr.	60,000	
	To Equity Share Capital A/c			60,000
	(Being allotment amount due on 20,000 equity shares at Rs. 3 per share as per Directors' resolution no... dated...)			
4.	Bank A/c	Dr.	60,000	
	To Equity Share Allotment A/c			60,000
	(Being allotment money received for 20,000 equity shares at Rs. 3 per share)			
5.	Equity Share First Call Account	Dr.	80,000	
	To Equity Share Capital A/c			80,000
	(Being first call money due on 20,000 equity shares @ Rs. 4 per share)			
6.	Bank Account	Dr.	78,800	
	To Equity Share First Call Account			78,800
	(Being full amount of first call money received except on 300 shares)			
	OR			
	Bank Account	Dr.	78,800	
	Calls in Arrear A/c	Dr.	1,200	
	To Equity Share First Call Account			80,000
	(Being full amount of first call money received except on 300 shares)			
7.	Equity Share Final Call Account	Dr.	20,000	

	To Equity Share Capital A/c (Being first call and final call money due)			20,000
8.	Bank Account To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr.	19,700	 19,700
	OR			
	Bank Account Calls in Arrear A/c To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr. Dr.	19,700 300	 20,000
9.	Equity Share Capital A/c (300 x Rs. 10) To Equity Share First Call Account To Equity Share Final Call Account To Forfeited Shares A/c Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No…..dated ….)	Dr.	3,000	 1,200 300 1,500
	OR			
	Equity Share Capital A/c To Forfeited Shares A/c To Calls in Arrears (Being 300 shares forfeited on which first call and final call money was unpaid.)	Dr.	3,000	 1,500 1,500
10.	Bank A/c (300 x Rs. 8) Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 300 shares @ Rs.8 each as per Board's Resolution No…..dated….)	Dr. Dr.	2,400 600	 3,000
11.	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	900	 900

Question 8 : Nov 2020 – Paper

Y Company Limited issue 10,000 12% Debentures of the nominal value of Rs. 60,00,000 as follows :

(i) To a vendor for purchase of fixed assets worth Rs. 13,00,000 - Rs. 15,00,000 nominal value.

(ii) To sundry persons for cash at 90% of nominal value of Rs. 30,00,000.

(iii) To the banker as collateral security for a loan of Rs. 14,00,000 - Rs. 15,00,000 nominal value,

You are required to pass necessary Journal Entries.

Solution :

In the books of Y Company Ltd.
Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
(i)	Fixed Assets A/c To Vendor A/c	Dr.	13,00,000	 13,00,000

	(Being the purchase of fixed assets from vendor)			
	Vendor A/c Discount on Issue of Debentures A/c To 12% Debentures A/c (Being the issue of debentures of Rs. 15,00,000 to vendor to satisfy his claim)	Dr. Dr.	13,00,000 2,00,000	 15,00,000
(ii)	Bank A/c To Debentures Application A/c (Being the application money received on 5,000 debentures @ Rs. 540 each)	Dr.	27,00,000	 27,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No….dated….)	Dr. Dr.	27,00,000 3,00,000	 30,00,000
(iii)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of Rs.14,00,000 taken from bank by issuing debentures of Rs.15,00,000 as collateral security)	Dr.	14,00,000	 14,00,000

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Question 9 : Jan 2021 – Paper

A Limited is a company with an authorised share capital of Rs.1,00,00,000 in equity shares of Rs.10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these Rs.10 shares at a price of Rs.14 each, the arrangement of payment being :

(i) Rs.2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further Rs.5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

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

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Solution :

Journal of A Limited

Date 2020	Particulars		Dr. Rs.	Cr. Rs.

31-May	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ Rs. 2 per share)	Dr.	11,20,000	 11,20,000
10-Jun	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)	Dr.	11,20,000	 2,70,000 5,50,000 3,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,35,000 shares @ Rs. 5 each including premium at Rs.4 each as per Board's Resolution No….dated….)	Dr.	6,75,000	 1,35,000 5,40,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	1,25,000	 1,25,000
Dec. 31	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @Rs. 7 per share as per Board's Resolution No…..dated….)	Dr.	9,45,000	 9,45,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ Rs. 7 each received)	Dr.	9,45,000	 9,45,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	-1	-2	-3	-4	-5	-6	-7	-8
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	**5,60,000**	**1,35,000**	**11,20,000**	**2,70,000**	**5,50,000**	**3,00,000**	**6,75,000**	**1,25,000**

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) × Rs.2

(ii) Amount Required on Application (4) = No. of shares allotted (2) × Rs. 2

Question 10 : May 2021 – RTP

Alankit Limited issued at par 2,00,000 Equity shares of Rs. 100 each payable Rs. 25 on application; Rs. 30 on allotment; Rs. 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his

due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.
You are required to prepare journal entries to record these transactions.

Solution :

Book of Alankit Limited
Journal

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Bank A/c	Dr.		50,00,000	
	To Equity Share Application A/c				50,00,000
	(Money received on applications for 2,00,000 shares @Rs. 25 per share)				
	Equity Share Application A/c	Dr.		50,00,000	
	To Equity Share Capital A/c				50,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		60,00,000	
	To Equity Share Capital A/c				60,00,000
	(Amount due on the allotment of 2,00,000 shares @ Rs. 30 per share)				
	Bank A/c	Dr.		60,00,000	
	To Equity Share Allotment A/c				60,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		40,00,000	
	To Equity Share Capital A/c				40,00,000
	(Being first call made due on 2,00,000 shares at Rs. 20 per share)				
	Bank A/c	Dr.		50,00,000	40,00,000
	To Equity Share First Call A/c				10,00,000
	To Calls in Advance A/c				
	(Being first call money received along with calls in advance on 2,00,000 shares at Rs.25 per share)				
	Equity Share Final Call A/c	Dr.		50,00,000	
	To Equity Share capital A/c				50,00,000
	(Being final call made due on 2,00,000 shares at Rs.25 each)				
	Bank A/c	Dr.		39,00,000	
	Calls in Advance A /C	Dr.		10,00,000	
	Calls in Arrears A/c	Dr.		1,00,000	
	(Being final call received for 1,56,000 shares and calls in advance for 40,000 shares adjusted)				50,00,000
	Interest on Calls in Advance A/c	Dr.		30,000	

	To shareholders A/c Being interest made due on calls in advance of Rs.10,000,00 at the rate of 12% p.a.)				30,000
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		30,000	30,000
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		1,667	1,667
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		1,01,667	 1,00,000 1,667

Question 11 : May 2021 – RTP

Issue and Forfeiture of Shares

Samuel who was the holder of 12,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at Rs. 65 per share paid-up as Rs.75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Solution :

Particulars		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (12,000 × Rs.75) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 12,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)	Dr.	9,00,000	 3,00,000 3,00,000 3,00,000
Bank A/c (10,000 x Rs.65) Forfeited Shares A/c (10,000 × Rs.10) To Preference Share Capital A/c (Being re-issue of 10,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No.....dated....)	Dr. Dr.	6,50,000 1,00,000	 7,50,000
Forfeited Shares A/c To Capital Reserve A/c (Working Note) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	1,50,000	 1,50,000

Working Note:
Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = Rs. 3,00,000/12,000	=	Rs. 25
Loss on re-issue =Rs. 75 – Rs. 65	=	Rs. 10
Surplus per share re-issued		Rs. 15

Transferred to capital Reserve Rs. 15 × 10,000 = Rs. 1,50,000.

Question 12 : May 2021 – RTP

Issue of Debentures

Priya Ltd. issued 25,00,000, 12% debentures of Rs. 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :
Rs. 4 on application
Rs. 5 on allotment
Record necessary journal entries regarding issue of debenture.

Solution :

Books of Priya Ltd.
Journal

Particulars	L.F.	Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	1,00,00,000	
To Debenture Application A/c			1,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	1,00,00,000	
To 12% Debentures A/c			1,00,00,000
(Application money transferred to 12% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	1,25,00,000	
Discount on issue of debentures A/c	Dr.	25,00,000	
To 12% Debentures A/c			15,000,000
(Amount due on allotment)			
Bank A/c	Dr.	1,25,00,000	
To Debenture Allotment A/c			1,25,00,000
(Money received consequent upon allotment)			

Question 13 : July 2021 – Paper

X Limited invited applications for issuing 75,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The total amount was payable as follows:

- Rs. 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of Rs. 4/- per share.
Pass necessary journal entries · for the above transactions in the books of X Limited.

Solution :

			Dr. Rs.	Cr. Rs.
	Bank Account To Share Application & Allotment A/c (Being Application money on 3,00,000 shares at Rs. 9 per share received.)	Dr.	27,00,000	 27,00,000
	Share Application & Allotment A/c To Share Capital A/c (75,000 x Rs. 4) To Securities premium A/c (75,000 x Rs. 5) To Bank A/c (2,00,000 x Rs. 9) To Share First & Final Call A/c (Being application money transferred)	Dr.	27,00,000	 3,00,000 3,75,000 18,00,000 2,25,000
	Share First & Final Call A/c (75,000 x6) To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no...... dated.....)	Dr.	4,50,000	 4,50,000
	Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.)	Dr. Dr.	2,21,625 3,375	 2,25,000
	Equity share capital A/c To Share forfeiture A/c To Calls in arrear A/c (Being 1,125 shares forfeited for non payment final call.)	Dr.	11,250	 7,875 3,375
	Bank Account A/c (1,125 x Rs. 6) Share forfeiture A/c (1,125 x Rs. 4) To Share Capital Account (1,125 x Rs. 10) (Being forfeited shares reissued at Rs. 4 discount)	Dr. Dr.	6,750 4,500	 11,250
	Share forfeiture A/c To Capital reserve A/c (Being share forfeiture transferred to capital reserve*)	Dr.	3,375	 3,375

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ Rs. 9/-	Money Transferred to Share Capital@ Rs. 4/-	Money Transferred to Security Premium @Rs. 5/-	Excess Application Money	Share First and Final Call @ Rs. 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00,000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,25,000	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* Rs. 4,50,000 less Rs. 3,375.

2. **Number of shares allotted to Mr. Raj** = 1,500 × 75,000 / 1,00,000 = 1,125 shares

3. **Calculation of calls in arrear**

Application money received from Raj	(1,500 × 9)	13,500
Less: actual application money	1,125 × 9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375
Final call due from Raj		6,750
Less: Adjusted with final call		3,375)
Calls in arrear		3,375

Question 14 : Nov 2021 – RTP

On 1st April, 2020, States Ltd. issued 1,80,000 shares of Rs. 10 each payable as follows:
Rs. 2 on application, Rs. 3 on allotment, Rs. 2 on First call 1st October, 2020; and Rs. 3 on Final call 1st February, 2021.
By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021.

Solution :

States Ltd.
Journal

2020	Particulars		Dr. Rs.	Cr. Rs.
May-20	Bank Account	Dr.	3,00,000	
	To Share Application A/c			3,00,000
	(Application money on 1,50,000 shares at Rs. 2 per share received.)			
Jun-01	Share Application A/c	Dr.	3,00,000	
	To Share Capital A/c			3,00,000
	(The amount transferred to Capital Account on 1,50,000 shares Rs. 2 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000
	(Being share allotment made due at Rs. 3 per share. Directors' resolution no...... dated ......)			
Jul-15	Bank Account	Dr.	4,50,000	
	To Share Allotment A/c			4,50,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	3,00,000	
	To Share Capital Account			3,00,000
	(Amount due from members in respect of first call-on 1,50,000 shares at Rs. 2 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	3,00,000	
	To Share First Call Account			3,00,000

	(Receipt of the amounts due on first call.)			
2021 Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 1,50,000 share at Rs. 3 per share on second and final call, as per Directors resolution no... dated...)	Dr.	4,50,000	4,50,000
Mar-31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 1,50,000 shares at Rs.3 per share.)	Dr.	4,50,000	4,50,000

Question 15 : Nov 2021 – RTP

Mr. Samphat who was the holder of 12,000 preference shares of Rs. 100 each, on which Rs. 60 per share has been called up could not pay his dues on Allotment and First call each at Rs. 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at Rs. 50 per share paid-up as Rs.60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Solution :

In the books of Company
Journal

		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (12,000 x Rs.60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares Rs. 60 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (10,000 x Rs.50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x Rs.10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at Rs. 60 per share paid-up as Rs. 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 2,40,000/1,20,000 = Rs. 20

Loss on re-issue =Rs. 60 – Rs. 50 = Rs. 10

Surplus per share re-issued Rs. 10

Transferred to capital Reserve Rs. 10 x 10,000 = Rs. 1,00,000.

Question 16 : Nov 2021 – RTP

Avantika Ltd. purchased machinery worth Rs.9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of Rs.100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 20 % discount; and (iii) Debentures are issued at 20% premium.

Solution :

Books of Avantika Ltd.
Journal

		Dr. Rs.	Cr. Rs.
Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			
Case(iii) When debentures are issued at 20% premium:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			8,25,000
To Premium on Issue of Debentures A/c			1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)			

Workings:

(a) Number of debentures issued in case of 20% discount:

	(Rs.)
Face value	100
Less: Discount 20%	20
Value at which issued	80

Rs. 9,90,000/80 = 12,375 Debentures

(b) Number of debentures issued in case of 20% premium:

	(Rs.)
Face value	100
Add: Premium 20%	20
Value at which issued	120

Rs.9,90,000/ 120 = 8,250 Debentures

Thanks ....

CHAPTER - 15

OTHER TOPICS

Question 1 : Nov 2019 – Paper

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

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(ii) M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was Rs. 30,000 and was treated as a revenue expenditure.

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

(iv) 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.

(v) A Partnership firm cannot own any Assets.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Solution :

(i) **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.

(ii) **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.

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

(iv) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Question 2 : Nov 2019 – Paper

Distinguish between Provision and Contingent Liability.

Solution :

Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	Contingent liability

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

Question 3 : May 2020 – RTP

True and False

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

(i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale.

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

(iv) There are two ways of preparing an account current.

(v) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(vi) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(vii) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Solution :

(i) **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.

(ii) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

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

(iv) **False:** There are three ways of preparing an Account Current: (i) With help of interest table; (ii) By means of products and (iii) By means of products of balances.

(v) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(vi) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(vii) **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

Question 4 : May 2020 – RTP

Write short notes on the following:

(i) Accounting conventions.

(ii) Trade bill vs. Accommodation bill.

(iii) Measurement.

(iv) Advantages of subsidiary books.

Solution :

(i) 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.

(ii) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(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) Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages :

(i) Division of work

(ii) Specialisation and efficiency

(iii) Saving of the time

(iv) Availability of information's

(v) Facility in checking

Question 5 : Nov 2020 – RTP

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

(a) Accrual concept implies accounting on cash basis.
(b) The Sales book is kept to record both cash and credit sales.
(c) Bank reconciliation statement is prepared to arrive at the bank balance.
(d) Finished goods are normally valued at cost or market price whichever is higher.
(e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
(f) Discount at the time of retirement of a bill is a gain for the drawee.
(g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
(h) Partners can share profits or losses in their capital ratio, when there is no agreement.
(i) Receipts and Payments Account highlights total income and expenditure.

Solution :

(a) **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) **True -** In the early periods of useful life of a 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.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

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

(h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

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

Question 6 : Nov 2020 – RTP

Write short notes on the following:

(i) Fundamental Accounting Assumptions.
(ii) Objectives of preparing Trial Balance.
(iii) Accounting conventions.
(iv) Machine Hour Rate method of calculating depreciation.

Solution :

(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. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. **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.
2. **Consistency:** It is assumed that accounting policies are consistent from one period to another.
3. **Accrual:** Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) **Objectives of preparing Trial Balance**

The preparation of trial balance has the following objectives:

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 date. Thus, the entire ledger is summarized in the form of a Trial Balance. The 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.

(iii) 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.

(iv) **Machine Hour Rate method of calculating depreciation**: 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. 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; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is Rs.10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{\text{Rs.}10{,}00{,}000}{50{,}000 \text{ hours}}$$

$$= \text{Rs.}20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × Rs. 20 = Rs. 40,000.

Question 7 : Nov 2020 – Paper

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

(i) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

(ii) In the balance sheet of X Limited, preliminary expenses amounting to Rs. 5 lakhs and securities premium account of Rs. 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

(iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

(iv) Purchase of office furniture & fixtures of Rs. 2,500 has been debited to General Expense Account. It is an error of omission.

(v) A Limited is sending goods costing Rs. 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.

(vi) A concern proposes to discontinue its business from December 2020 and decides to dispose off 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.

Solution :

(i) **False;** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii) **True;** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ` 5 lakhs.

(iii) **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.

(iv) **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.

(v) **False;** Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

(vi) **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.

Question 8 : Nov 2020 – Paper

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 and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;
(ii) Statutory audit;
(iii) Internal Audit;
(iv) Taxation;
(v) Management accounting and consultancy services;
(vi) Financial advice and financial investigations etc.
(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Question 9 : Jan 2021 – Paper

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

(i) Re-issue of forfeited shares is allotment of shares but not a sale.
(ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
(iii) The Sale Book is kept to record both the cash and credit sales.
(iv) There are two ways of preparing an account current.
(v) Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.
(vi) Accounting Standards for non-corporate entities in India are issued by the Central Government.

Solution :

(i) **False**; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.
(ii) **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.
(iii) **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.
(iv) **False;** There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.
(v) **True;** Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.
(vi) **False;** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

Question 10 : Jan 2021 – Paper

Define the following terms ?

(i) Capital Commitment
(ii) Expired Cost

(iii) Floating Charge
(iv) Obsolescence

Solution :

(i) **Capital commitment**: **Future liability** for capital expenditure in respect of which contracts have been made.
(ii) **Expired cost**: The portion of the expenditure from which no further benefit is expected. Also termed as expense.
(iii) **Floating charge**: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.
(iv) **Obsolescence**: **Diminution in the value of an asset** by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

Question 11 : May 2021 – RTP

State with reasons, whether the following statements are true or false:
(i) Gauri purchased goods worth Rs.75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is Rs.36,005.
(ii) All the personal & real accounts are recorded in P&L A/c.
(iii) Amount spent on the replacement of worn out part of machine is Capital Expenditure.
(iv) When closing inventory is overstated, net income for the accounting period will be understated.
(v) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
(vi) Goodwill is intangible asset therefore it cannot be valued.
(vii) Interest on calls in arrears is payable by company to shareholders.
(viii) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
(ix) Debenture holders enjoy the voting rights in the company.

Solution :

(i) **True**: the trade discount is to be deducted from the total value of Rs. 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book-36,005 (72,010 x 50%).
(ii) **False**: All the personal & real account are recorded in balance sheet.
(iii) **False**: Amount spent for replacement of any worn out part of a machine is revenue expense since it is a part of its maintenance cost.
(iv) **False**: When closing inventory is overstated, net income for the accounting period will be overstated.
(v) **False**: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
(vi) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
(vii) **False**: Interest on calls in arrears is payable by shareholders to company.
(viii) **False**: It shall be disclosed as a current liability in the opening balance sheet.
(ix) **False**: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

Question 12 : May 2021 – RTP

(i) Fundamental Accounting Assumptions.
(ii) Retirement of bills of exchange.

(iii) Noting Charges.
(iv) Over-riding Commission.

Solution :

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

(i) **Going Concern:** 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.

(ii) **Consistency:** It is assumed that accounting policies are consistent from one period to another.

(iii) **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) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iii) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

Question 13 : July 2021 – Paper

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

(i) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,
(ii) A Company is not allowed to issue shares at a discount to the public in general.
(iii) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
(iv) A person holding preference shares of a company cannot hold equity shares of the same company.
(v) Business of partnership comes to an end on death of a partner.
(vi) Cash book is a subsidiary book as well as a principal book.

Solution :

(i)	**False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
(ii)	**True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares issued to employees and directors).
(iii)	**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.
(iv)	**False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
(v)	**False:** Surviving partners may continue to carry on the business in case of partnership.
(vi)	**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.

Question 14 : Nov 2021 – RTP

State with reasons, whether the following statements are true or false:
(i) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.
(ii) The rationale behind the opening of a suspense account is to tally the trial balance.
(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
(iv) A partnership firm can acquire fixed assets in the name of the firm.
(v) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
(vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
(vii) The debit notes issued are used to prepare Sales Return Book.
(viii) Bills receivable and bills payable books are type of subsidiary books.
(ix) The results and position disclosed by final accounts are not exact.

Solution :

(i) **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.
(ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

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

(iv) **False**: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

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

(vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) **False:** The debit notes issued are used to prepare purchases return book.

(viii) **True:** Yes, they are types of subsidiary books which is alternate to the journals.

(ix) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

Question 15 : Nov 2021 – RTP

Write short notes on any three of the following:

(i) Double entry system.

(ii) Journal.

(iii) Importance of bank reconciliation to an industrial unit.

(iv) Bill of exchange and the various parties to it.

Solution :

(i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

(iii) 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.

(iv) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

Thanks ....