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CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 1 – THEORETICAL FRAMEWORK

- Q1** Differentiate between Book-keeping and Accounting.
- Q2** What are the rules of posting of journal entries into the Ledger?
- Q3** Change in accounting policy may have a material effect on the items of financial statements.” Explain the statement with the help of an example.
- Q4** Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures?
- Q5** Differentiate between provision and contingent liability.
- Q6** What services can a Chartered Accountant provide to the society?
- Q7** Which subsidiary books are normally used in a business?
- Q8** Explain Cash and Mercantile system of accounting?
- Q9** Calculate the missing amount for the following.
- | | Assets | Liabilities | Capital |
|----|-------------|-------------|-----------|
| a) | 45,00,000 | 7,50,000 | ? |
| b) | ? | 4,50,000 | 2,25,000 |
| c) | 43,50,000 | ? | 41,25,000 |
| d) | 1,71,00,000 | (8,40,000) | ? |
- Q10** Classify the following expenditures as capital or revenue expenditure:
- i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
 - ii) Travelling expenses of the directors for trips abroad for purchase of capital assets
 - iii) Amount spent to reduce working expenses.
 - iv) Amount paid for removal of stock to a new site.
 - v) Cost of repairs on second-hand car purchased to bring it into working condition.
- Q11** Distinguish between Money Measurement concept and Matching concept.
- Q12** Explain in brief objective and advantages of setting Accounting Standards
- Q13** Explain the objective of “Accounting Standards” in brief.
- Q14** What are the salient features of Goods and Services Tax (GST)?
- Q15** Define accounting policy. What are the conditions under which a company can change its accounting policy?
- Q16** Explain the following:
1. Cash Basis of Accounting
 2. Going Concern concept

Q17 Pass journal entries for the following transactions in the books of Mr. Kapil:

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- iii) Goods costing ₹ 25,000 withdrawn for personal use.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

Q18 Differentiate between Book-keeping and Accounting.

SOLUTIONS

Answer :1

Book-keeping	Accounting
It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
It constitutes as a base for accounting.	It is considered as a language of the business.
Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.
Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
There is no sub-field of book-keeping.	It has several sub-fields like financial accounting, management accounting etc.
Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

Answer :2

Rules regarding posting of entries in the ledger:

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

Answer :3

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.

Answer :4

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

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Answer :5

	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.

Answer :6

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.

Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Answer :7

Normally, the following subsidiary books are used in a business:

- (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
- (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
- (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
- (iv) Sales Book to record the sales of the goods dealt in by the firm.
- (v) Sale Returns Book to record the returns made by the customers.
- (vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.
- (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
- (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Answer :8

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

Answer :9

Using the Accounting Equation:

Assets = Capital + Liabilities

- (i) 37,50,000
- (ii) 6,75,000
- (iii) 2,25,000
- (iv) 1,79,40,000

Answer :10

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



Answer : 11

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 should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

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

Answer : 12

Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

- (i) Reduction in variations.
- (ii) Disclosure beyond that required by law.
- (iii) Facilities comparison.

Answer :13

Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

Answer : 14

GST is a single tax on the supply of goods and services, right from the manufacturer to consumer.

- GST is levied on supply i.e., manufacture or sale of goods and provision of services. In other words, supply is taxable event which on its occurrence creates or attracts the liability to pay tax.
- Under GST, tax is levied only the value added at each stage of the supply chain.
- GST is a destination-based consumption tax, i.e. the tax is levied at the place where the goods or services are consumed, rather than the place where they are produced.
- There is no tax on tax or cascading of taxes under GST system.
- Under GST, there is a harmonization of laws, procedures and rates of tax across the country.

Answer : 15

Accounting Policy:

- (a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements; and
- (b) Policies are based on various accounting concepts, principles, and conventions.

Conditions under which change takes place:

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

- (a) It is required by some statute or for compliance with an Accounting Standard
- (b) Change would result in more appropriate presentation of financial statement

Answer : 16

- i) Cash Basis of Accounting is the method of recording financial transactions, by which revenues and expenditure and assets and liabilities are reflected in the accounts in the period in which the receipts or payments are actually effected/made.
- ii) Going Concern concept states that the financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used needs to be disclosed.

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

Answer : 17

Journal entries in the books of Mr. Kapil

S No.	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Purchases A/c	Dr.	1,35,000	
	Input CGST A/c	Dr.	8,100	
	Input SGST A/c	Dr.	8,100	
	To Sonu's A/c			1,51,200
(Being goods purchased from Sonu, CGST and SGST payable @ 6% each)				
(ii)	Bank A/c	Dr.	22,000	
	Mohit's A/c	Dr.	33,000	
	To Sales A/c			50,000
	To Output CGST A/c			2,500
	To Output SGST A/c			2,500
(Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash)				
(iii)	Drawings A/c	Dr.	28,000	
	To Purchase A/c			25,000
	To Input CGST A/c			1,500
	To Input SGST A/c			1,500
(Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)				
(iv)	Machinery A/c	Dr.	2,00,000	
	Input CGST A/c	Dr.	18,000	
	Input SGST A/c	Dr.	18,000	
	To Bank A/c			1,00,000
	To Bright Industries			1,36,000
(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)				

Answer : 18

S. No.	Book-keeping	Accounting
1.	It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
2.	It constitutes as a base for accounting.	It is considered as a language of the business.
3.	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.
4.	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5.	There is no sub-field of book keeping.	It has several sub-fields like financial accounting, management accounting etc.
6.	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

**CA FOUNDATION
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CHAPTER 2 – ACCOUNTING PROCESS**

UNIT 1 - JOURNAL

Q1 Following information is provided for M/s. VS Wires for the year ended 31st March, 2024:

	₹
Opening Inventory	6,00,000
Purchases	40,32,000
Carriage Inwards	1,80,000
Wages	3,00,000
Sales	66,00,000
Returns inward	6,00,000
Returns outward	4,32,000
Closing Inventory	12,00,000

You are required to pass necessary closing entries in the journal proper of M/s. VS Wires.



UNIT 3 – TRIAL BALANCE

Q2 From the following information, draw up a Trial Balance in the books of Shri Hari Om as on 31st March, 2024:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	4,20,000	Purchases	1,08,000
Discount Allowed	3,600	Carriage Inward	26,100
Carriage Outwards	6,900	Sales	1,80,000
Return Inward	900	Return Outwards	2100
Rent and Taxes	3,600	Plant and Machinery	2,42,100
Stock on 1 st April 2023	46,500	Sundry Debtors	60,600
Sundry Creditors	36,000	Investments	10,800
Commission Received	5,400	Cash in Hand	300
Cash at bank	30,300	Motor Cycle	1,03,800
Stock on 31st March, 2024	61,500		

Q3 One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2024. As a basis for audit, Mr. X furnished you with the following statement:

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

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

Q4 One of your clients Mr. Govind asked you to finalize his account for the year ended 31st March, 2024. As a basis for audit, Mr. Govind furnished you with the following statement:

	Dr.	Cr.
Govind's Capital		14,004
Govind's Drawings	5,076	
Lease hold Premises	6,750	
Sales		24,750
Due from customers		4,770
Purchases	11,331	
Purchase Return	2,376	
Loan from Bank		2,304
Trade Expense	6,300	
Trade Payable	4,752	
Bills Payable	900	
Salaries and Wages	5,400	
Cash at Bank	2,034	
Opening Inventory		2,376
Rent and Rates	4,167	
Sales Return		882
	49,086	49,086

The closing inventory was ₹ 5,166. Mr. Govind claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

UNIT 4 – SUBSIDIARY BOOKS

Q5 What are the advantages of Subsidiary Books?

UNIT 6 – RECTIFICATION OF ERRORS

Q6 Mr. Bhatt's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account.

During the next trading period, the following errors were discovered:

- i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.
- ii) A sale of ₹ 462 was entered in the Sales Book as ₹ 642 and posted to the credit of the customer.
- iii) A return to creditor, ₹ 300 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- iv) Cash received from Geet, ₹ 895 was posted to debit of Meet.
- v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
- vii) ₹ 500 due from Mr. Manas was omitted to be taken to the trial balance.
- viii) Sale of goods to Mr. Deep for ₹ 6,000 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

Q7 M/s. Mangrove Arts were unable to agree the Trial Balance as on 31st March, 2024 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 - ₹ 52,500.
- ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 9,000.
- iii) Goods to the value of ₹ 6,150 returned by a customer, Leena., had been posted to the debit of Leena. and also to sales returns.
- iv) Sundry items of furniture sold for ₹ 1,80,000 had been entered in the sales book, the total of which had been posted to sales account.
- v) A bill of exchange (received from Lucky & Co.) for ₹ 45,000 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.

Q8 M/s. VB wires were unable to agree the Trial Balance as on 31st March, 2024 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 - ₹ 37,500.
- ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
- iii) Goods to the value of ₹ 3,150 returned by a customer, Seven & Co., had been posted to the debit of Seven & Co. and also to sales returns.
- iv) Sundry items of furniture sold for ₹ 90,000 had been entered in the sales book, the total of which had been posted to sales account.
- v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 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.

- Q9** Give journal entries to rectify the following errors located in the books of a trader after preparing the trial balance:
- An amount of ₹ 13,500 received on account of interest was credited to commission account.
 - A sale of ₹ 5,920 was posted from sales book to the debit of M/s Kamal traders at ₹ 5,290.
 - ₹ 44,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
 - Goods returned by customer for ₹ 20,000. The same have been taken into stock but no entry passed in the books of accounts.

- Q10** Mr. Manas 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:

- Purchase of a scooter was debited to conveyance account
- ₹ 30,000. Mr. Manas charges 10% depreciation on scooter.
- Purchase account was over cast by ₹ 1,00,000.
- A credit purchase of goods from Mr. Sam for ₹ 20,000 was entered as sale.
- Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.
- Receipt of cash from Mr. Paras was posted to the debit of his account, ₹ 5,000.
- ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
- Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
- Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries.

- Q11** Before preparation of the trial balance, the following errors were found in the books of Saraswat & Sons. Give the necessary entries to correct them.

- Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
- An amount of ₹ 3,000 due from Satyam, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Satyam.
- Minor Repairs made to the building amounting to ₹ 18,500 were debited to the Building Account
- Goods purchased from Ram Singh amounting to ₹ 18,000 have remained unrecorded so far.
- College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.
- Receipt of ₹ 4,500 from Kanika credited to the Anita.
- Goods amounting to ₹ 8,900 had been returned by a customer and were taken into inventory, but no entry was made in the books.
- ₹ 7,500 paid for wages to workmen for making office furniture had been charged to wages account.
- Salary paid to a clerk ₹ 18,000 has been debited to his personal account.
- A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Q12 M/s. Satya Paul steels were unable to agree the Trial Balance as on 31st March, 2024 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 - ₹ 37,500.
- ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
- iii) Goods to the value of ₹ 3,250 returned by a customer Parth., had been posted to the debit of Parth and also to sales returns.
- iv) Sundry items of furniture sold for ₹ 50,000 had been entered in the sales book, the total of which had been posted to sales account.
- v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 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.

Q13 The Trial Balance of Mr. Sarvesh Kumar as on 31st March, 2024 did not tally and the difference was posted to Suspense Account. On a scrutiny of the books the following errors were detected:

- i) The total of Sales Returns Book for January 2024 has been casted short by ₹ 1,000.
- ii) Freight paid for installation of a Machine ₹ 6,500 was posted to the Freight Account as ₹ 5,600.
- iii) Goods of the value of ₹ 2,500 returned by a customer were entered in the Sales day Book and posted there from to the credit of his account.
- iv) ₹ 18,000 paid for purchase of old Motorcycle for personal use of Mr. Sarvesh Kumar was debited to conveyance account.
- v) A purchase of ₹ 6,700 had been posted to creditor's account as ₹ 6,000.
- vi) Receipt of cash ₹ 5,000 from Mr. Avinash was posted to the debit of his account.
- vii) A cheque for ₹ 2,500 received from Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.
- viii) Sale of ₹ 8,500 to Mr. Deepak was recorded in the sales book correctly but while posting in ledger credited to his account.
- ix) The total of "Discount Allowed" column in the cash for the month of December 2023 amounting to ₹ 3,800 was not posted.
- x) Sale of old office table for ₹ 2,200 treated as sale of goods.

You are required to pass necessary journal entries with narrations to rectify the above errors.

Q14 Pass the necessary journal entries to rectify the following errors, using a Suspense Account:

- i) Goods of the value of ₹ 500 returned by Mr. A were entered in the Sales Day Book and posted there from to the credit of his account;
- ii) ₹ 250 entered in the Sales Returns Book, has been posted to the debit of Mr. R, who returned the goods;
- iii) A sale of ₹ 700 made to Mr. Q was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. S as ₹ 70;
- iv) The total of "Discount allowed" Column in the Cash Book for September amounting to ₹ 350 was not posted.

SOLUTIONS

UNIT 1 - JOURNAL

Answer: 1

Journal Proper in the Books of M/s. VS Wires

Date 2024	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	4,32,000	4,32,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	6,00,000	6,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	60,00,000	60,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)	Dr.	46,80,000	6,00,000 36,00,000 3,00,000 1,80,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	12,00,000	12,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit calculated)	Dr.	25,20,000	25,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	25,20,000	25,20,000

UNIT 3 – TRIAL BALANCE
Answer: 2
Trial Balance of Shri. Hari Om as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		4,20,000
Purchases	1,08,000	
Discount Allowed	3,600	
Carriage Inward	26,100	
Carriage Outwards	6,900	
Sales		1,80,000
Return Inward	900	
Return Outwards		2,100
Rent and taxes	3,600	
Plant and Machinery	2,42,100	
Stock on 1 st April, 2023	46,500	
Sundry Debtors	60,600	
Sundry Creditors		36,000
Investments	10,800	
Commission Received		5,400
Cash in Hand	300	
Cash at Bank	30,300	
Motor Cycle	1,03,800	
	6,43,500	6,43,500

Note: Stock as on 31st March, 2024 will not appear in trial balance.

Answer: 3

Corrected Trial Balance of Mr. X as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	
Purchases	3,777	
Purchase return		792
Loan from Bank		768
Trade expenses	2,100	
Trade Payable		1,584
Bills payable		300
Salaries and Wages	1,800	
Cash at Bank	678	
Inventory (1.4.2023)	792	
Rent and rates	1,389	
Sales return	294	
	16,362	16,362

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

Answer: 4

Corrected Trial Balance of Mr. Govind as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
Govind 's Capital		14,004
Govind 's Drawings	5,076	
Leasehold Premises	6,750	
Sales		24,750
Due from customers	4,770	
Purchases	11,331	
Purchases Returns		2,376
Loan from Bank		2,304
Trade expenses	6,300	
Trade Payable		4,752
Bills payable		900
Salaries and Wages	5,400	
Cash at Bank	2,034	
Opening Inventory (1.4.2023)	2,376	
Rent and rates	4,167	
Sales return	882	
	49,086	49,086

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

UNIT 4 - SUBSIDIARY BOOKS

Answer :5

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 class of transaction 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.

Answer :6

	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year)	Dr.		936	936
(ii)	Profit & Loss Adjustment A/c Customer's Account To Suspense Account (Correction of the entry by which (a) Sales A/c was over credited by ₹ 180 (b) customer was credited by ₹642 instead of being debited by ₹ 462)	Dr. Dr.		180 1,104	1,284
(iii)	Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹ 300 instead of Returns Outwards Account being credited by ₹ 300)	Dr.		600	600
(iv)	Suspense Account To Geet Account To Meet Account (Removal or wrong debit to Meet and giving credit to Geet from whom cash was received)	Dr.		1,790	895 895
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)	Dr.		1,400	1,400
(vi)	Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)	Dr.		1600	1,600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	1280

(viii)	Trade receivable/ Manas's Account To Suspense Account (₹500 due by Manas not taken into trial balance, now rectified)	Dr.	500	500
(ix)	Deep's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to Deep omitted, now rectified)	Dr.	6,000	6,000
(x)	Profit & Loss Adjustment A/c To Bhatt's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.	8,436	8,436

Answer: 7

Rectification entries in the books of M/s Mangrove Arts

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 52,500 wrongly debited to building account, now rectified)		52,500	52,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		9,000	9,000
3.	Suspense Account Dr. To Leena Account (Goods returned by Leena had been posted wrongly to the debit of her account, now rectified)		12,300	12,300
4.	Profit and Loss Adjustment Account Dr. To Furniture Account (Being sale of furniture wrongly entered in sales book, now rectified)		1,80,000	1,80,000
5.	Lucky & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		45,000	45,000

Answer: 8

Rectification entries in the books of M/s VB Wires

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense Account Dr. To Seven & Co. (Goods returned by Seven & Co. had been posted wrongly to the debit of her account, now rectified)		6,300	6,300
4.	Profit and Loss Adjustment Account Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)		90,000	90,000
5.	Comfort & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		60,000	60,000

Answer: 9

S. No.		Debit (₹)	Credit (₹)
1	Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account)	13,500	13,500
2	M/s Kamal Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 5,920 posted as ₹ 5,290 i.e. debiting M/s Kamal Traders A/c less by 630, now rectified)	630	630
3	Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)	44,000	44,000
4	Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers)	20,000	20,000

Answer: 10

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter A/c To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified- Capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)	Dr.	27,000	27,000
(2)	Suspense A/c 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 Sam's Account (Credit purchase from Sam's ₹20,000, entered as sales last year, now rectified)	Dr.	40,000	40,000
(4)	Bhaskar's A/c To Anand's A/c (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	10,000
(5)	Suspense A/c To Paras's A/c (₹ 5,000 received from Paras wrongly debited to his account; now rectified)	Dr.	10,000	10,000
(6)	Tradereceivables (Ramesh) / Ramesh A/c To Suspense A/c (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
(7)	Ram's A/c To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense A/c To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)	Dr.	1,980	1,980
(9)	Profit & Loss Adjustment A/c To Manas's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980

(10)	Manas's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to Capital Account)	Dr.	1,06,980	1,06,980
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Answer: 11

In the books of Saraswat & Sons Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Furniture A/c Dr. To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)		20,000	20,000
(ii)	Satyam A/c Dr. To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)		3,000	3,000
(iii)	Repairs A/c Dr. To Building A/c (Correction of wrong debit to building A/c for repairs made)		18,500	18,500
(iv)	Purchases A/c Dr. To Ram Singh A/c (Purchases of goods from Ram Singh remained unrecorded)		18,000	18,000
(v)	Drawings A/c Dr. To Audit Fees A/c (Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)		15,000	15,000
(vi)	Anita Dr. To Kanika (Correction of wrong credit to Anita instead of Kanika)		4,500	4,500
(vii)	Returns Inwards / Sales Return A/c Dr. To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records)		8,900	8,900
(viii)	Furniture A/c Dr. To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)		7,500	7,500

(ix)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	Dr.	18,000	18,000
(x)	Purchases A/c Sales A/c To Raghav A/c (Correction of wrong entry in the sales Book for purchases of goods from Raghav)	Dr. Dr.	20,000 20,000	40,000

Answer :12

Rectification entries in the books of M/s Satya Paul Steels

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense A/c Dr. To Parth (Goods returned by Parth had been posted wrongly to the debit of his account, now rectified)		6,500	6,500
4.	Profit and Loss Adjustment A/c Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)		50,000	50,000
5.	Comfort & Co. Dr. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		60,000	60,000

Journal Entries in the Books of Mr. Sarvesh Kumar

Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Returns Inward/ Sales Return A/c Dr. To Suspense A/c (Being the mistake in totalling the Returns Inward Book corrected)		1,000	1,000
(ii)	Machinery A/c Dr. To Freight A/c To Suspense A/c (Being the freight paid for installation of machinery should have been capitalised and not to be charged to freight Account)		6,500	5,600 900
(iii)	Returns Inward/Sales Return A/c Dr. Sales A/c Dr. To Suspense A/c (Being value of goods returned by a customer wrongly posted to sales and omission of debit to sales returns account, now rectified)		2,500 2,500	5,000
(iv)	Drawings A/c Dr. To Conveyance A/c (Being the motorcycle purchased for Mr. Suresh Kumar debited to his Drawings Account instead of Conveyance Account as previously done by mistake)		18,000	18,000
(v)	Suspense A/c Dr. To Creditors (personal) A/c (Being the mistake in crediting the creditors account less by ₹ 700, now corrected)		700	700
(vi)	Suspense A/c Dr. To Mr. Avinash's A/c (Being cash received for Rs 5,000 wrongly posted to the debit of his account now corrected)		10,000	10,000
(vii)	Mr. Alok's A/c Dr. To Ashok's A/c (Being the cheque of Mr. Alok dishonoured, previously debited to Mr. Ashok)		2,500	2,500
(viii)	Deepak A/c Dr. To Suspense A/c (Being the correction of mistake by which the account of Deepak A/c was credited instead of being debited)		17,000	17,000

(ix)	Discount A/c Dr. To Suspense A/c (Being the total of discount allowed during December not posted; error now rectified)	3,800	3,800
(x)	Sales A/c Dr. To Furniture A/c (Being the rectification of mistake by which sales of furniture was entered in sales book and hence now corrected by debiting the sales A/c)	2,200	2,200

Answer: 14

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Sales A/c Dr. Sales Returns A/c Dr. To Suspense A/c (Being the value of goods returned by Mr. A wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)		500 500	1,000
(2)	Suspense A/c Dr. To Mr. R (Being wrong debit to Mr. R for goods returned by him, now rectified)		500	500
(3)	Mr. Q Dr. To Mr. S To Suspense A/c (Being omission of debit to Mr. Q and wrong credit to Mr. S for sale of ₹ 700, now rectified)		700	70 630
(4)	Discount A/c Dr. To Suspense A/c (Being the total of Discount allowed during September not posted from the Cash Book; error now rectified)		350	350

SPACE FOR NOTES





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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 3 – BANK RECONCILIATION STATEMENT

Q1 The Bank Pass Book of Account No.7749 of Ms. Tina showed an overdraft of ₹ 1,34,300 on 31st March 2024. On going through the Pass Book, the accountant found the following:

- i) A Cheque of ₹4,320 credited in the pass book on 28th March 2024 being dishonoured is debited again in the pass book on 1st April 2024. There was no entry in the cash book about the dishonour of the cheque until 15th April 2024.
- ii) Bankers had credited her account with ₹ 11,200 for interest collected by them on her behalf, but the same has not been entered in her cash book.
- iii) Out of ₹ 82,000 paid in by Ms. Tina in cash and by cheques on 31st March 2024 cheques amounting to ₹ 30,000 were collected on 7th April, 2024.
- iv) Out of Cheques amounting to ₹ 31,200 drawn by her on 27th March, 2024 a cheque for ₹ 10,000 was encashed on 3rd April, 2024.
- v) Bankers seems to have given here wrong credit for ₹ 2,000 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 1,200 against her account No.8765.
- vi) A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March, 2024.
- vii) A Bill Receivable for ₹ 20,800 previously dishonoured – (Discount ₹ 800) with the Bank had been dishonoured but advice was received on 1st April, 2024.
- viii) A Bill for ₹ 40,000 was retired /paid by the bank under a rebate of
- ix) ₹ 700 but the full amount of the bill was credited in the bank column of the Cash Book.
- x) A Cheque for ₹ 9,600 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2024.

Prepare Bank Reconciliation Statement as on 31st March, 2024.

Q2 On 31st March 2024, the Bank Pass Book of Sita showed a balance of ₹ 3,00,000 to her credit while balance as per cash book was ₹ 2,55,500. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to ₹ 1,60,000 out of which
- ii) only ₹ 64,000 were presented for payment.
- iii) She received a cheque of ₹ 10,000 which she recorded in her cash book but forgot to deposit in the bank.
- iv) A cheque of ₹ 44,000 deposited by her has not been cleared yet.
- v) Bank has credited an interest of ₹ 3,000 while charging ₹ 500 as bank charges.

Prepare a bank reconciliation statement

Q3 On 30th September, 2023, the bank account of Akhil, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 16,248. On the same date the bank statement showed a credit balance of ₹ 83,032 in favour of Akhil. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 52,56,000 deposited on 29th September, 2023 was credited by the bank only on 3rd October, 2023
2. A payment by cheque for ₹ 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2023, the bank credited an amount of ₹ 4,69,600 received from a customer of Akhil, but the advice was not received by Akhil until 1st October, 2023.
4. Bank charges amounting to ₹ 2,320 had not been entered in the Cash Book.
5. On 6th September, 2023, the bank credited ₹ 80,000 to Akhil in error.
6. A bill of exchange for ₹ 5,60,000 was discounted by Akhil with his bank. This bill was dishonoured on 28th September, 2023 but no entry had been made in the books of Akhil.
7. Cheques issued upto 30th September, 2023 but not presented for payment upto that date totalled ₹ 53,04,000.

You are required :

- a) to show the appropriate rectifications required in the Cash Book of Akhil, to arrive at the correct balance on 30th September, 2023 and
- b) to prepare a bank reconciliation statement as on that date.

Q4 Prepare Bank Reconciliation Statement and Adjusted Cash Book from the following particulars as on 31st December, 2023:

Particulars	₹
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2023 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2023 but the same effected by the Bank on 01 st January, 2024	4,000

Q5 On 31st March 2024, the Bank Pass Book of Swati showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.
- ii) She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.
- iii) A cheque of ₹ 22,000 deposited by her has not been cleared yet.
- iv) Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.
- v) Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

- Q6** State the causes of difference between the balance shown by the pass book and the cash book.
- Q7** On 30th June, 2024, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:
- Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.
 - A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.
 - Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June, but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.
 - According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.
 - Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2024.

- Q8** From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2024.

Particulars	Amount(₹)
Bank balance as per Pass Book	75,00,000
Bills discounted dishonored not recorded in Cash Book	37,50,000
Cheque received entered twice in Cash Book	75,000
Bank charges entered twice in Cash Book	15,000
Insurance premium paid directly by Bank under-standing instruction	4,50,000
Cheque issued but not presented to Bank for payment	37,50,000
Cheque received, but not sent to Bank	84,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	37,50,000
Credit side of the Bank column cast short	15,000

- Q9** Prepare a Bank Reconciliation statement for Ramesh Traders as on 31st March,2024.

The cash book of Ramesh Traders shows a debit balance of ₹ 8,24,400 at bank as on 31st March,2024, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

- On 12th March, 2024 the payment side of the Cash Book was under cast by ₹ 24,000/-
- A cheque of ₹ 1,70,000 issued on 20th March, 2024 was not taken in the bank column.
- On 22nd March, 2024 the debit balance of ₹ 37,000 as on the previous day, was brought forwards as credit balance.

4. Out of the total cheques amounting to ₹ 84,000 issued in, the last week of March, 2024, cheques aggregating ₹ 57,000 were encashed in March, 2024.
5. Dividends of ₹ 70,000 collected by the Bank and Fire insurance premium of ₹ 40,000 paid by it were not recorded in the cash book.
6. One cheque issued to a creditor of ₹ 2,58,000 was recorded twice in the Cash book.
7. A debtor Mr. Sahid has deposited the Cheque for ₹ 64,000 into the bank directly in the month of March, 2024 without intimating to Ramesh Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 10,000 was deposited in bank on 28th March,2024 but was dishonored and advice received from bank on 3rd April, 2024.
9. Bank paid credit card bill of ₹ 5,000 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 50,000 of other customer in our account.
11. Bank credited cheque of ₹ 4,000 in savings account of proprietor of Ramesh Traders instead of crediting cheque in current account of Ramesh Traders.
12. ₹ 1,000 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 400 on 25th March for which no intimation received till 31st March

Q10 From the following particulars, prepare the Bank Reconciliation Statement of businessman as on 31st March, 2024:

Sl. No.	Particulars	₹
1	Bank Overdraft as per cash book	24,000
2	Cheque deposited as per bank statement but not recorded in cash book	4,000
3	Cash received from Exe was entered in bank column of cash book.	3,150
4	Debit side of the bank column casted short	1,000
5	A cheque for ₹ 9,000 deposited but collection as per bank statement	8,950
6	Bills sent to the bank for collection, collected by the bank but not recorded in cash book	4,200
7	Bank charges recorded twice in cash book	40
8	Noting charges debited in Pass-Book for discounted bill dishonoured	60
9	Cheques deposited on 25th March, 2024 but collected by bank on 5th April, 2024	4,800
10	Cheques issued on 26th March, 2024 but presented for encashment on 6th April, 2024	3,000

Q11 The cash book of Hari showed a debit balance of ₹ 1,36,800 as on 31.12.2023 which was in disagreement with balance as per pass book. Following discrepancies were noticed:

- i) Dividend of ₹ 18,000 was deposited in the bank of which Hari had no information
- ii) Cheque was issued to Suresh of ₹ 14,780 on 18.12.2023 which was recorded in cash book as ₹ 14,870.
- iii) Cheques totaling of ₹ 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.
- iv) Mediclaim premium of ₹ 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.
- v) Goods amounting ₹ 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducting 4% cash discount. This entry was missed while preparing cash book.
- vi) Bank charges for issue of cheque book ₹ 150 was skipped while preparing cash book.
- vii) Hari received a UPI of ₹ 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.
- viii) Cheques amounting to ₹ 1,80,000 were issued during the month but cheques of ₹ 1,44,000 were only presented during the month for payment.

Prepare Bank Reconciliation Statement on 31.12.2023 and ascertain balance as per pass-book.

SOLUTIONS

Answer : 1

Bank Reconciliation Statement as on 31st March, 2024

Particulars	₹
Bank balance (Debit i.e. overdraft) as per Bank Pass book	1,34,300
(i) No adjustment required as there would be no difference on 31.3.24	
(ii) Add: No entry in Cash book for interest collection by Bank	11,200
(iii) Less: Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(30,000)
(iv) Add: Cheque credited in cash book but not debited in pass book	10,000
(v) Add: Reversal of wrong Credit	2,000
Less: Reversal of wrong debit	(1,200)
(vi) Less: Cheque of ₹ 1,000 entered in cash book but omitted to be banked	(4,000)
(vii) Less: Discounted dishonored but no entry in Cash book	(20,800)
(viii) Add: Rebate on bill retired not entered in cash book	700
(viii) Add: Cheques deposited in bank not yet recorded in cash book	<u>9,600</u>
Balance (Cr. i.e. overdraft) as per Cash book	<u>1,11,800</u>

Note: A cheque of ₹ 4,320 credited in Pass Book on 28th March, 2024 and later debited in Pass Book on 1st April, 2024 has no effect on Bank Reconciliation statement as at 31st March, 2024.

Answer : 2

Bank Reconciliation Statement as on 31st March, 2024

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		3,00,000
Add: Cheque deposited but not yet cleared	44,000	
Add: Cheque recorded in Cash Book but not yet deposited	10,000	
Add: Bank Charges debited by bank	500	54,500
Less: Cheque issued but not yet presented	(96,000)	
Less: Interest allowed by bank	(3,000)	(99,000)
Balance as per Cash Book		<u>2,55,500</u>

Answer :3
i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2023		₹	2023		₹
Sept. 30	To Party A/c	64,000	Sept. 30	By Balance b/d	16,248
	To Customer A/c (Direct deposit)	4,69,600		By Bank charges	2,320
	To Balance c/d	44,968		By Customer A/c (B/R dishonoured)	5,60,000
		5,78,568			5,78,568

ii) Bank Reconciliation Statement as on 30th September, 2023

Particulars	Amount
	₹
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30 th Sept., 2023	52,56,000
	53,00,968
Less: Cheques issued but not presented for payment upto 30 th Sept., 2023	(53,04,000)
Credit by Bank erroneously on 6th Sept. Credit balance as per bank statement	(80,000)
	83,032

Note: Bank has credited Akhil by 80,000 in error on 6th September, 2023. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 53,04,000 resulting in credit balance of ₹ 3,032 as per pass-book.

Answer :4
Adjusted Cash Book as on 31st December, 2023

Particulars	₹	Particulars	₹
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, 2023

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	<u>4,000</u>	
		<u>49,000</u>
		3,08,000
LESS: Cheque deposited but not cleared	(25,000)	<u>(25,000)</u>
Balance as per Bank Pass Book		2,83,000

Answer :5

Bank Reconciliation Statement as on 31st March, 2024

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		1,50,000
Add: Cheque deposited but not yet cleared	22,000	
Add: Cheque recorded in Cash Book but not yet deposited	5,000	
Add: Bank Charges debited by bank	250	27,250
Less: Cheque issued but not yet presented	(48,000)	
Less: Amount deposited but not recorded in Cash Book	(15,700)	
Less: Interest allowed by bank	(1,500)	(65,200)
Balance as per Cash Book		1,12,050

Answer :6

The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

- (i) Cheques issued but not yet presented for payment.
- (ii) Cheques deposited into the bank but not yet cleared.
- (iii) Interest allowed by the bank.
- (iv) Interest and expenses charged by the bank.
- (v) Interest and dividends collected by the bank.
- (vi) Direct payments by the bank.
- (vii) Direct deposits into the bank by a customer.
- (viii) Dishonour of a bill discounted with the bank.
- (ix) Bills collected by the bank on behalf of the customer.
- (x) An error committed by the bank etc.

Answer: 7
Bank Reconciliation Statement of Ms. Suman

	Balance as per Cash Book			(1,97,400)
<i>Add:</i>	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	600		
	Insurance claim	<u>3,200</u>		
		3,800		
	(-) Bank Commission	<u>400</u>	3,400	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		<u>2,000</u>	<u>23,200</u>
				(1,74,200)
<i>Less:</i>	Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000)		6,200	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	<u>2,400</u>	4,320	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		<u>1,200</u>	<u>(11,720)</u>
	Overdraft as per Pass Book			1,85,920

Answer :8

Bank Reconciliation Statement as on 31st March,2024

	₹	₹
Bank balance as per Pass book		75,00,000
Add: Bills dishonoured not recorded in the cash book	37,50,000	
Cheque received entered twice in the cash book	75,000	
Insurance premium paid directly not recorded in the cash book	4,50,000	
Cheque received but not sent to the bank	84,00,000	
Credit side of the bank column cast short	15,000	1,26,90,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	37,50,000	20,19,0000
Bank charges recorded twice in the cash book	15,000	
Cheque issued but not presented to the bank	37,50,000	(75,15,000)
Bank balance as per Cash book		1,26,75,000

Answer: 9

Bank Reconciliation Statement of Ramesh Traders as on 31st March, 2024

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		8,24,400
Add:		
Mistake in bringing forward ₹ 37,000/- debit balance as credit balance on 22nd March	74,000	
Cheques issued but not presented		
Issued = ₹ 84,000 less cashed ₹ 57,000	27,000	
= ₹ 27,000/-		
Dividend directly collected but not entered in cash book	70,000	
Cheques recorded twice in the cash book	2,58,000	
Wrongly credited cheque by bank	50,000	
Discount amount wrongly entered in bank	1,000	4,80,000

column		
Less:		
Wrong casting in cash book on 12th March, 2024	(24,000)	
Cheque issued and not entered in the Bank Column	(1,70,000)	
Fire Insurance premium paid directly by bank	(40,000)	
Cheque dishonored not recorded in books	(10,000)	
Credit card payment not recorded in cash book	(5,000)	
Cheque wrongly deposited by bank in savings account	(4,000)	
Bank charges debited not recorded in cash book	(400)	(2,53,400)
Balance as per the Passbook		10,51,000

Note : No effects of cheque deposit directly and dishonored in the same Month. Alternatively amount of ₹ 64,000/- can be added as well as deducted from balance as per cash book.

Answer :10

Bank Reconciliation Statement as on 31st March, 2024

Particulars	Details ₹	Amount ₹
Overdraft as per Cash Book		24,000
<i>Add:</i> Cash received from Exe entered in bank column of cash book	3,150	
Cheque deposited but collected less as per bank statement	50	
Noting charges not recorded in cash book	60	
Cheque deposited but collected by bank on 5 th April	4,800	8,060
<i>Less:</i> Cheque deposited but not recorded in Cash Book	(4,000)	32,060
Debit side of bank column casted short	(1,000)	
Bills for collection credited in the bank not yet entered in the cash book Bank	(4,200)	
Charges recorded twice	(40)	
Cheque issued but not presented	(3,000)	(12,240)
Overdraft as per bank Pass book		19,820

Alternatively, the above question can also be solved using adjusted cash book.

Answer :11

Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

Particulars	Details ₹	Amount ₹
Balance as per the Cash Book		1,36,800
<i>Add:</i> Cheques issued but not presented for payment	36,000	
Dividends directly collected by bank but not yet entered in the Cash Book	18,000	
Cheque recorded with wrong amount in the Cash Book	90	
Cheque directly deposited but not recorded in the cash book	1,53,600	
Amount received from sale of scrap not recorded in cash book	1,000	2,08,690
<i>Less:</i> Cheques deposited but not cleared till 31 st dec	55,000	3,45,490
Mediclaim paid by the bank directly not yet recorded in the Cash Book	14,160	
Bank charges not recorded in cash book	150	(69,310)
Balance as per the Pass Book		2,76,180

Alternatively, the question can also be solved by preparing adjusted cash book as shown below:

Cash Book (Bank Column)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,36,800	By Bank charges	150
To Amount received from sale of scrap	1,000	By Mediclaim	14,160
To dividends collected by bank	18,000	By balance c/d	2,95,180
To cheques recorded with wrong amount	90		
To cheque directly deposited not recorded	1,53,600		
	3,09,490		3,09,490

Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

Particulars	₹
Balance as per the Cash Book (corrected)	2,95,180
<i>Add:</i> Cheques issued but not yet presented	36,000
<i>Less:</i> Cheques deposited but not cleared	(55,000)
Balance as per the Pass Book	2,76,180



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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 4 - INVENTORIES

- Q1** Ambiance 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, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:
- i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.
 - ii) On 31st December, stock sheet showed the following discrepancies:
 - a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
 - b) The total of a page had been undercast by ₹ 400.
 - iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this
 - iv) ₹ 6,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in
 - v) March, 2024 totalled ₹ 7,000.
 - vi) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before
 - vii) 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
 - viii) During the final quarter, credit notes at invoiced value of ₹ 1,500 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, 2024.

- Q2** M/s Manas, Profit and loss account showed a net profit of ₹ 32,00,000, after considering the closing stock of ₹ 30,00,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:
- i) Purchases for the year included ₹ 1,20,000 paid for new electric fittings for the shop.
 - ii) M/s Manas gave away goods valued at ₹ 3,20,000 as free samples for which no entry was made in the books of accounts.
 - iii) Invoices for goods amounting to ₹ 20,00,000 have been entered on 25th March, 2024, but the goods were not included in stock.
 - iv) In March, 2024 goods of ₹ 16,00,000 sold and delivered were taken in the sales for April, 2024.
 - v) Goods costing ₹ 6,00,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.
- You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

Q3 Ram Setu 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, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:

- i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 7,20,000.
- ii) On 31st December, stock sheet showed the following discrepancies:
 - a) A page total of ₹ 45,000 had been carried to summary sheet as ₹ 54,000.
 - b) The total of a page had been undercast by ₹1,800.
- iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 6,30,000. Out of this ₹ 27,000 related to goods received prior to 31st December, 2023. Invoices entered in April, 2024 relating to goods received in March, 2024 totalled ₹ 36,000.
- iv) Sales invoiced to customers totalled ₹ 8,10,000 from January to March, 2024. Of this ₹ 45,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 36,000.
- v) During the final quarter, credit notes at invoiced value of ₹ 9,000 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, 2024.

Q4 M/s Dheeraj, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:

- i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.
- ii) M/s Dheeraj gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.
- iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2024, but the goods were not included in stock.
- iv) In March, 2024 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2024.
- v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.

You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

Q5 Write short notes on:

- i) Adjusted Selling Price method of determining cost of stock.
- ii) Principal methods of ascertainment of cost of inventory.

Q6 The following are the details of the spare parts of a Chemical Mill:

1-1-2024	Opening Inventory	Nil
1-1-2024	Purchases	100 units @ ₹300perunit
15-1-2024	Issued for consumption	50 units
1-2-2024	Purchases	200 units @ ₹ 400 per unit
15-2-2024	Issued for consumption	100 units
20-2-2024	Issued for consumption	100 units

Find out the value of Inventory as on 31.3.2024, if the company follows Weighted Average Method.

Q7 Sunshine 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, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:

- i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.
- ii) On 31st December, stock sheet showed the following discrepancies:
 - a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
 - b) The total of a page had been undercast by ₹ 200.
- iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 4,000.
- iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
- v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2024.

Q8 Manish closed his books of account on 31st March, each year. Inventory taking for the year ended 31st March, 2024 was completed by 10th April, 2024 on which date value of the stock available in godown was of ₹ 4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2024 and 10th April, 2024:

- i) Goods sold to customers ₹ 1,10,000. 
- ii) Sales return ₹ 10,000.
- iii) Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).
- iv) Purchases return amounted to ₹ 2,500.
- v) Goods costing 15,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.
- vi) After the stock was taken, it was found that there was certain very old slow-moving items costing ₹ 14,850, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2024.

Q9 Physical verification of stock in a business was done on 23rd June, 2023. The value of the stock was ₹ 4,80,000. The following transactions took place between 23rd June, 2023 and 30th June, 2023:

- i) Out of the goods sent on consignment, goods at cost worth ₹ 24,000 were unsold.
- ii) Purchase of ₹ 40,000 were made out of which goods worth ₹ 16,000 were delivered on 5th July, 2023
- iii) Sales were ₹ 1,36,000 which include goods worth ₹ 32,000 sent on approval. Half of these goods were returned before 30th June 2023, but no information is available regarding the remaining goods.
- iv) Goods are sold at cost plus 25%. However, Goods costing ₹ 24,000 had been sold for ₹ 12,000.

Determine the value of stock on 30th June, 2023.

Q10 Differentiate between Periodic Inventory System and Perpetual Inventory System.

SOLUTIONS

Answer :1

Valuation of Physical Stock as at March 31, 2024

		₹
Stock at cost on 31.12.2023		80,000
Add: (1) Undercasting of a page total	400	
(2) Goods purchased and delivered during January – March, 2024		
₹ (70,000 – 6,000 + 7,000)	71,000	
(3) Cost of sales return ₹(1,500 – 300)	<u>1,200</u>	<u>72,600</u>
		1,52,600
Less: (1) Overcasting of a page total	1,000	
₹ (6,000 – 5,000)		
(2) Goods sold and dispatched during January – March, 2024		
₹ (90,000 – 5,000 + 4,000)	89,000	
Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>71,200</u>
Value of stock as on 31st March, 2024		<u>80,400</u>

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 ₹ 4,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023-2024.

Answer :2

Profit and Loss Adjustment A/c

	₹		₹
To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales	8,00,000	By Electric fittings	1,20,000
(goods approved in April to be taken as April sales)		By Samples	3,20,000
		By Stock	20,00,000
		(Purchases of March not included in stock)	
		By Sales	16,00,000
To Adjusted net profit	67,20,000	(goods sold in March Wrongly taken as April sales)	
		By Stock	

		(goods sent on approval basis not included in stock)	6,00,000
	<u>78,40,000</u>		<u>78,40,000</u>

Calculation of value of inventory on 31st March, 2024

	₹
Stock on 31 st March, 2024 (given)	30,00,000
Add: Purchases of March, 2024 not included in the stock	20,00,000
Goods lying with customers on approval basis	<u>6,00,000</u>
	<u>56,00,000</u>

Answer : 3

Valuation of Physical Stock as at March 31, 2024

		₹
Stock at cost on 31 st March, 2023		7,20,000
Add: (1) Under casting of a page total	1,800	
(2) Goods purchased and delivered during January - March, 2024		
₹ (6,30,000 - 27,000 + 36,000)	6,39,000	
(3) Cost of sales return ₹ (9,000 - 1,800)	<u>7,200</u>	<u>6,48,000</u>
		13,68,000
Less: (1) Overcasting of a page total ₹ (54,000 - 45,000)		
(2) Goods sold and dispatched during January - March, 2024	9,000	
₹ (8,10,000 - 45,000 + 36,000)	8,01,000	
Less: Profit margin $8,01,000 \times \frac{25}{125}$	1,60,200	6,40,800
		(6,49,800)
Value of stock as on 31 st March, 2024		<u>7,18,200</u>

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 ₹ 36,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023- 2024

Answer :4

Profit and Loss AdjustmentA/c

	₹		₹
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales (goods approved in April to be taken as April sales)	2,00,000	By Electric fittings	30,000
		By Samples	80,000
To Adjusted net profit	16,80,000	By Stock (Purchases of March not included in stock)	5,00,000
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included instock)	1,50,000
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2024

	₹
Stock on 31 st March, 2024 (given)	7,50,000
Add: Purchases of March, 2024 not included in the stock	5,00,000
Goods lying with customers on approval basis	<u>1,50,000</u>
	<u>14,00,000</u>

Answer : 5

- (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.
- (ii) The specific identification method, First-In-First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Answer :6

Chemical Mill

Calculation of the value of Inventory as on 31-3-2024

Date	Receipts			Issues			Balance		
	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2024	Balance							Nil	
1-1-2024	100	300	30,000				100	300	30,000
15-1-2024				50	300	15,000	50	300	15,000
1-2-2024	200	400	80,000				250	380	95,000
15-2-2024				100	380	38,000	150	380	57,000
20-2-2024				100	380	38,000	50	380	19,000

Therefore, the value of Inventory as on 31-3-2024 = 50 units @ ₹ 380 = ₹ 19,000

Answer : 7

Valuation of Physical Stock as at March 31, 2024

		₹
Stock at cost on 31 st December, 2023		80,000
<i>Add:</i> (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2024 ₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	<u>800</u>	<u>72,000</u>
<i>Less:</i> (1) Overcasting of a page total ₹ (6,000 – 5,000)	(1,000)	1,52,000
(2) Goods sold and dispatched during January – March, 2024 ₹ (90,000 – 5,000 + 4,000)	89,000	
<i>Less:</i> Profit margin $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>(72,200)</u>
Value of stock as on 31st March, 2024		<u>79,800</u>

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, therefore ₹ 4,000 goods

delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2024-2025 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2024-2025.

Statement of Valuation of Inventory as on 31st March, 2024

Particulars	Amount (₹)	Amount (₹)
Value of stock as on 10th April, 2024		4,50,000
<i>Add:</i> Cost of sales during the period from 31 st March, 2024 to 10 th April, 2024:		
Sales (₹ 1,10,000-₹ 10,000)	1,00,000	
<i>Less:</i> Gross profit (25% on cost i.e. 20% on sales)	<u>(20,000)</u>	80,000
		5,30,000
<i>Less:</i> Purchases during the period from 31 st March, 2024 to 10 th April, 2024 (85,000-2,500)	82,500	
Unsold stock out of goods received on consignment basis (40% of ₹ 15,000)	6,000	
Loss on revaluation of slow-moving inventories (14,850-9,500)	<u>5,350</u>	(93,850)
		4,36,150

ALTERNATE PRESENTATION

Statement of Valuation of Inventory as on 31st March, 2024

Particulars	Amount (₹)	Amount (₹)
Value of stock as on 10th April, 2024		4,50,000
<i>Add:</i> Cost of sales during the period from 31 st March, 2024 to 10 th April, 2024: Sales	1,10,000	
<i>Less:</i> Gross profit (25% on cost i.e. 20% on sales)	<u>(22,000)</u>	88,000
Purchase Returns		2,500
		5,40,500
<i>Less:</i> Purchases during the period from 31 st March, 2024 to 10th April, 2024	85,000	
Sales Returns	8,000	
Unsold stock out of goods received on consignment basis (40% of ₹ 15,000)	6,000	
Loss on revaluation of slow-moving inventories (14,850-9,500)	<u>5,350</u>	(1,04,350)
		4,36,150

Answer :9

Statement of Valuation of Stock on 30th June, 2023

		₹
Value of stock as on 23rd June, 2023		4,80,000
Add: Unsold stock out of the goods sent on consignment	24,000	
Purchases during the period from 23 rd June, 2023 to 30 th June, 2023	24,000	
Goods in transit on 30 th June, 2023	16,000	
Cost of goods sent on approval basis (80% of ₹ 16,000)	12,800	76,800
		5,56,800
Less: Cost of sales during the period from 23 rd June, 2023 to 30 th June, 2023 Sales (₹ 1,36,000 - ₹ 16,000)	1,20,000	
Less: Gross profit	<u>9,600</u>	1,10,400
Value of stock as on 30th June, 2023		4,46,400

Working Notes:

1. Calculation of normal sales:		
Actual sales		1,36,000
Less: Abnormal sales	12,000	
Return of goods sent on approval	16,000	(28,000)
		1,08,000
2. Calculation of gross profit:		
Gross profit or normal sales $20/100 \times ₹ 1,08,000$		21,600
Less: Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		(12,000)
Gross profit		9,600

Alternatively, the value of stock as on 30th June,2023 can also be calculated using trading Account. In that case the solution will be

Trading Account for the period from 23rd June to 30th June

Particulars	₹	Particulars	₹
To Opening Stock	4,80,000	By Sales including abnormal sales	1,20,000
To Purchase	40,000	By Closing stock as on June 30 (b/f)	3,93,600
Less: Goods In transit	<u>16,000</u>		
To Gross Profit (W.N.)	9,600		
	5,13,600		5,13,600

Statement of valuation of stock on 30th June 2023

Particulars	₹	₹
Value of stock as per Trading Account		3,93,600
<i>Add:</i> Unsold stock out of the Goods sent on consignment	24,000	
Goods in Transit	16,000	
Cost of goods sent on approval basis (80% of 16000)	<u>12,800</u>	
		52,800
Value of stock as on 30 th June 2023		<u>4,46,400</u>

Working Notes:

1. Calculation of normal sales:		
Actual sales		1,36,000
<i>Less:</i> Abnormal sales	12,000	
Return of goods sent on approval	16,000	(28,000)
		1,08,000
2. Calculation of gross profit:		
Gross profit or normal sales $20/100 \times ₹ 1,08,000$		21,600
<i>Less:</i> Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		12,000
Gross profit		<u>9,600</u>

Answer :10

The difference between Periodic Inventory System and Perpetual Inventory System are as follows:

S. No.	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.



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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 5 - DEPRECIATION

- Q1** The balance of Machinery Account of a firm on 1st April, 2023 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2023 was sold on 1st July, 2023 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2023 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2024.
- Q2** Discuss the factors taken into consideration for calculation of depreciation.
- Q3** M/s. Surya Lights purchased a second-hand machine on 1st January, 2020 for ₹ 3,20,000. Overhauling and erection charges amounted to ₹ 80,000.
Another machine was purchased for ₹ 1,60,000 on 1st July, 2020.
On 1st July, 2022, the machine installed on 1st January, 2020 was sold for ₹ 1,60,000. Another machine amounted to ₹ 60,000 was purchased and was installed on 30th September, 2022.
Under the existing practice the company provides depreciation @ 20% on original cost. However, from the year 2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2023
- Q4** A Plant & Machinery costing ₹ 80,00,000 is depreciated on straight line basis 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 ₹ 3,20,000. The remaining useful life was reassessed at 8 years.
Calculate Depreciation for the fifth year.
- Q5** A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2020 and spent ₹ 3,000 on its overhauling. On 1st July 2021, another machine was purchased for ₹ 10,000. On 1st July 2022, the machinery which was purchased on 1st January 2020, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2023, the machine which was purchased on 1st July, 2021 was sold for ₹ 2,000.
Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2021 and the rate was increased to 15% per annum. The books are closed on 31st December every year.
Prepare Machinery account for four years from 1st January, 2020.
- Q6** Savin & Co. purchased a machine for ₹ 1,00,000 on 1.4.2021 Another machine costing ₹1,50,000 was purchased on 1.10.2022. On 31.3.2024 the machine purchased on 1.4.2021 was sold for ₹ 50,000. The company provides depreciation at 15% on Written Down Value Method. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account.
- Q7** S Chand & Associates purchased a machine for ₹ 3,00,000 on 1.1.2021 Another machine costing ₹4,50,000 was purchased on 1.7.2022. On 31.12.2023 the machine purchased on 1.1.2021 was sold for ₹1,50,000. The company provides depreciation at 15% on Written Down Value Method. The company closes its accounts on 31st December every year. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account.

Q8 On 1st April, 2022, LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Account. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000.

Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000.

The company changed the method of depreciation from diminishing balance method to straight line method on 1st April, 2022. The rate of depreciation remains the same.

Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in the year 2022-23.

Q9 PQR associates bought a computer set on 01.04.2020 for ₹ 2,00,000 and charged depreciation @ 20% p.a. on diminishing balance method. They made further additions as follows:

Date Amount

01.04.2021 ₹ 1,50,000

01.04.2023 ₹ 1,00,000

On 01.04.2023 it was decided to change the method to straight line basis and charge depreciation assuming the expected life of all the computers to be 8 years from 01.04.2023. Prepare Computers A/c for year ending 31.03.2024.

SOLUTIONS

Answer : 1

Calculation of depreciation for the year ended 31.3.24

	Machine I (28,54,000 - 2,16,000) ₹	Machine II Purchased on 1 st July ₹	Machine III Purchased on 1 st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1 st April, 2023	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)

Answer : 2

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.

Answer :3

In the books of M/s. Surya Lights Machinery Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.2020	To Bank A/c	3,20,000	31.12.2020	By Depreciation A/c	96,000
	To Bank A/c	80,000		(₹ 80,000+ ₹ 16,000)	
	(Erection charges)		31.12.2020	By Balance c/d	4,64,000
1.7.2020	To Bank A/c	1,60,000		(₹ 3,20,000+ ₹ 1,44,000)	
		<u>5,60,000</u>			<u>5,60,000</u>
01.01.21	To Balance b/d	4,64,000	31.12.2021	By Depreciation A/c	1,12,000
				(₹ 80,000+ ₹ 32,000)	
			31.12.2021	By Balance c/d	3,52,000
				(₹ 2,40,000 + ₹ 1,12,000)	
		<u>4,64,000</u>			<u>4,64,000</u>
01.01.22	To Balance b/d	3,52,000	01.07.2022	By Bank A/c	1,60,000
30.9.22	To Bank A/c	60,000		By Profit and Loss A/c	40,000
				(Loss on Sale – W.N.)	
			31.12.2022	By Depreciation A/c	75,000
				(₹ 40,000 + ₹ 32,000 + ₹ 3,000)	
				By Balance c/d	1,37,000
				(₹ 80,000 + ₹ 57,000)	
		<u>4,12,000</u>			<u>4,12,000</u>
01.01.23	To Balance b/d	1,37,000	31.12.2023	By Depreciation A/c	20,550
				(₹ 12,000 + ₹ 8,550)	
				By Balance c/d	1,16,450
				(₹ 68,000 + ₹ 48,450)	
		<u>1,37,000</u>			<u>1,37,000</u>

Working Notes:
Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	4,00,000	1,60,000	60,000
Depreciation for 2020	<u>80,000</u>	<u>16,000</u>	
Written down value as on 31.12.2020	3,20,000	1,44,000	
Depreciation for 2021	<u>80,000</u>	<u>32,000</u>	
Written down value as on 31.12.2021	2,40,000	1,12,000	
Depreciation for 2022	<u>40,000</u>	<u>32,000</u>	<u>3,000</u>
Written down value as on 31.12.2022	2,00,000	<u>80,000</u>	<u>57,000</u>
Sale proceeds	<u>1,60,000</u>		
Loss on sale	<u>40,000</u>		


Answer : 4
Calculation of depreciation for 5th year

Depreciation per year charged for four years = ₹ 80,00,000 / 10 = ₹8,00,000

WDV of the machine at the end of fourth year = ₹80,00,000 - ₹8,00,000 × 4 = ₹48,00,000.

Depreciable amount after revaluation = ₹ 48,00,000 + ₹ 3,20,000 = ₹51,20,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 51,20,000 / 8 = ₹6,40,000.

Answer :5

In the books of Firm Machinery Account

		₹			₹
1.1.2020	To Bank A/c	37,000	31.12.2020	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2020	By Balance c/d	36,000
		<u>40,000</u>			<u>40,000</u>
1.1.2021	To Balance b/d	36,000	31.12.2021	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2021	To Bank A/c	10,000	31.12.2021	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		<u>46,000</u>			<u>46,000</u>
1.1.2022	To Balance b/d To Bank A/c	39,850	1.7.2022	By Bank A/c(sale)	28,000
1.7.2022		25,000	1.7.2022	By Profit and Loss A/c (Loss on Sale - W.N. 1)	305
			31.12.2022	By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
				By Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
		<u>64,850</u>			<u>64,850</u>
1.1.2023	To Balance b/d	30,987	1.7.2023	By Bank A/c (sale)	2,000
			1.7.2023	By Profit and Loss A/c (Loss on Sale - W.N. 1)	5,272
			31.12.2023	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
		<u>30,987</u>	31.12.2023	By Balance c/d	<u>19,656</u>
					30,987

Working Note:
Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery (Machinery cost for 2020)	40,000	10,000	25,000
Depreciation for 2020	<u>4,000</u>		
Written down value as on 31.12.2020	36,000		
Purchase 1.7.2021 (6 months)		10,000	
Depreciation for 2021	<u>5,400</u>	<u>750</u>	
Written down value as on 31.12.2021	30,600	9,250	
Depreciation for 6 months (2022)	<u>2,295</u>		
Written down value as on 1.7.2022	28,305		
Sale proceeds	<u>28,000</u>		
Loss on sale	<u>305</u>		
Purchase 1.7.2022			25,000
Depreciation for 2022		<u>1,388</u>	<u>1,875</u>
Written down value as on 31.12.2022		7,862	23,125
Depreciation for 6 months in 2023		<u>590</u>	
Written down value as on 1.7.2023		7,272	
Sale proceeds		<u>2,000</u>	
Loss on sale		<u>5,272</u>	
Depreciation for 2023			<u>3,469</u>
Written down value as on 31.12.2023			<u>19,656</u>

Answer :6

Savin & Co.
Machinery Account

Dr.

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.2021	To Bank A/c	1,00,000	31.3.2022	By Balance c/d	1,00,000
		1,00,000			1,00,000
1.4.2022	To Balance b/d	1,00,000			
1.10.2022	To Bank A/c	1,50,000	31.03.2023	By Balance c/d	2,50,000
		2,50,000			2,50,000
1.4.2023	To Balance b/d	2,50,000	31.03.2024	By Machinery Disposal A/c	1,00,000
			31.03.2024	By Balance c/d	1,50,000
		2,50,000			2,50,000
1.4.2024	To Balance b/d	1,50,000			

Dr.

Provision for Depreciation Account

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.2022	To Balance c/d	15,000	31.03.2022	By Depreciation A/c	15,000
		15,000			15,000
31.03.2023	To Balance c/d	39,000	1.4.2022	By Balance b/d	15,000
			31.03.2023	By Depreciation A/c (₹ 12,750+₹ 11,250)	24,000
		39,000			39,000
31.03.2024	To Machinery Disposal A/c [100000-61,413]	38,587	1.4.2023	By Balance b/d	39,000
31.03.2024	To Balance c/d	32,063	31.03.2024	By Depreciation A/c	20,813
			31.03.2024	By Depreciation- Machinery disposed	10,837
		70,650			70,650
			1.4.2024	By Balance b/d	32,063

Dr.

Machinery Disposal Account

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.2024	To Machinery A/c	1,00,000	31.03.2024	By Provision for Depreciation A/c	38,587
			31.03.2024	By Bank A/c	50,000
			31.03.2024	By Profit & Loss A/c (Loss on Sale)	11,413
		1,00,000			1,00,000

Working Notes:

1. Depreciation for the machine purchased on 1.10.2022.

$$\text{For the year 2022-23 (used for 6 months)} = ₹1,50,000 \times 15\% \times \frac{6}{12} = ₹11,250$$

$$\text{For the year 2023-24 (used for full year)} = ₹1,38,750 \times 15\% = ₹20,813$$

2. Depreciation for the machine purchased on 1.4.2021.

$$\text{Depreciation} = ₹1,00,000 \times 15\% = ₹15,000$$

$$\text{So, Depreciation for 2}^{\text{nd}} \text{ year} = ₹85,000 \times 15\% = ₹12,750$$

$$\text{Depreciation for 3}^{\text{rd}} \text{ year} = ₹72,250 \times 15\% = ₹10,837$$

**Answer :7****S Chand & Associates**

Dr.

Machinery Account

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.2021	To Bank A/c	3,00,000	31.12.2021	By Balance c/d	3,00,000
		3,00,000			3,00,000
1.1.2022	To Balance b/d	3,00,000			
1.7.2022	To Bank A/c	4,50,000	31.12.2022	By Balance c/d	7,50,000
		7,50,000			7,50,000
1.1.2023	To Balance b/d	7,50,000	31.12.2023	By Machinery Disposal A/c	3,00,000
			31.12.2023	By Balance c/d	4,50,000
		7,50,000			7,50,000
1.1.2024	To Balance b/d	4,50,000			

Dr.

Cr.

Provision for Depreciation Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2021	To Balance c/d	45,000	31.12.2021	By Depreciation A/c	45,000
		45,000			45,000
31.12.2022	To Balance c/d	1,17,000	1.1.2022	By Balance b/d	45,000
			31.12.2022	By Depreciation A/c	72,000
				(₹ 38,250 + ₹ 33,750)	
		1,17,000			1,17,000
31.12.2023	To Machinery Disposal A/c	1,15,762	1.1.2023	By Balance b/d	1,17,000
31.12.2023	To Balance c/d	96,188	31.12.2023	By Depreciation A/c (WN 1)	62,438
			31.12.2023	By Depreciation on machinery sold(WN 2)	32,512
		2,11,950			2,11,950
			1.1.2024	By Balance b/d	96,188

Dr.

Cr.

Machinery Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2023	To Machinery A/c	3,00,000	31.12.2023	By Provision for Depreciation A/c	1,15,762
			31.12.2023	By Bank A/c	1,50,000
			31.12.2023	By Profit & Loss A/c (Loss on Sale)	34,238
		3,00,000			3,00,000

Working Notes:

1. Depreciation for the machine purchased on 1.7.2022.

For the year 2022 (Used for 6 months) = ₹4,50,000 x 15% x $\frac{6}{12}$ = ₹33,750

For the year 2023 (Used for full year) = ₹4,16,250 x 15% = ₹62,438

2. Depreciation for the machine purchased on 1.1.2021.

Depreciation for the year 2021 = ₹3,00,000 x 15% = ₹45,000

Depreciation for the year 2022 = ₹2,55,000 x 15% = ₹ 38,250

Depreciation for the year 2023 = ₹2,16,750 x 15% = ₹32,512

Answer :8

In the books of LMP Co. Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.22	To Balance	9,72,000	01.10.22	By Depreciation on machinery sold	3,240
	b/d			(W.N.1)	
01.10.22	To Bank	1,58,000	01.10.22	By Bank- Machinery sold	45,000
			01.10.22	By Loss on sale of machinery (W.N.1)	16,560
			31.03.23	By Depreciation on remaining machineries (W.N.4)	98,620
			31.03.23	By Balance c/d	9,66,580
		11,30,000			11,30,000

Working Note:

1. Calculation of amount of Depreciation, written down value and loss on sale of the part of the machinery

Particulars	Amount (₹)
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020 - 2021	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021- 2022	(7,200)

Written Down Value (WDV) as on 01.04.2022	64,800
Less: Depreciation @10%for the half year till 30 th September, 2022	(3,240)
Written Down Value (WDV) as on 1.10.2022	61,560
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	16,560

2. Computation of written down value of the remaining asset as on 01.04.2022

	₹
Total WDV of the machinery as on 01.04.2022	9,72,000
Less: WDV of the part of the machinery sold as on 01.04.2022	<u>(64,800)</u>
Written down value of the remaining asset as on 01.04.2022	9,07,200

3. Computation of the written down value of the machinery as on 31.03.2023

	₹	
Written down value of the remaining asset as on 01.04.2022	9,07,200	
Less: Depreciation @ 10% for the year 2022-2023	<u>(90,720)</u>	8,16,480
Add: New machinery purchased on 1.10.2022 (1,50,000 +8,000)	1,58,000	
Less: Depreciation for 6 months @10%	<u>(7,900)</u>	<u>1,50,100</u>
Written down value of the machinery as on 31.03.2023		<u>9,66,580</u>

4. Total Depreciation to be charged to Profit and Loss Account during the year 2022-2023

S. No.	Particulars	Depreciation (₹)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (9,07,200*10%)	90,720
2.	Depreciation on addition i.e. 1,58,000* 10%*1/2	7,900
	Sub-Total	98,620
3.	Depreciation on machinery sold 1.10.2022	3,240
	Grand Total	1,01,860

Answer: 9

(i) Either

Calculation of Depreciation

		Purchased on Jan. 1, 2020 (₹)	Purchased on Jan. 1, 2021 (₹)	Total WDV	Total Depreciation (₹)
1-4-20	Cost	2,00,000			
	Depreciation	(40,000)			40,000
	Written Down Value (WDV)	1,60,000		1,60,000	
1-4-21	Cost	(32,000)	1,50,000		
	Depreciation		(30,000)		62,000
1-4-22	Written Down Value (WDV)	1,28,000	1,20,000	2,48,000	
	Depreciation	(25,600)	(24,000)		49,600
1-4-23	Written Down Value (WDV)	1,02,400	96,000	1,98,400	

Computers Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1-4-23	To Balance b/d	1,98,400	31-3-24	By Depreciation	37,300
1-4-23	To Bank	1,00,000		(24,800 + 12,500)	
		2,98,400	31-3-24	By Balance c/d	2,61,100
		2,61,100			2,98,400
1-4-24	To Balance b/d	2,61,100			



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CHAPTER 6 – BILL OF EXCHANGE

- Q1** Write short notes on Accommodation bill and Renewal of bill.
- Q2** Explain any 2 differences between Bill of Exchange and Promissory Notes.
- Q3** Write short notes on any two of the following:
- i) Bill of exchange and the various parties to it.
 - ii) Retirement of bills of exchange.
- Q4** Bharat owed ₹ 50,000 to Katen. On 1st October, 2023, Bharat accepted a bill drawn by Katen for the amount at 3 months. Katen got the bill discounted with his bank for ₹ 49,500 on 3rd October, 2023. Before the due date, Bharat approached Katen for renewal of the bill. Katen agreed on the conditions that ₹25,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Bharat should accept a new bill at three months. These arrangements were carried out. But afterwards, Bharat became insolvent and 40% of the amount could be recovered from his estate.
- Pass journal entries in the books of Katen.
- Q5** Ali draws a bill for ₹45,000 on Akbar on 15th April, 2024 for 3 months, which is returned by Akbar to Ali after accepting the same. Ali gets it discounted with the bank for ₹ 44,100 on 18th April, 2024 and remits one-third amount to Akbar. On the due date Ali fails to remit the amount due to Akbar, but he accepts bill of ₹ 52,500 for 3 months, which Akbar discounts for ₹51,300 and remits ₹ 8,475 to Ali.
- Pass necessary Journal entries for the above transactions in the books of Ali.
- Q6** Write short notes on any two of the following:
- i) Bill of exchange and the various parties to it.
 - ii) Retirement of bills of exchange.
- Q7** Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000. Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of ₹ 80,000 for a period of 3 months. This bill was discounted by Sejal for ₹ 74,600. Sejal after making the payment of first bill sent 3/4th of the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.
- Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer.

SOLUTIONS

Answer :1

Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

When the acceptor of a bill finds himself in financial straits to honour the bill on the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new bill in place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.

Answer: 2

Bills of Exchange	Promissory Note
There are three parties involved drawer, drawee and payee.	There are only two parties involved promissory (maker) and Payee.
it is drawn by the creditor.	It is drawn by the debtor.

Answer :3

(i) 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.
- (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.

Answer: 4
In the books of Katen Journal Entries

Particulars	₹	₹
Bills Receivable A/c Dr. To Bharat A/c (Being a 3 month's bill drawn on Bharat for the amount due)	50,000	50,000
Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being the bill discounted)	49,500 500	50,000
Bharat A/c Dr. To Bank A/c (Being the bill cancelled up due to Bharat's inability to pay it)	50,000	50,000
Bharat A/c Dr. To Interest A/c (Being the interest due on ₹ 25,000 @ 12% for 3 months)	750	750
Bank A/c Dr. To Bharat A/c (Being the receipt of a portion of the amount due on the bill together with interest)	25,750	25,750
Bills Receivable A/c Dr. To Bharat A/c (Being the new bill drawn for the balance)	25,000	25,000
Bharat A/c Dr. To Bills Receivable A/c (Being the dishonour of the bill due to Bharat's insolvency)	25,000	25,000
Bank A/c Dr. Bad Debts A/c Dr. To Bharat A/c (Being the receipt of 40% of the amount due on the bill from Bharat's estate)	10,000 15,000	25,000

Answer : 5

In the books of Ali Journal Entries

Date	Particulars	Debit Amount	Credit Amount
2024 April 15	Bills receivable A/c Dr. To Akbar's A/c (Being acceptance received from Akbar for mutual accommodation)	₹ 45,000	₹ 45,000
April 18	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Being bill discounted with bank)	44,100 900	45,000
April 18	Akbar's A/c Dr. To Bank A/c To Discount A/c (Being one-third proceeds of the bill sent to Akbar)	15,000	14,700 300
July 18	Akbar's A/c Dr. To Bills payable A/c (Being Acceptance given)	52,500	52,500
July 18	Bank A/c Dr. Discount A/c Dr. $1,200 \times \left(\frac{30,000 + 8,475}{51,300} \right)$ To Akbar's A/c (Being proceeds of second received from Akbar)	8,475 900	9,375

Answer : 6

- i) 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.
- 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.

Answer :7

In the books of Sejal
Journal Entries

Date	Particulars	DR. (in ₹)	CR. (in ₹)
1/1/2023	Harry Dr. To Bills payable A/c (Being bill of exchange accepted and sent to Mr. Harry)	60,000	60,000
1/1/2023	Bank A/c Dr. Discount charges A/c Dr. To Harry (Being the amount received from Harry on account of the bills receivable)	14,000 1,000	15,000
4/4/2023	Bills receivable A/c Dr. To Harry (Being the bills accepted by Harry)	80,000	80,000
4/4/2023	Bank A/c Dr. Discount charges A/c Dr. To Bills receivable A/c (Being Harry acceptance discounted with bank)	74,600 5,400	80,000
4/4/2023	Bills payable A/c Dr. To Bank A/c (Being the amount met on the due date)	60,000	60,000
4/4/2023	Harry Dr. To Bank A/c To Discount A/c {(5,400/80,000) x 60,000} (Being the amount paid and the discount debited to Harry)	15,000	10,950 4,050
7/7/2023	Harry Dr. To Bank A/c (Being Harry's acceptance discounted with bank dishonoured due to Harry's bankruptcy)	80,000	80,000

7/7/2023	Bank A/c	Dr.	24,000	
	Bad debts A/c	Dr.	36,000	
	To Harry			60,000
	(The amount received from Harry and the balance being written off as debt)			

Harry 's A/c

Particulars	₹	Particulars	₹
To Bills Payable A/c	60,000	By Bank A/c	14,000
To Bank A/c	10,950	By Discount A/c	1,000
To Discount A/c	4,050	By Bills Receivable	80,000
To Bank A/c	80,000	By Bank A/c	24,000
		By Bad Debts	36,000
	1,55,000		1,55,000



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CHAPTER 7 – FINAL ACCOUNTS

- Q1** Discuss the limitations which must be kept in mind while evaluating the Financial Statements.
- Q2** Mr. Mandeep runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2024.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Mandeep for the year ended 31-03-2024.

- Q3** Following information is provided for M/s. Vikram traders for the year ended 31st March, 2024:

	₹
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Vikram traders.

Q4 Mr. Mandeep runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2024.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
	- Repairs and maintenance		2,30,000
	- Depreciation on factory shed		40,000
	- Depreciation on plant & machinery		60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Mandeep for the year ended on 31.3.2024

Q5 Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Praveen related to financial year 2023-24. There are certain figures missing in these accounts.

Raw Material A/c

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

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		-

Manufacturing A/c

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

Additional Information:

- i) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2023 has been omitted, Machinery is chargeable at a depreciation rate of 15%.
- ii) Wages include the following:

Paid to factory workers	- ₹ 3,15,000
Paid to labour at office	- ₹ 50,000
- iii) Direct expenses included the following :

Electricity charges	- ₹ 80,000
of which 25% pertained to office	
Fuel charges	- ₹ 25,000
Freight inwards	- ₹ 32,000
Delivery charges to customers	- ₹ 22,000

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

- Q6** Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2023	As on 31.3.2024
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Analysis of his bank pass book reveals the following information:

- Payment to creditors ₹ 7,00,000
- Payment for business expenses ₹ 1,20,000
- Receipts from debtors ₹ 7,50,000
- Loan from Laxman ₹ 1,00,000 taken on 1.10.2023 at 10% per annum
- Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare:

- Trading and Profit and Loss Account for the year ended 31.3.2024.
- Balance Sheet as at 31st March, 2024.

Q7 The following are the balances as at 31st March, 2024 extracted from the books of Mr. Chauhan.

Particulars	₹	Particulars	₹
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.
2. Free samples distributed for publicity costing ₹ 1,650.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
4. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
5. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
6. Closing stock as on 31st March, 2024 is ₹ 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2024, and a Balance Sheet as on that date.

Q8 Ms. Manisha is engaged in business of selling magazines. Several of her customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2024 has been given below:

On 1.4.2023 he had a balance of ₹ 6,00,000 advance from customers of which ₹ 4,50,000 is related to year 2023-24 while remaining pertains to year 2024-25. During the year 2023-24 she made cash sales of ₹ 15,00,000. You are required to compute:

- i) Total income for the year 2023-24.
- ii) Total money received during the year if the closing balance in Advance from customers Account is ₹ 5,10,000.

Q9 Samuel & Co. employs a team of 9 workers who were paid ₹ 1,20,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 1,32,000 per month each.

On 1 July, 2023 the company hired 2 trainees at salary of ₹ 63,000 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, 2023.
- ii) Amount actually paid as salaries during 2023.
- iii) Outstanding salaries as on 31st December, 2023.

Q10 The trial balance of Saurav as at 31st March, 2024 is as follows:

Particulars	Dr.	Cr.
	₹	₹
Saurav's capital account	-	1,91,725
Stock 1 st April, 2023	1,17,000	-
Sales	-	9,74,000
Returns inward	21,500	-
Purchases	8,04,250	-
Returns outward	-	14,500
Carriage inwards	49,000	-
Rent & taxes	11,750	-
Salaries & wages	23,250	-
Sundry debtors	60,000	-
Sundry creditors	-	37,000
Bank loan @14%p.a.	-	50,000
Bank interest	2,750	-
Printing and stationary expenses	36,000	-
Bank balance	20,000	-
Discount earned	-	11,100
Furniture & fittings	12,500	-
Discount allowed	4,500	-
General expenses	28,625	-
Insurance	3,250	-
Postage & telegram expenses	5,825	-
Cash balance	950	-
Travelling expenses	2,175	-
Drawings	75,000	-
	12,78,325	12,78,325

The following adjustments are to be made:

- Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- Personal purchases of Saurav amounting to ₹ 1,500 had been recorded in the purchases day book.
- Depreciation on furniture & fittings @ 10% shall be written off.
- Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him.
- A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
- Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books.
- Stock on 31.03.2024 was ₹ 1,96,500.
- Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & Profit and Loss Account for the year ended 31.03.2024.

Q11 Hari Om & Co. employs a team of 8 workers who were paid ₹ 1,20,000 per month each in the year ending 31st December, 2023. At the start of 2024, the company raised salaries by 10% to ₹ 1,32,000 per month each. On 1 July, 2024 the company hired 2 trainees at salary of ₹ 63,000 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, 2024.
- ii) Amount actually paid as salaries during 2024.
- iii) Outstanding salaries as on 31st December, 2024

Q12 Mr. Prakash furnishes following information for his readymade garments business:

- i) Receipts and Payments during 2023-24:

Receipts	Amount ₹	Payments	Amount ₹
Bank Balance as on 1-4-2023	16,250	Payment to Sundry creditors	3,43,000 75,000
Received from Sundry debtors	4,81,000	Salaries	22,500
Cash sales	1,70,800	General expenses	11,800
Capital brought in the business during the year	50,000	Rent and taxes	96,000
Interest on Investment Received	9,750	Drawings	1,22,750 36,600
	7,27,800	Cash purchases	20,150
		Balance at bank on 31-03-2024	7,27,800
		Cash in hand on 31-03-024	

- ii) Particulars of other Assets and Liabilities are as follows:

	1st April, 2023 (₹)	31st March, 2024 (₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Inventory	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

- iii) Additional information:

1. 20% of total sales and 20% of total purchases are in cash.
2. Of the debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.
3. Provide depreciation @10% p.a. on machinery and furniture

You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2024, and Balance Sheet as on that date.

Q13 Mr. Dilip furnishes the following trial balance and some other information:

Trial Balance as on 31st March, 2024

Particulars	₹	₹
Capital		19,50,000
Purchases and Sales	12,90,000	29,10,000
Opening Inventory	3,30,000	
Freights Inward	1,20,000	
Salaries	6,30,000	
Administration Expenses	4,50,000	
Furniture	10,50,000	
Trade receivables and Trade payables	6,30,000	5,70,000
Returns	60,000	36,000
Discount allowed and Received	57,000	27,000
Bad Debts	15,000	
Investments in Government Securities	3,00,000	
Cash in Hand and Cash at Bank	5,67,000	
Input CGST	30,000	
Input SGST	30,000	
Output CGST		24,000
Output SGST		24,000
Output IGST		18,000
	55,59,000	55,59,000

Additional information

- i) Inventory as on 31st march,2024 was ₹ 5,40,000.
- ii) Furniture is depreciated at 15% per annum.

Prepare Trading Account, Profit and Loss Account and Balance Sheet as on 31st March, 2024 of Mr. Dilip.

Q14 Sameer Distributors are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31st March, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	18,15,000	Motor Vehicle	3,30,000
Trade Creditors	2,25,600	Furniture	2,20,500
Salary payable	27,000	Stock in trade	5,12,400
		Trade Debtors	4,36,200
		6% Investments	1,80,000
		Cash in hand & at Bank	3,88,500
	20,67,600		20,67,600

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at		Cash Purchases	28,45,200
Bank on 1st April,2023	3,88,500	Payment to Trade Creditors	2,26,35,000
Cash Sales	30,67,200	Salaries	12,38,400
Receipts from Trade Debtors	2,56,56,000	Rent & taxes	7,54,800
Interest on investments	10,800	Sundry Expenses	4,15,200
		Drawings	7,20,000
		Cash in hand & at Bank on 31st March,2024	5,13,900
	2,91,22,500		2,91,22,500

Additional Information:

- i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.
- ii) During the year, discount allowed to Trade debtors was for ₹
- iii) 1,87,500 and discount received from Trade Creditors amounted to
- iv) ₹ 1,05,000.
- v) As on 31st March,2024. The closing balances to Trade Debtors and Trade Creditors were ₹6,61,500 and ₹ 3,16,800 respectively.
- vi) On 31st March,2024 an amount of ₹ 44,400 was outstanding towards Salary.
- vii) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet on at that date.

Q15 Mr. Sanjay runs a factory which produces tyres. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:

	Amount(₹)
Opening Work-in-Progress	18,75,000
Closing Work-in Progress	21,45,000
Opening Inventory of Raw material	17,55,000
Closing Inventory of Raw material	14,10,000
Purchases	56,22,000
Purchase Returns	2,85,000
Carriage Inward	8,10,000
Direct Wages	11,91,000
Power & Electricity	5,28,000
Repairs and Maintenance	7,95,000
Depreciation on Factory Shed	4,32,000
Depreciation on Plant & Machinery	4,86,000
Sale of scrap	1,08,000

You are required to prepare Manufacturing Account for the year ended 31st March, 2024.

Q16 Mr. Prakash runs a factory which produces Pressure Cookers. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:

	Amount(₹)
Opening Work-in-Progress	6,25,000
Closing Work-in Progress	7,15,000
Opening Inventory of Raw material	5,85,000
Closing Inventory of Raw material	4,70,000
Purchases	18,74,000
Purchase Returns	95,000
Indirect Material	1,88,000
Direct Wages	3,97,000
Indirect Wages	82,000
Power & Electricity	1,76,000
Repairs and Maintenance	2,65,000
Depreciation on Factory Shed	1,44,000
Depreciation on Plant & Machinery	1,62,000
Sale of scrap	36,000

You are required to prepare Manufacturing Account for the year ended 31st March, 2024.

Q17 The following trial balance is the trial balance of a Proprietor as on March 31 2024. Prepare Trading and Profit & Loss Account for the year ending March 31st 2024 and a Balance Sheet as at that date.

Particulars	Amount (₹)	Particulars	Amount (₹)
Plant and Machinery	5,00,000	Capital	4,00,000
Office Furniture	26,000	Sundry Creditors	5,20,000
Opening Stock	4,80,000	Sales	48,00,000
Motor Van	1,20,000	Bills Payable	56,000
Sundry Debtors	4,57,000	Provision for Doubtful Debts	25,000
Cash in hand	4,000	Return Outwards	55,000
Cash at Bank	65,000	Discount Received	37,000
Wages	15,00,000		
Salaries	1,40,000		
Purchases	21,35,000		
Bills Receivable	72,000		
Return Inwards	93,000		
Drawings	70,000		
Advertisements	60,000		
Factory Rent	8,000		
Insurance	63,000		
General Expenses	10,000		
Bad debts	25,000		
Discount allowed	65,000		
	58,93,000		58,93,000

Additional Information to be considered:

- i) Closing Stock on March 31st 2024 is ₹ 5,20,000.
- ii) During the year, plant and machinery was purchased for ₹ 3,00,000 but it was debited to purchase account.
- iii) 3 months factory rent is due but not paid ₹ 3,000.
- iv) Provide depreciation at 5% per annum on furniture and 10% on plant and machinery and motor van.
- v) Further bad debts ₹ 7,000.
- vi) Provision for doubtful debts to be increased to ₹ 30,000 at year- end.
- vii) Provision for discount on Debtors to be made at 2%.

SOLUTIONS

Answer :1

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

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

Answer :2

In the Books of Mr. Mandeep Manufacturing Account for the Year ended 31.03.2024

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c –	15,00,000	58,00,800
Opening Inventory	7,80,000			Cost of finished goods transferred		
Add: Purchases	24,60,000					
	32,40,000					
Less: Closing Inventory	(9,60,000)					
To Direct Wages – W.N. (1)			22,80,000			
To Direct expenses: Hire charges on Machinery – W.N. (2)			12,16,800			
To Indirect expenses: Hire charges of Factory			7,80,000			
Repairs & Maintenance			<u>5,40,000</u>			
			59,44,800			<u>59,44,800</u>

Working Notes:

- (1) Direct Wages – 15,00,000 units @ ₹0.80 = ₹12,00,000
 42,000 units @ ₹0.40 = ₹ 16,800
 ₹ 12,16,800
- (2) Hire charges on Machinery – 15,00,000 units @ ₹ 0.70 = ₹10,50,000

Answer :3

Journal Proper in the Books of M/s. Vikram Traders

Date 2024	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c (Being the transfer of returns to purchases account)			2,16,000
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c (Being the transfer of returns to sales account)			3,00,000
	Sales A/c	Dr.	30,00,000	
	To Trading A/c (Being the transfer of balance of sales account to trading account)			30,00,000
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)			3,00,000 18,00,000 1,50,000 90,000
Closing Inventory A/c	Dr.	6,00,000		
To Trading A/c (Being the incorporation of value of closing Inventory)			6,00,000	
Trading A/c	Dr.	12,60,000		
To Gross Profit (Being the amount of gross profit)			12,60,000	
Gross profit	Dr.	12,60,000		
To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)			12,60,000	

Answer :4

In the Books of Mr. Mandeep Manufacturing Account for the year ended on March 31,2024

Particulars	₹	Amount ₹	Particulars	Amount ₹
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By products	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished goods transferred	
	15,12,000			
Less: Return	(18,000)			
	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

Answer :5

Manufacturing A/c

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

Raw Material A/c

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

Working Notes:

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

$$\begin{aligned} \text{So, depreciation omitted from being charged} &= 12,00,000 \times 15\% \\ &= ₹1,80,000 \end{aligned}$$

$$\begin{aligned} \text{Correct total depreciation expense} &= ₹(2,15,000 + 1,80,000) \\ &= 3,95,000 \end{aligned}$$

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

- (3) Expenses to be excluded from direct expenses:

$$\text{Office Electricity Charges (80,000 X 25\%)} \quad 20,000$$

$$\text{Delivery Charges to Customers} \quad \underline{22,000}$$

$$\text{Total expenses not part of Direct Expenses} \quad \underline{42,000}$$

$$\begin{aligned} \Rightarrow \text{Revised Direct Expenses} &= ₹(2,49,000 - 42,000) \\ &= ₹2,07,000 \end{aligned}$$

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

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

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

- (5) Creditors A/c

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

Answer :6

Trading A/c
for the year ended 31st March, 2024

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit <u>10,00,000</u>	12,40,000
	_____	By Closing Stock (bal.fig.)	<u>1,20,000</u>
	<u>13,60,000</u>		<u>13,60,000</u>

Profit and Loss Account
for the year ended 31st March, 2024

	₹		₹
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/ 12)	5,000		
To Net Profit	<u>1,45,000</u>		
	<u>3,10,000</u>		<u>3,10,000</u>

Balance Sheet as at 31st March, 2024

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	<u>1,45,000</u>		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	<u>(80,000)</u>	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		<u>90,000</u>		
		<u>5,60,000</u>		<u>5,60,000</u>

Working Notes:
1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	<u>10,00,000</u>	By Balance c/d	<u>3,50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal.fig.)	7,70,000
To Balance c/d	<u>90,000</u>		
	<u>8,10,000</u>		<u>8,10,000</u>

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	<u>10,000</u>	<u>80,000</u>
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

4. Calculation of Ram's Capital on 1st April, 2023
Balance Sheet as at 1st April, 2023

Liabilities	₹	Assets	₹
Ram's Capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank Overdraft	50,000	Sundry Debtors	1,00,000
Sundry Creditors	<u>40,000</u>	Stock in trade	<u>2,80,000</u>
	<u>3,90,000</u>		<u>3,90,000</u>

Trading and Profit and Loss Account of Mr. Chauhan
for the year ended 31st March, 2024

Dr.

Cr.

	Particulars	₹	Amount (₹)		Particulars	₹	Amount (₹)
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,13,200			Less: Sales return	<u>5,150</u>	4,22,000
	Less: Purchases return	<u>3,450</u>	3,09,750	By	Closing stock		2,50,000
To	Carriage inward		2,250				
To	Wages		23,430				
To	Gross profit c/d		<u>2,72,070</u>				
			<u>6,72,000</u>				<u>6,72,000</u>
To	Salaries		45,100	By	Gross profit b/d		2,72,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of ₹ 2,40,000	12,000					
	Less: Existing provision	<u>6,400</u>	5,600				
To	Provision for discount on debtors						
	2.5% of ₹ 2,28,000	5,700					
	Less: Existing provision	<u>2,750</u>	2,950				

To	Depreciation:				
	Plant and machinery	6,000			
	Furniture and fittings	<u>2,050</u>	8,050		
To	Office expenses		20,320		
To	Interest on loan		6,000		
To	Net profit (Transferred to capital account)		<u>1,60,600</u>		
			<u>2,72,970</u>		<u>2,72,970</u>

Balance Sheet of Mr. Chauhan as on 31st March, 2024

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	<u>1,60,600</u>		Less: Depreciation	<u>6,000</u>	34,000
	2,90,600		Furniture and fittings	20,500	
Less: Drawings	<u>16,000</u>	2,74,600	Less: Depreciation	<u>2,050</u>	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for doubtful debts	12,000	
			Less: Provision for bad debts	<u>5,700</u>	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		<u>5,34,500</u>			<u>5,34,500</u>

Answer :8

(i) **Computation of Income for the year 2023-24:**

	₹
Money received during the year related to 2023-24	15,00,000
Add: Money received in advance during previous years	4,50,000
Total income of the year 2023-24	19,50,000

(ii) **Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	4,50,000	1.4.2023	By Balance b/d	6,00,000
31.3.24	To Balance c/d	5,10,000		By Bank A/c (Balancing Figure)	3,60,000
		<u>9,60,000</u>			<u>9,60,000</u>

So, total money received during the year is:

	₹
Cash Sales during the year	15,00,000
Add: Advance received during the year	3,60,000
Total money received during the year	<u>18,60,000</u>

Answer :9

(i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2023

$$\text{Employees} = 9 \times ₹ 1,32,000 \times 12 = ₹ 1,42,56,000$$

$$\text{Trainees} = 2 \times ₹ 63,000 \times 6 = ₹ 7,56,000$$

$$\text{Salaries charged to P \& L A/c} = ₹ 1,50,12,000$$

(ii) Amount actually paid as salaries during 2023

$$\text{Employees} = 9 \times ₹ 1,32,000 \times 11 + 9 \times ₹ 1,20,000 = ₹ 1,41,48,000$$

$$\text{Trainees} = 2 \times ₹ 63,000 \times 5 = ₹ 6,30,000$$

$$\text{Amount paid as salaries} = ₹ 1,47,78,000$$

(iii) Outstanding salaries as on 31.12.2023

Employees = 9 x ₹1,32,000 = ₹11,88,000

Trainees = 2 x ₹63,000 = ₹ 1,26,000

Outstanding salaries = ₹13,14,000

Answer :10

**Trading and Profit and Loss Account of Mr. Saurav
for the year ended 31st March, 2024**

	₹	₹		₹	₹
To Opening stock		1,17,000	By Sales	9,74,000	
To Purchases	8,04,250		Less: Returns	21,500	9,52,500
Add: Omitted invoice	1,000		By Closing stock		1,96,500
Less: Returns	14,500				
	7,90,750				
Less: Drawings	1,500	7,89,250			
To Carriage Inwards		49,000			
To Gross profit c/d		1,93,750			
		11,49,000			11,49,000
To Rent and taxes		11,750	By Gross profit b/d		1,93,750
To Salaries and wages		23,250	By Discount received		11,100
To Bank interest	2,750				
Add: Due	4,250	7,000			
To Printing and stationary	36,000				
Less: Prepaid (1/4)	9,000	27,000			

To Discount allowed		4,500		
To General Expenses		28,625		
To Insurance		3,250		
To Postage & telegram expenses		5,825		
To Travelling expenses		2,175		
To Provision for bad debts [W.N.]		2,875		
To Provision for discount on debtors [W.N.]		1,093		
To Depreciation on furniture & fittings		1,250		
To Net profit		86,257		
		2,04,850		2,04,850

Working Note:

Provision for bad & doubtful debts:

@ 5% on ₹ 57,500 (60,000-2,500)

2,875

Provision for discount:

2% on ₹ 54,625 (57,500 -2,875)

1,093

Answer :11
(i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2024

Employees = 8 x ₹ 1,32,000 x 12 =	₹ 1,26,72,000
Trainees = 2 x ₹ 63,000 x 6 =	₹ <u>7,56,000</u>
Salaries charged to P & LA/c =	₹ <u>1,34,28,000</u>

(ii) Amount actually paid as salaries during 2024

Employees = 8 x ₹1,32,000 x 11 + 8 x ₹1,20,000 = ₹	1,25,76,000
Trainees = 2 x ₹ 63,000 x 5 = ₹	<u>6,30,000</u>
Amount paid as salaries	₹ <u>1,32,06,000</u>

(iii) Outstanding salaries as on 31.12.2024

Employees = 8 x ₹1,32,000	= ₹10,56,000
Trainees = 2 x ₹ 63,000 =	₹ <u>1,26,000</u>
Outstanding salaries ₹	<u>11,82,000</u>

Answer :12
Trading and Profit & Loss Account for the year ended 31-03-2024

	₹	₹		₹
To Opening stock		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing stock	55,700
To Gross profit c/d (b.f.)		2,57,350		
		9,09,700		9,09,700
To Salaries (75,000 + 14,000 - 12,000)		77,000	By Gross Profit b/d	2,57,350
To Rent and taxes		11,800	By Interest on Investment (9,750+450)	10,200
To General expenses		22,500		
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	<u>2,450</u>	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	<u>7,000</u>	14,200		
To Balance being profit carried to Capital A/c (b.f.)				
		1,31,100		
		2,67,550		2,67,550

Balance Sheet as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Prakash's Capital on 1st April, 2023	3,32,150		Machinery	85,000	
Add: Fresh Capital	50,000		<i>Less:</i> Depreciation Furniture	<u>(8,500)</u>	76,500
Add: Profit for the year	<u>1,31,100</u>		<i>Less:</i> Depreciation	<u>(2,450)</u>	22,050
	5,13,250		Inventory-in-trade		55,700
<i>Less:</i> Drawings	<u>(96,000)</u>	4,17,250	Sundry debtors	3,50,000	
			<i>Less:</i> Provision for Doubtful debts	<u>(7,000)</u>	3,43,000
Sundry creditors		2,08,200	Investment (including accrued interest ₹ 450)		85,450
Outstanding expenses		14,000	Cash at bank		36,600
			Cash in hand		20,150
		<u>6,39,450</u>			<u>6,39,450</u>

Working Notes:

1. Balance sheet as on 1-4-2023

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital (balancing figure)	3,32,150	Furniture	24,500
Outstanding salaries	12,000	Inventory	38,600
		Sundry debtors	1,55,000
		12% Investments	85,000
		Bank balance (from Cash statement)	16,250
	<u>4,04,350</u>		<u>4,04,350</u>

2.

Total Debtors Account

		₹			₹
1.4.23	To Balance b/d	1,55,000	31.3.24	By Cash	4,81,000
31.3.24	To Credit sales (1,70,800/20x80)	6,83,200	31.3.24	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3.

Total Creditors Account

		₹			₹
31.3.24	To Cash	3,43,000	1.4.23	By Balance b/d	60,200
31.3.24	To Balance c/d (Bal. Fig.)	2,08,200	31.3.24	By Credit Purchases (1,22,750/20x80)	4,91,000
		5,51,200			5,51,200

Answer :13**In the books of Mr. Dilip****Trading Account for the year ended 31st March, 2024**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Inventory	3,30,000	By Sales	29,10,000
To Purchases 12,90,000		Less: Returns (60,000)	28,50,000
Less: Returns (36,000)	12,54,000	By Closing Inventory	5,40,000
To Freight Inwards	1,20,000		
To Gross profit	16,86,000		
	33,90,000		33,90,000

Profit and Loss Account for the year ended 31st March, 2024

Particulars	₹	Particulars	₹
To Depreciation	1,57,500	By Gross profit	16,86,000
To Salaries	6,30,000	By Discount received	27,000
To Administration expenses	4,50,000		
To Discount allowed	57,000		
To Bad debts	15,000		
To Net profit	4,03,500		
	17,13,000		17,13,000

Balance Sheet as at 31st March, 2024

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	19,50,000		Furniture	10,50,000	
Add: Net profit	4,03,500	23,53,500	Less: Depreciation	(1,57,500)	8,92,500
Trade payables		5,70,000	Closing Inventory		5,40,000
Output IGST		6,000	Trade receivables		6,30,000
			Investment in Govt Securities		3,00,000
			Cash in Hand and		
			Cash at Bank		5,67,000
		29,29,500			29,29,500

Working Note:

Summary of Output and Input GST liability (as per trial balance)

	OUTPUT GST (₹)	INPUT GST (₹)
CGST	24,000	30,000
SGST	24,000	30,000
IGST	18,000	

Output liability (Tax head)	Tax Payable	Paid through ITC			Tax Liability
		IGST	CGST	SGST	
CGST	24,000		24,000		
SGST	24,000			24,000	
IGST	18,000		6,000	6,000	6,000

In the above solution, it is assumed that balance IGST liability of ₹6,000 (after utilising CGST and SGST) is not paid off incash.

Alternatively, it can also be assumed that the balance liability of ₹6,000 is paid off in cash. Accordingly, Output IGST liability of ₹6,000 shall not appear under liability side of the balance sheet and amount of cash at bank is reported as ₹5,61,000.

Answer :14
In the books of Sameer Distributors
Trading and Profit and Loss Account for the year ended 31st March, 2024

Particulars	Amount (₹)	Amount (₹)		Amount (₹)	Amount (₹)
To Opening Stock		5,12,400	By Sales		
To Purchases			Cash	30,67,200	
Cash	28,45,200		Credit (W.N. 1)	<u>2,60,68,800</u>	2,91,36,000
Credit (W.N. 2)	<u>2,28,31,200</u>	2,56,76,400	By Closing stock		6,94,800
To Gross profit c/d (12.5% of 2,91,36,000)		36,42,000	(bal fig)		
		<u>2,98,30,800</u>			<u>2,98,30,800</u>
To Rent & taxes		7,54,800	By Gross profit b/d		36,42,000
To Salaries (W.N. 3)		12,55,800	By Discount received		1,05,000
To Sundry expenses		4,15,200	By Interest on investment		10,800
To Discount allowed		1,87,500			
To Depreciation (10% on (3,30,000 & 2,20,500))	33,000 <u>22,050</u>	55,050			
To Net Profit (b.f.)		10,89,450			
		<u>37,57,800</u>			<u>37,57,800</u>

Balance Sheet as at 31st March, 2024

Liabilities		Amount	Assets	Amount
Capital			Motor vehicle 3,30,000	
Opening balance	18,15,000		Less: Depreciation (33,000)	2,97,000
Less: Drawings	(7,20,000)		Furniture 2,20,500	
	10,95,000			
Add: Net profit for the years	10,89,450	21,84,450	Less: Depreciation (22,050)	1,98,450
Trade creditors		3,16,800	Closing Stock	6,94,800
Outstanding salary		44,400	Trade receivable	6,61,500
			6% Investment	1,80,000
			Cash in hand & at bank	5,13,900
		25,45,650		25,45,650

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	4,36,200	By Cash/Bank	2,56,56,000
To Credit sales (Bal. fig.)	260,68,800	By Discount allowed	1,87,500
		By Balance c/d	6,61,500
	265,05,000		265,05,000

2. Trade Creditors Account

	₹		₹
To Cash/Bank	226,35,000	By Balance b/d	2,25,600
To Discount received	1,05,000	By Credit purchases (balfig)	2,28,31,200
To Balance c/d	3,16,800		
	230,56,800		230,56,800

3. Computation of salary to be charged to Profit & Loss A/c

	₹
Salary expenses paid (as per cash book)	12,38,400
Less: Outstanding expenses as on 31.3.2023	(27,000)
	12,11,400
Add: Outstanding expenses as on 31.3.2024	44,400
	12,55,800

Answer :15

In the Books of Mr. Sanjay
Manufacturing Account for the year ended on March 31,2024

Particulars	₹	Amount ₹	Particulars	Amount ₹
To Opening W.I.P.		18,75,000	By Closing W-I-P	21,45,000
To Raw Material Consumed:			By Sale of Scrap	1,08,000
Opening inventory	17,55,000		By Trading A/c-	95,46,000
Purchases	56,22,000		Cost of finished goods transferred	
	73,77,000			
Less: Returns	(2,85,000)			
	70,92,000			
Less: Closing inventory	(14,10,000)	56,82,000		
To Carriage Inwards		8,10,000		
To Direct Wages		11,91,000		
To Manufacturing Overhead:				
Power and Electricity	5,28,000			
Repairs & Maintenance	7,95,000			
Depreciation on Factory Shed	4,32,000			
Depreciation on Plant & Machinery	4,86,000	22,41,000		
		1,17,99,000		1,17,99,000

Answer :16

In the Books of Mr. Prakash Manufacturing Account for the year ended on March 31,2024

Particulars	₹	Amount ₹	Particulars	Amount₹
To Opening W.I.P.		6,25,000	By Closing W-I-P	7,15,000
To Raw Material Consumed:			By Sale of Scrap	36,000
Opening inventory	5,85,000		By Trading A/c-	31,82,000
Purchases	18,74,000		Cost of finished goods transferred	
	24,59,000			
Less: Returns	(95,000)			
	23,64,000			
Less: Closing inventory	(4,70,000)	18,94,000		
To Direct Wages		3,97,000		
To Manufacturing Overhead:				
Power and Electricity	1,76,000			
Indirect Wages	82,000			
Indirect Materials	1,88,000			
Repairs & Maintenance	2,65,000			
Depreciation on Factory Shed	1,44,000			
Depreciation on Plant &Machinery	1,62,000	10,17,000		
		39,33,000		39,33,000

Answer :17

Trading Account for the year ended 31st March, 2024

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To opening Stock		4,80,000	By Sales	48,00,000	
To Purchases	21,35,000		Less: Returns	<u>93,000</u>	47,07,000
Less: Plant and Machinery included in purchases	3,00,000		Inwards		5,20,000
Less: Returns Outward	55,000		By Closing Stock		
To wages		17,80,000			
To Factory rent	8,000	15,00,000			
Add: outstanding	3,000	11,000			
To Gross Profit c/d		14,56,000			
		52,27,000			52,27,000


Profit and Loss Account for the year ended 31st March, 2024

Particular	Amount ₹	Particular	Amount ₹
To Salaries	1,40,000	By Gross profit b/d	14,56,000
To Advertisements	60,000	By Discount Received	37,000
To Insurance	63,000		
To General expenses	10,000		
To Discount Allowed	65,000		
To provision for doubtful debts (W.N.1)	37,000		
To Provision for discount on debtors (W.N.2)	8,400		
To Depreciation (W.N. 3)	93,300		
To Net Profit transferred to Capital a/c	10,16,300		
	14,93,000		14,93,000

Balance Sheet as at 31st March, 2024

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	4,000,00		Plant and Machinery	5,00,000	
			<i>Add: Additions</i>	3,00,000	
<i>Add: Net Profit</i>	10,16,300		<i>Less: Dep. (W.N.3)</i>	(80,000)	7,20,000
<i>Less: Drawings</i>	(70,000)	13,46,300			
			Office furniture	26,000	
Bills Payable		56,000	<i>Less: Dep. (W.N. 3)</i>	(1,300)	24,700
Sundry		5,20,000			
Creditors					
Outstanding		3,000	Motor Vans	1,20,000	
Factory rent			<i>Less: Dep. (W.N. 3)</i>	(12,000)	1,08,000
			Bills receivables		72,000
			Stock in Trade		5,20,000
			Sundry Debtors	4,57,000	
			<i>Less: Further Bad debts</i>	(7,000)	
			<i>Less: Provision for doubtful debts</i>	(30,000)	
			<i>Less: Provision for discount on debtors (W.N. 2)</i>	(8,400)	4,11,600
			Cash at hand		4,000
			Cash in bank		65,000
		19,25,300			19,25,300

Working Notes :

(1) Provision for Bad and Doubtful Debts Account

Particulars	₹	Particulars	₹
To Bad-debts (as per Trial Balance)	25,000	By Balance b/d (as per Trial Balance)	25,000
To Sundry debtors (further bad-debts)	7,000	By P&L A/c (Balancing figure)	37,000
To Balance c/d i.e. provision required at year end	<u>30,000</u>		
	62,000		62,000

(2) Provision for discount on debtors

Debtors as per Trial Balance	₹ 4,57,000
Less: Further bad-debts	(7,000)
Less: New provision for Doubtful Debts	<u>(30,000)</u>
Debtors before provision for discount	<u>4,20,000</u>
Provision for discount on debtors @2%	₹ <u>8,400</u>



(3) Depreciation

Plant and Machinery @ 10% on 8,00,000 (5,00,000 + 3,00,000*)	80,000
Motor Van @ 10% on 1,20,000	12,000
Office Furniture @ 5% on 26,000	1,300
Total	₹ 93,300

*Purchase of a plant and machinery during the year for ₹3,00,000 which was wrongly debited to purchase now added to Plant and Machinery.

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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 8 – NOT FOR PROFIT ORGANISATIONS

Q1 The following information of M/s. Zara Club are related for the year ended 31st March, 2024:

1.

Balances	As on 01-04-2023 (₹)	As on 31-3-2024 (₹)
Stock of Sports Material	6,75,000	10,12,500
Amount due for Sports Material	6,07,500	8,77,500
Subscription due	1,01,250	1,48,500
Subscription received in advance	81,000	47,250

2. Subscription received during the year ₹ 33,75,000

3. Payments for Sports Material during the year ₹ 20,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

Q2 From the following balances and particulars of Navel College, prepare Income & Expenditure Account for the year ended March, 2024 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund		19,10,000
Tuition Fee Received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)		2,05,000

College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000
Cash at Bank	3,16,000	-
Library	3,20,000	-
	75,45,000	75,45,000

Adjustments :

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

Teaching	₹ 52,000
Research	₹ 1,45,000
Students Welfare	₹ 78,000
Games or Sports	₹ 24,000

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

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

Building	5%
Plant & Machinery	10%
Furniture & Fittings	10%
Motor Vehicle	20%

Q3 From the following information supplied by Fazilka Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2024.

	01.04.2023 ₹	31.03.2024 ₹
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to ₹ 1,50,000/-. Salaries paid ₹ 30,000. Face value of the Investment was ₹ 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 7,000. Furniture was sold for ₹ 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	₹ 25,000
Rent:	₹ 12,000 out of which ₹ 1,000 outstanding
Misc. Expenses:	₹ 2,500

Q4 Dr. Gulleria started private practice on 1st April, 2023 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own Capital	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000
Pension Received	3,00,000	Rent of Clinic	60,000
		General Charges	49,000
		Household Expenses	1,80,000
		Household Furniture	25,000
		Expenses on Daughter's college admission	2,15,000
		Interest on Loan	36,000
		Balance at Bank	1,10,000
		Cash in Hand	19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2024 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2024. Ignore depreciation on fixed assets.

Q5 The following information of M/s. Football Club are related for the year ended 31st March, 2024:

1.

Balances	As on 01-04-2023 (₹)	As on 31-3-2024 (₹)
Stock of Sports Material	4,50,000	6,75,000
Amount due for Sports Material	4,05,000	5,85,000
Subscription due	67,500	99,000
Subscription received in advance	54,000	31,500

2. Subscription received during the year ₹ 22,50,000

3. Payments for Sports Material during the year ₹ 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

Q6 The Receipts and Payments account of Gold Smith Club prepared on 31st March, 2024 is as follows:

 Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		9,000	By Expenses (including Payment for sports material ₹54,000)	1,26,000
To Annual Income from Subscription	91,800		By Loss on Sale of Furniture (cost price ₹ 9,000)	3,600
Add: Outstanding of last year			By Balance c/d	18,09,000
received this year	3,600			
	95,400			
Less: Prepaid of last year	1,800	93,600		
To Other fees		36,000		
To Donation for Building		18,00,000		
		19,38,600		19,38,600

Additional information:

Gold Smith Club had balances as on 1.4.2023:

Furniture ₹ 36,000; Investment at 5% ₹ 5,40,000;

Sports material ₹ 1,33,200;

Balance as on 31.3.2024: Subscription Receivable ₹ 5,400;

Subscription received in advance ₹ 1,800;

Stock of sports material ₹ 36,000.

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, 2024 and Balance Sheet on that date.

Q7 New State Society showed the following position on 31st March, 2023:

Balance Sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Capital fund	15,86,000	Electrical fittings	3,00,000
Expenses payable	14,000	Furniture	1,00,000
		Books	8,00,000
		Investment in Securities	3,00,000
		Cash at bank	50,000
		Cash in hand	<u>50,000</u>
	16,00,000		16,00,000

The receipts and payment account for the year ended on 31st March, 2024 is given below:

	₹		₹
To Balance b/d		By Electric charges	14,400
Cash at bank 50,000		By Postage and stationary	10,000
Cash in hand <u>50,000</u>	1,00,000	By Telephone charges	10,000
To Entrance fee	60,000	By Books purchased	1,20,000
To Membership subscription	4,00,000	By Outstanding expenses paid	14,000
To Sale proceeds of old papers	3,000	By Rent	1,76,000
To Hire of lecture hall	40,000	By Investment in securities	80,000
To Interest on securities	16,000	By Salaries	1,32,000
		By Balance c/d	
		Cash at bank	40,000
		Cash in hand	<u>22,600</u>
	6,19,000		6,19,000

You are required to prepare Income and Expenditure account for the year ended 31st March, 2024 after making the following adjustments:

Membership subscription included ₹ 20,000 received in advance. Provide for outstanding rent ₹ 8,000 and salaries ₹ 6,000.

Books to be depreciated @ 10% per annum including additions. The additions to the books were made on 01.04.2023. Electrical fittings and furniture are also to be depreciated @ 10% per annum.

60% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 15% p.a. including purchases made on 1.10.2023 for ₹ 80,000.

Q8 Summary of Receipts and Payments of Natures Beauty Society for the year ended 31st March, 2024 are as follows:

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

Additional Information:

Particulars	01.04.2023	31.03.2024
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:

- Income and Expenditure Account for the year ended 31st March, 2024.
- Balance Sheet as on 31st March, 2024.

Q9 The Receipts and Payments Account of Vandana Sports Club for the year ended 31st March, 2024 are as follows:

Receipts and Payments Account

Receipts	Amount (₹)	Payment	Amount (₹)
To Balance b/d		By Salaries	1,55,000
Cash in hand 5,200		By Rent & Electricity	69,750
Cash at Bank <u>35,500</u>	40,700	By Library Books	10,500
To Subscriptions	2,95,000	By Newspaper & Magazines	16,600
To Entrance fees	50,000	By Sports Equipment	28,500
To Miscellaneous	19,850	By Sundry Expenses	71,050
Income		By Balance c/d	
To Interest on Investments	8,000	Cash in hand 8,750	
		Cash at Bank <u>53,400</u>	62,150
	4,13,550		4,13,550

Details of other assets and liabilities are furnished as follows:

Particulars	31st March 2023 (₹)	31st March 2024 (₹)
Salaries Outstanding	10,200	12,400
Outstanding Rent & Electricity	6,500	7,600
Investment (8% Govt. Bonds)	1,00,000	1,00,000
Interest Accrued on Bonds	2,000	2,000
Subscription receivable	18,700	20,600
Subscription received in advance	7,000	8,400
Furniture	65,500	
Sports Equipment	41,500	
Library Books	22,000	

The closing values of furniture and sports equipment are to be determined after charging depreciation at 10% and 15% respectively inclusive of additions, if any during the year. The Club's library books are revalued at the end of every year and the value at the end of 31st March, 2024 was ₹ 30,000. 60% of the Entrance fee is to be capitalized.

You are required to prepare:

- i) Income and Expenditure Account for the year ended 31st March, 2024
- ii) Balance Sheet as on 31st March, 2024

Q10 From the following Receipts and Payments Account of Delhi Club, prepare Income & Expenditure Account for the year ended 31.12.2023 and its Balance Sheet as on that date.

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand (Opening)	8,100	Salary	3,000
Cash in Bank (Opening)	15,000	Repair Expenses	500
Donations	7,000	Purchase of furniture	7,000
Subscriptions	10,000	Miscellaneous Expenses	500
Entrance fees	1,500	Purchase of Investments	6,000
Interest on Investments	100	Insurance Premium	300
Interest received from Bank	400	Billiards Table	10,000
Sale of Old Newspaper	250	Paper, Ink, etc.	250
Sale of Drama Tickets	1,250	Drama Expenses	500
		Cash in hand (Closing)	4,500
		Cash in Bank (Closing)	11,050
	43,600		43,600

Information:

1. Subscriptions in Arrear for 2023 ₹ 1,200, subscription in advance for 2024 ₹ 550.
2. Insurance Premium outstanding ₹ 80, Miscellaneous Expenses prepaid ₹ 90.
3. 50% of Donation is to be capitalized.
4. Entrance fee are to be treated as Revenue Income.
5. 8% Interest has accrued on Investments for 5 months.
6. Billiards Table costing ₹ 30,000 were purchased during the last year and ₹ 20,000 were paid for it.

SOLUTIONS

Answer :1

Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		33,75,000
Less: Subscription receivable on 1.4.2023	1,01,250	
Less: Subscription received in advance on 31.3.2024	<u>47,250</u>	<u>(1,48,500)</u>
		32,26,500
Add: Subscription receivable on 31.3.2024	1,48,500	
Add: Subscription received in advance on 1.4.2023	<u>81,000</u>	<u>2,29,500</u>
Amount of Subscription appearing in Income & Expenditure Account		<u>34,56,000</u>

Sports material consumed during the year end 31.3.2024

		₹
Payment for Sports material		20,25,000
Less: Amounts due for sports material on 1.4.2023		<u>(6,07,500)</u>
		14,17,500
Add: Amounts due for sports material on 31.3.2024		<u>8,77,500</u>
Purchase of sports material		<u>22,95,000</u>
Sports material consumed:		
Stock of sports material on 1.4.2023		6,75,000
Add: Purchase of sports material during the year		<u>22,95,000</u>
		29,70,000
Less: Stock of sports material on 31.3.2024		<u>(10,12,500)</u>
Amount of Sports Material appearing in Income & Expenditure Account		<u>19,57,500</u>

Balance Sheet of M/s Zara Club For the year ended 31st

March, 2024 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	47,250	Subscription receivable	1,48,500
Amount due for sports material	8,77,500	Stock of sports material	10,12,500

Navel College

Income and Expenditure Account for the year ending 31st March, 2024

Expenditure	₹	₹	Income	₹	₹
To Salaries:		8,75,000	By Tutions & other fee		8,10,000
Teaching			By Govt. Grants		5,01,000
Research		1,25,000	By Income from Investments		1,75,000
To Material & Supplies Consumed			By Hostel room Rent		1,65,000
Teaching		52,000	By Mess Receipts		2,05,000
Research		1,45,000	By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	<u>24,000</u>	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	<u>78,000</u>	1,15,000			
To Scholarships		85,000			
To Depreciation:					
Building		77,500			
Plant & Machinery		85,000			
Furniture & Fittings		54,000			
Motor Vehicle		48,000			
To Excess of Income over Expenditure		2,32,500			
		<u>19,70,000</u>			<u>19,70,000</u>

Navel College
Balance Sheet as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of Income Over Expenditure	<u>2,32,500</u>	15,40,500	Building Cost	15,50,000	
Building Fund		19,10,000	Less: Dep.	<u>(5,67,500)</u>	9,82,500
Current Liabilities:			Plant & Machinery Cost	8,50,000	
Outstanding Expenses		2,35,000	Less: Dep.	<u>(5,90,000)</u>	2,60,000
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	<u>(3,80,000)</u>	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	<u>(48,000)</u>	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Cash in hand & at Bank		<u>3,16,000</u>
		<u>38,40,500</u>			<u>38,40,500</u>

Working Notes:

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

Answer :3
Receipts and Payments Account for the year ended 31-03-2024

Receipts	₹	Payments	₹
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods ₹ (12,500 - 7,500)	5,000
To Subscription received (W.N.1)	1,22,500	By Purchase of machinery ₹ (10,000-5,000)	5,000
To Sale of investments (W.N.2)	35,000	By Sportsexpenses	25,000
To Interest received on investment	7,000	By Rent paid	11,000
To Sale of furniture	4,000	₹ (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	<u>1,45,000</u>
	<u>2,23,500</u>		<u>2,23,500</u>

Income and Expenditure account for the year ended 31-03-2024

Expenditure	₹	₹	Income	₹	₹
To Salaries	30,000		By Subscription		1,50,000
Add: Outstanding for 2024	<u>9,000</u>		By Interest on Investment Received	7,000	
	39,000				
Less: Outstanding for 2023	<u>(7,500)</u>	31,500	Accrued (W.N.5)	<u>1,750</u>	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	<u>1,125</u>	2,575			
To Surplus		<u>82,175</u>			
		<u>1,58,750</u>			<u>1,58,750</u>

Working Notes:

1. Calculation of Subscription received during the year 2023-24

	₹
Subscription due for 2023-24	1,50,000
Add: Outstanding of 2023	70,000
Less: Outstanding of 2024	(1,00,000)
Add: Subscription of 2024 received in advance	15,000
Less: Subscription of 2023 received in advance	<u>(12,500)</u>
	<u>1,22,500</u>

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

Face value of investment sold: ₹ 87,500 × 50% = ₹ 43,750

Sales price: ₹ 43,750 × 80% = ₹ 35,000

Cost price of investment sold: ₹ 70,000 × 50% = ₹ 35,000

Profit/loss on sale of investment: ₹ 35,000 - ₹ 35,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2023	14,000
Value of furniture as on 31-03-2024	<u>7,000</u>
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	<u>(4,000)</u>
Loss on sale of furniture	<u>3,000</u>

4. Depreciation

Furniture -	₹ 7,000 × 10%	=	700
Machinery -	₹ 5,000 × 15%	=	750
Sports goods -	₹ 7,500 × 15%	=	1,125

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2023	87,500
Interest @ 10%	8,750
Less: Interest received during the year	<u>(7,000)</u>
Interest accrued during the year	<u>1,750</u>

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

Answer :4

Income and Expenditure Account
for the year ended 31st March, 2024

	₹		₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases 2,45,000			
Less: Stock on 31.3.24 <u>(95,000)</u>	1,50,000	By Visiting fees	2,50,000
To Motor car expense	80,000	By Fees from lectures	24,000
To Wages and salaries	75,000		
(1,05,000 – 30,000)			
To Rent for clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	<u>4,84,000</u>		
	<u>9,34,000</u>		<u>9,34,000</u>

 **VIDHYODAY**
Capital Account

for the year ended 31st March, 2024

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

Answer :5

Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2023	67,500	
Less: Subscription received in advance on 31.3.2024		<u>(99,000)</u>
	<u>31,500</u>	
		21,51,000
Add: Subscription receivable on 31.3.2023	99,000	
Add: Subscription received in advance on 1.4.2024	<u>54,000</u>	<u>1,53,000</u>
Amount of Subscription to appear in Income & Expenditure Account		<u>23,04,000</u>

Sports material consumed during the year end 31.3.2024

		₹
Payment for Sports material		13,50,000
Less: Amounts due for sports material on 1.4.2023		<u>(4,05,000)</u>
		9,45,000
Add: Amounts due for sports material on 31.3.2024		<u>5,85,000</u>
Purchase of sports material		<u>15,30,000</u>
Sports material consumed:		
Stock of sports material on 1.4.2023		4,50,000
Add: Purchase of sports material during the year		<u>15,30,000</u>
		19,80,000
Less: Stock of sports material on 31.3.2024		<u>(6,75,000)</u>
Amount of Sports Material appearing in Income & Expenditure Account		<u>13,05,000</u>

Balance Sheet of M/s Football Club For the year ended 31st March, 2024 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

Answer :6

Corrected Receipts and Payments Account of Gold Smith Club
for the year ended 31st March, 2024

Receipts		₹	Amount ₹	Payments		Amount ₹
To	Balance b/d		9,000	By	Expenses	
To	Subscription				(₹ 1,26,000 -	72,000
	Annual Income	91,800		By	₹ 54,000)	
				By	Sports Material	54,000
					Balance c/d	18,14,400
	Less: Receivable as on 31.3.2024	5,400			(Cash in Hand and at Bank)	
	Add: Advance received for the year 2024-2025	1,800				
	Add: Receivable as on 31.3.2023	3,600				
	Less: Advance received as on 31.3.2023	1,800	90,000			
To	Other Fees		36,000			
To	Donation for Building		18,00,000			
To	Sale of Furniture		5,400			
			19,40,400			19,40,400

Income and Expenditure Account of Gold Smith Club
for the year ended 31st March, 2024

Expenditure		₹	Amount ₹	Income		Amount ₹
To	Sundry Expenses Sports		72,000	By	Subscription	91,800
To	Material			By	Other fees	36,000
	Balance as on 1.4.2023	1,33,200		By	Interest on investment (5% on ₹ 5,40,000)	27,000
	Add: Purchases	54,000		By	Deficit: Excess of Expenditure over Income	72,000
	Less: Balance as on 31.3.2023	(36,000)	1,51,200			
	Loss on sale of Furniture		3,600			
			2,26,800			2,26,800

**Balance Sheet of Gold Smith Club as on 31st
March, 2024**

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund (W N)	7,20,000		Furniture	36,000	
Less: Excess of	<u>72,000</u>		Less: Sold	<u>9,000</u>	27,000
Expenditure over Income		6,48,000	5% Investment		5,40,000
Building Fund		18,00,000	Interest Accrued on Investment		27,000
Subscription Received in advance		1,800	Sports Material		36,000
			Subscription Receivable		5,400
			Cash in Hand and at Bank		<u>18,14,400</u>
		<u>24,49,800</u>			24,49,800

Working Note:

Balance Sheet of Gold Smith Club as on 1st April, 2023

Liabilities	Amount ₹	Assets	Amount ₹
Subscription		Furniture	36,000
Received in Advance	1,800	Investment	5,40,000
Capital Fund	7,20,000	Sports Material	1,33,200
(Balancing Figure)		Subscription Receivable	3,600
		Cash in Hand and at Bank	9,000
	<u>7,21,800</u>		<u>7,21,800</u>

Answer :7

New State Society

Income and Expenditure Account for the year ended 31st March, 2024

Dr.					Cr.
Expenditure	₹	₹	Income		₹
To Electric charges		14,400	By Entrance fee (40% of ₹ 60,000)		24,000
To Postage and stationary		10,000			
To Telephone charges		10,000	By Membership subscription	4,00,000	
To Rent	1,76,000		Less: Received in advance	<u>20,000</u>	3,80,000
Add: Outstanding	<u>8,000</u>	1,84,000	By Sale proceeds of old papers		3,000
To Salaries	1,32,000		By Hire of lecture hall		40,000
Add: Outstanding To Depreciation (W.N.1)	<u>6,000</u>	1,38,000	By Interest on securities (W.N.2)	16,000	
Electrical fittings	30,000		Add: Receivable	<u>35,000</u>	51,000
Furniture	10,000				
Books	<u>92,000</u>	1,32,000			
To Excess of Income over Expenditure		<u>9,600</u>			
		<u>4,98,000</u>			<u>4,98,000</u>

Working Notes:

1. Depreciation	₹
Electrical fittings 10% of ₹ 3,00,000	30,000
Furniture 10% of ₹ 1,00,000	10,000
Books 10% of ₹ 9,20,000	92,000
2. Interest on Securities	
Interest @ 15% p.a. on ₹ 3,00,000 for full year	45,000
Interest @ 15% p.a. on ₹ 80,000 for half year	<u>6,000</u>
	51,000
Less: Received	<u>(16,000)</u>
Receivable	<u>35,000</u>

Answer :8

In the books of Natures Beauty Society
Income and Expenditure Account for the year ending 31st March, 2024

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

Balance Sheet of Natures Beauty Society as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipment	2,10,000	
Opening balance	18,03,000		Add: Purchases.	<u>1,50,000</u>	
Add: Surplus	<u>1,02,000</u>	19,05,000		3,60,000	
Advance subscription		7,000	Less: dep. (bal. fig)	<u>(60,000)</u>	3,00,000
Creditors(medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	<u>(20,000)</u>	4,80,000
			Investment		10,00,000
			(₹ 90,000/9%)		
			Outstanding Subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		<u>90,000</u>
		<u>20,42,000</u>			<u>20,42,000</u>

Working Note:

(i) Subscription for the year ended 31st March, 2024

Particulars	Amount
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1 st April, 2023	(15,000)
Add: Subscription outstanding as on 31 st March, 2024	22,000
Add: Subscription received in advance as on 1 st April, 2023	12,000
Less: Subscription received in advance as on 31 st March, 2024	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2024

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, 2024

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

Answer :9

In the books of Vandana Sports club.

Income and Expenditure Account for the year ending 31st March, 2024

Expenditure		Amount (₹)	Income		Amount (₹)
To	Salaries (W.N.2)	1,57,200	By	Subscription (WN. 2)	2,95,500
To	Rent & Electricity (W.N.2)	70,850	By	Interest on Investments	8,000
To	Magazines & Newspapers	16,600	By	Misc. Income	19,850
To	Sundry Expenses	71,050	By	Entrance Fees	20,000
To	Depreciation:				
	Furniture	6,550			
	Sports Equipment	10,500			
	Library Books	<u>2,500</u>			
To	Excess of income over expenditure	8,100			
		3,43,350			3,43,350

Balance Sheet as on 31st March, 2024

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund:			Furniture Cost	65,500	
Opening balance (W.N.1)	2,66,700		Less: Depreciation	(6,550)	58,950
Add: Excess of Income over exp Entrance fees (60%)	8,100 30,000	3,04,800	Sports Equipment:		
Subscription received in advance		8,400	Opening balance	41,500	
Outstanding Expenses:	12,400		Addition	28,500	
Salaries				70,000	
Rent & Electricity	7,600		Less: Depreciation	(10,500)	59,500
		20,000	Library Books:		
			Opening Balance	22,000	
			Addition	10,500	
			Less: Depreciation	(2,500)	30,000
			Investments (8% Bonds)		1,00,000
			Cash in hand		8,750
			Cash at Bank		53,400
			Subscription Receivable		20,600
			Interest accrued on Bonds		2,000
		3,33,200			3,33,200

Alternatively, the capitalised portion of entrance fee of ₹30,000 may be shown separately in the liability side.

Working Notes:

1. Balance Sheet as on 31st March, 2023

Liabilities	₹	₹	Assets	₹
Outstanding expenses:			Furniture	65,500
Salaries	10,200		Library Books	22,000
Rent & Electricity	6,500	16,700	Sports Equipment	41,500
Subscription received in advance		7,000	Investments	1,00,000
Capital Fund (Balancing figure)		2,66,700	Cash in hand	5,200
			Cash at Bank	35,500
			Subscription receivable	18,700
			Interest accrued	2,000
		2,90,400		2,90,400

2.

(i)	Expenses	Salaries (₹)	Rent & Electricity (₹)
	Paid during the year	1,55,000	69,750
	<i>Add:</i> Outstanding on 31.3.2024	12,400	7,600
		1,67,400	77,350
	<i>Less:</i> Outstanding on 31.3.2023 Expenditure for the year	(10,200)	(6,500)
		1,57,200	70,850
(ii)	Depreciation:		
	(a) Furniture @10% on ₹ 65,500		6,550
	(b) Sports Equipment @ 15% on ₹ 70,000		10,500
	(c) Library books Revalued at	32,500	
		<u>(30,000)</u>	<u>2,500</u>
			<u>19,550</u>

(iii)	<p>Subscription:</p> <p>Received as per receipt and payment A/c</p> <p><i>Add:</i> Receivable on 31.3.2024</p> <p><i>Add:</i> Prepaid as on 31.3.2023</p> <p><i>Less:</i> Receivable on 31.3.2023</p> <p><i>Less:</i> Prepaid as on 31.3.2024</p>	<p>2,95,000</p> <p>20,600</p> <p><u>7,000</u></p> <p>3,22,600</p> <p>(18,700)</p> <p><u>(8,400)</u></p> <p><u>2,95,500</u></p>
iv	<p>Entrance Fees:</p> <p>Received as per receipt and payment A/c</p> <p><i>Less:</i> Capitalized</p> <p>Charged to Income & Expenditure</p>	<p>50,000</p> <p><u>(30,000)</u></p> <p>20,000</p>

Answer :10

(a)



Income and Expenditure Account for the year ending 31st December,2023

Expenditure	₹	Income	₹
To Salary	3,000	By Subscription (W.N. -ii)	10,650
To Repairs expenses	500	By Donations (50%)	3,500
To Miscellaneous expenses	410	By Interest on investments* (100 + 200)	300
To Insurance premium	380	By Entrance fees	1,500
To Paper, Ink etc	250	By Interest received from Bank	400
To Excess of Income over expenditure	12,810	By Sale of old newspaper	250
		By Sale of drama tickets	1,250
		Less: expenses	<u>500</u>
	<u>17,350</u>		<u>17,350</u>

(b) **Balance Sheet of Delhi Club as at 31st December, 2023**

Liabilities	₹	Assets	₹
Capital Fund:		Furniture	7,000
Opening balance	43,100	Investment	6,000
(W.N.1)			
Add: Excess of income. over exp	12,810	Billiards table**	30,000
Add: Donations	<u>3,500</u>	Cash in hand	4,500
Insurance	80	Cash at Bank	11,050
Premium payable		Prepaid Expenses- Misc exp	90
Subscription received in advance for 2024	550	Subscription Receivable	1,200
		Interest accrued on investments*	200
	60,040		60,040

Working Notes:

1.



Calculation of capital fund

Balance Sheet of Delhi Club as at 31st December, 2022

Liabilities	₹	Assets	₹
Capital Fund (Balancing figure)	43,100	Billiards table	30,000
Creditors for Billiard table	10,000	Cash in hand	8,100
		Cash at Bank	15,000
	53,100		53,100

2 . **Calculation of amount of subscription shown in Income and expenditure account**

	₹
Subscription received in cash during 2023	10,000
Add: Outstanding of 2023	1,200
	11,200
Less: Advance of 2024	(550)
	10,650

Alternatively, this working of calculation of amount of subscription can also be presented in the form of ledger A/c.

* It may be interpreted that investments have been purchased during the year i.e. 5 months prior to the reporting date. Accordingly, total amount of interest accrued on such investment shall be ₹ 200 for the calendar year 2023. Out of which ₹ 100 has been received and remaining ₹ 100 (200-100) is yet to be received (accrued). In that case, Interest on Investments in income and expenditure account shall be ₹ 200 and Accrued Interest in Balance Sheet under asset side shall be ₹100.

**Since in receipt and payment account ₹ 10,000 has been shown as payment for Billiard table, it can also be assumed that this amount is utilised for fresh purchase of billiard table. In that case, the amount of Billiard Table at assets side in Balance sheet will be ₹40,000 and unpaid amounts of billiard table shown at the liabilities side of balance sheet shall be ₹ 10,000.

CA FOUNDATION

CHAPTER-WISE MODEL TEST PAPERS

CHAPTER 9 – ACCOUNTS FROM INCOMPLETE RECORDS

- Q1** Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are required to prepare his final accounts for the year 2023:

	1.1.2023	31.12.2023
	₹	₹
Debtors	1,02,500	-
Creditors	-	46,000
Stock	50,000	62,500
Bank Balance	-	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	₹
Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

Q2 The details of Assets and Liabilities of Mr. Jalaj as on 31-3-2022 and 31-3-2023 are as follows:

Particulars	31-3-2023 (₹)	31-3-2024 (₹)
<u>Assets:</u>		
Furniture	62,500	
Building	1,25,000	
Stock	1,25,000	3,12,500
Sundry Debtors	75,000	1,37,500
Cash in hand	14,000	16,500
Cash at Bank	75,000	93,750
<u>Liabilities:</u>		
Loans	1,12,500	87,500
Sundry Creditors	62,500	1,00,000

Mr. Jalaj decided to provide depreciation on building by 2.5% and furniture by 10% for, the period ended on 31-3-2023. Mr. Jalaj purchased jewellery for ₹30,000 for his daughter in December 2022. He sold his car on 30-3-2023 and the amount of ₹50,000 is retained in the business.

You are required to :

- Prepare statement of affairs as on 31-3-2023 & 31-3-2024.
- Calculate the profit received by Mr. Jalaj during the year ended 31-3- 2024.

Q3 Harshit Traders are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31st March, 2023 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,05,000	Motor Vehicle	1,10,000
Trade Creditors	75,200	Furniture	73,500
Salary payable	9,000	Stock in trade	1,70,800
		Trade Debtors	1,45,400
		6% Investments	60,000
		Cash in hand & at	1,29,500
		Bank	
	6,89,200		6,89,200

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April,2023	1,29,500	Cash Purchases	9,48,400
Cash Sales	10,22,400	Payment to Trade Creditors	75,45,000
Receipts form Trade Debtors	85,52,000	Salaries	4,12,800
Interest on investments	3,600	Rent & taxes	2,51,600
		Sundry Expenses	1,38,400
		Drawings	2,40,000
		Cash in hand & at Bank on 31st March,2024	1,71,300
	97,07,500		97,07,500

Additional Information:

- Gross Profit ratio of 12.5% on Sales is maintained throughout the year.
- During the year, discount allowed to Trade debtors was for ₹ 62,500 and discount received from Trade Creditors amounted to ₹ 35,000.
- As on 31st Mrch,2024. The closing balances to Trade Debtors and Trade Creditors were ₹2,20,500 and ₹ 1,05,600 respectively.
- On 31st March,2024 an amount of ₹ 14,800 was outstanding towards Salary.
- Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet as n that date.

Q4 Following information relates to Mr. Prem who maintains his books under single entry system. He is not able to ascertain the amount of bad debts incurred by him and seeks your help.

Debtors as on 01.04.2023 ₹ 6,50,000

Debtors as on 31.03.2024 ₹ 8,50,000

Sale for Financial Year 2023-2024 is 16,00,000 out of which 80% is on credit.

Payment received during the year is ₹ 7,50,000 out of which cheques of ₹ 18,000 were dishonored. Bills of exchange accepted by customers ₹ 2,90,000

Discount allowed is 1% of the credit sale.

SOLUTIONS

Answer :1

Trading and Profit and Loss Account for the year ended 31st December, 2023

	Amount		Amount
	₹		₹
To Opening stock	50,000	By Sales (₹ 2,60,000 × 125/ 100)	3,25,000
To Purchases (balancing figure)	2,72,500	By Closing stock	62,500
To Gross profit c/d (₹ 2,60,000 × 25/ 100)	<u>65,000</u>		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross profit b/d	65,000
To Loss on sale of fixed assets	750		
To Depreciation on fixed assets (W.N.1)	1,000		
To Net profit	<u>14,000</u>		
	<u>65,000</u>		<u>65,000</u>

Balance Sheet as on 31st December, 2023

		Amount		Amount
Liabilities		₹	Assets	₹
Capital (W.N. 5)	1,69,000		Fixed assets Debtors (W.N. 3)	9,000
Add: Additional capital	5,000		Stock	62,500
Net profit	<u>14,000</u>		Bank balance	50,000
	1,88,000			
Less: Drawings	<u>(25,000)</u>	1,63,000		
Creditors		<u>46,000</u>		
		<u>2,09,000</u>		<u>2,09,000</u>

Working Notes:

1. Fixed assets account

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset (2,500-1,750)	750
		By Depreciation (balancing figure)	1,000
		By Balance c/d	<u>9,000</u>
	<u>12,500</u>		<u>12,500</u>

2. Bank account

	₹		₹
To Balance b/d (balancing figure)	62,500	Bv Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To Sale of fixed assets	1,750	By Fixed assets	5,000
		By Balance c/d	<u>50,000</u>
	<u>4,09,250</u>		<u>4,09,250</u>

3. Debtors account

	₹		₹
To Balance b/d	1,02,500	By Bank Balance c/d	3,40,000
To Sales	3,25,000	By (balancing figure)	87,500
$\left(2,60,000 \times \frac{125}{100}\right)$			
	<u>4,27,500</u>		<u>4,27,500</u>

4. Creditors account

	₹		₹
To Bank	2,80,000	By Balance b/d (balancing figure)	53,500
To Balance c/d	46,000	By Purchases (from trading account)	2,72,500
	<u>3,26,000</u>		<u>3,26,000</u>

5. Balance Sheet as on 1st January, 2023

Liabilities	₹	Assets	₹
Creditors (W.N.4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	<u>62,500</u>
	<u>2,22,500</u>		<u>2,22,500</u>

Answer :2

In the books of Mr. Jalaj Statement of Affairs

Liabilities	31.3.23	31.3.24	Assets	31.3.23	31.3.24
Capital (bal fig)	3,01,500	5,50,875	Furniture	62,500	56,250
Loans	1,12,500	87,500	Building	1,25,000	1,21,875
Creditors	62,500	1,00,000	Stock	1,25,000	3,12,500
			Debtors	75,000	1,37,500
			Cash in hand	14,000	16,500
			Cash at bank	75,000	93,750
	4,76,500	7,38,375		4,76,500	7,38,375

Capital A/c

Particulars	₹	Particulars	₹
To Cash (drawings)	30,000	By Bal b/d	3,01,500
To Bal c/d	5,50,875	By Cash	50,000
		By Profit (bal fig)	2,29,375
	5,80,875		5,80,875

Answer :3

In the books of Harshit Traders

Trading and Profit and Loss Account for the year ended 31st March, 2024

Particulars	Amount (₹)	Amount (₹)	Amount (₹)	Amount (₹)
To Opening Stock		1,70,800	By Sales	
To Purchases			Cash	10,22,400
Cash	9,48,400		Credit (W.N. 1)	<u>86,89,600</u>
Credit (W.N. 2)	<u>76,10,400</u>	85,58,800	By Closing stock (bal fig)	2,31,600
To Gross profit c/d (12.5% of 97,12,000)		12,14,000		
		99,43,600		99,43,600

To Rent & taxes		2,51,600	By Gross profit b/d	12,14,000
To Salaries (W.N. 3)		4,18,600	By Discount received	35,000
To Sundry expenses		1,38,400	By Interest on investment	3,600
To Discount allowed		62,500		
To Depreciation (10% on (1,10,000 & 73,500))	11,000 <u>7,350</u>	18,350		
To Net Profit (b.f.)		3,63,150		
		<u>12,52,600</u>		<u>12,52,600</u>

Balance Sheet as at 31st March, 2024

Liabilities		Amount	Assets		Amount
Capital			Motor vehicle	1,10,000	
Opening balance	6,05,000		Less: Depreciation	<u>(11,000)</u>	99,000
Less: Drawings	<u>(2,40,000)</u>		Furniture & Fittings	73,500	
	3,65,000		Less: Depreciation	<u>(7,350)</u>	66,150
Add: Net profit for the years	<u>3,63,150</u>	7,28,150	Closing Stock		2,31,600
Trade creditors		1,05,600	Trade receivable		2,20,500
Outstanding salary		14,800	6% Investment		60,000
			Cash in hand & at bank		1,71,300
		<u>8,48,550</u>			<u>8,48,550</u>

Working Notes:
1. Trade Debtors Account

	₹		₹
To Balance b/d	1,45,400	By Cash/Bank	85,52,000
To Credit sales (Bal. fig.)	86,89,600	By Discount allowed	62,500
		By Balance c/d	2,20,500
	88,35,000		88,35,000

2. Trade Creditors Account

	₹		₹
To Cash/Bank	75,45,000	By Balance b/d	75,200
To Discount received	35,000	By Purchases credit	76,10,400
To Balance c/d	1,05,600		
	76,85,600		76,85,600

3. Computation of salary to be charged to Profit & Loss A/c

	₹
Salary expenses paid (as per cash book)	4,12,800
<i>Less:</i> Outstanding expenses as on 31.3.2023	(9,000)
	4,03,800
<i>Add:</i> Outstanding expenses as on 31.3.2024	14,800
	4,18,600

Answer : 4
Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	6,50,000	By Bank A/c	7,32,000
To Credit Sales	12,80,000	By Discount allowed	12,800
		By Bills Receivable	2,90,000
		By Bad Debts (Bal fig)	45,200
		By Balance c/d	8,50,000
	19,30,000		19,30,000

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CHAPTER-WISE MODEL TEST PAPERS
SINGLE ENTRY

- Q1** The Income Tax Officer, on assessing the income of Zavier for the financial years 2021-2022 and 2022-2023 feels that Zavier has not disclosed the full income. He gives you the following particulars of assets and liabilities of Zavier's on 1st April, 2021 and 1st April, 2023.

				₹
1-4-2021	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
	Liabilities	:	Owing to Zavier's Brother	40,000
			Sundry creditors	35,000
1-4-2023	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Wife's Jewellery	1,25,000
	Liabilities	:	Loan to Zavier's Brother	20,000
		Sundry creditors	55,000	

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2021-2022 and ₹ 1,33,000 for 2022-2023 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Q2 Varun does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare trading and profit and loss account for the year 2024:

	1.1.2024	31.12.2024
	₹	₹
Stock	50,000	62,500
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows

	₹
Sale of fixed assets (book value ₹ 2,500) Expenses paid	1,750
Purchase of fixed assets	49,250
	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

SOLUTIONS

Answer :1

Calculation of Capital ofZavier

	₹	1-4-2021 ₹	₹	1-4-2023 ₹
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		-		1,25,000
Loan to Zavier's Brother		-		20,000
		3,88,000		6,20,000
Liabilities				
Owing to Zavier's Brother	40,000		-	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2023				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
<i>Less:</i> Capital as on 1-4-2021				(3,13,000)
Income earned in 2021-2022 and 2022-2023				3,48,000
Income declared (₹ 1,05,000 + ₹ 1,33,000)				2,38,000
Suppressed Income				1,10,000

The Income-tax officer's contention that Zavier has not declared his true income is correct. Zavier's true income is in excess of the disclosed income by ₹ 1,10,000 based on the information available.

Answer :2

Trading and Profit and Loss Account for the year ended 31st December, 2024

		Amount			Amount
		₹			₹
To	Opening stock	50,000	By	Sales ₹ 2,60,000 × 125/100)	3,25,000
To	Purchases (balancing figure)	2,72,500	By	Closing stock	62,500
To	Gross profit c/d (₹ 2,60,000 × 25/100)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profitb/d	65,000
To	Loss on sale of fixed assets (W.N.1)	750			
To	Depreciation on fixed assets (W.N.1)	1,000			
To	Net profit	14,000			
		65,000			65,000

Working Note:



Fixed AssetsA/c

		₹			₹
To	Balance b/d	7,500	By	Bank (sale)	1,750
To	Bank (Purchases)	5,000	By	Loss on sale of fixed asset (2,500-1,750)	750
			By	Depreciation (bal fig)	1,000
		_____	By	Balance c/d	<u>9,000</u>
		<u>12,500</u>			<u>12,500</u>



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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 10 - PARTNERSHIP

Q1 Arun, Varun and Tarun are in partnership, sharing profits and losses equally.

Tarun died on 30th June 2023. The Balance Sheet of Firm as at 31st March 2023 stood as:

Liabilities	Amount	Assets	Amount
Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts:		Stock in trade	15,000
Arun	1,00,000	Trade receivables	35,000
Varun	75,000	Less: Provision for	
Tarun	75,000	doubtful debt	(2,000)
		Cash in hand	7,000
		Cash at bank	12,000
	2,82,000		2,82,000

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

- i) Land and Building be valued at ₹ 1,75,000
- ii) Debtors were all good, no provision is required
- iii) Stock is valued at ₹ 13,500
- iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Tarun's share of goodwill be adjusted in the account of Arun and Varun.
- v) Tarun's share of profit from 1st April 2023, to the date of death be calculated on the basis of average profit of preceding three years.
- vi) The profit of the preceding five years ended 1st March were:

2023	2022	2021	2020	2019
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

1. Revaluation account
2. Capital accounts of the partners and
3. Balance sheet of the Firm as at 1st July, 2023.

Q2 Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2024 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	₹	Assets	₹
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	90,000		
	3,20,000		3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2024 ₹ 60,000

May 1, 2024 ₹ 1,46,000

May 31, 2024 ₹ 94,000

Prepare a statement showing how the distribution should be made under maximum loss method.

Q3 X,Y and Z are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

Liabilities	₹	Assets	₹
Capital Accounts		Building	10,00,000
X	8,00,000	Furniture	2,40,000
Y	4,20,000	Office equipments	2,80,000
Z	<u>4,00,000</u>	Stock	2,50,000
	16,20,000	Sundry debtors	3,00,000
Sundry Creditors	3,70,000	Less: Provision for Doubtful Debts	<u>30,000</u>
General Reserves	3,60,000	Joint life policy	1,60,000
		Cash at Bank	1,50,000
	23,50,000		23,50,000

Y retired on 1st April, 2024 subject to the following conditions:

- Office Equipments revalued at ₹ 3,27,000.
- Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .
- Provision for Doubtful Debts is to be created @ 5% on Debtors.
- The surrender value of Joint Life Policy is ₹ 1,50,000
- Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2020	90,000
2021	1,40,000
2022	1,20,000
2023	1,30,000

vi) Amount due to Y is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Y's retirement.

Q4 P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2023 is as follows:

Liabilities	₹	Assets	₹
Capital accounts		Plant and Machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock	60,000
R	<u>24,000</u>	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	48,000		
	<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the business. The following are the amounts realized:

Particulars	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

- Realization Account.
- Partners' Capital Accounts.
- Cash Account.

Q5 Ram Lakhan and Bharat are partners in a firm. On 1st April 2022 their fixed capital stood at ₹ 1,50,000, ₹ 75,000 and ₹ 75,000 respectively.

As per the provision of partnership deed:

- Bharat was entitled for a salary of 15,000 p.a.
- All the partners were entitled to interest on capital at 5% p.a.
- Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2023 of ₹ 99,000 and 31st March, 2024 of ₹ 1,35,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

Q6 The profits and losses for the previous years are: 2020 Profit ₹ 10,000, 2021 Loss ₹ 17,000, 2022 Profit ₹ 50,000, 2023 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Q7 Balance Sheet of a Partnership Firm M/s Alpha and Associates consisted of two partners X and Y who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	₹	Assets	₹
X's Capital	4,10,000	Land & Building	3,80,000
Y's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, Z was admitted as a partner on the following terms:

- Z should get 1/5th of share of profits.
- Z brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.

- Immediately after Z's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of Z.

Q8 P Q and R are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

Liabilities	₹		Assets	₹	
Capital			Building		10,00,000
Accounts					
P	8,00,000		Furniture		2,40,000
Q	4,20,000		Office		2,80,000
R	<u>4,00,000</u>	16,20,000	equipments		
			Stock		2,50,000
Sundry		3,70,000	Sundry debtors	3,00,000	
Creditors					

General Reserves	3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
		Cash at Bank		<u>3,10,000</u>
	23,50,000			23,50,000

Q retired on 1st April, 2024 subject to the following conditions:

- Office Equipments revalued at ₹ 3,27,000.
- Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,20,000.
- Provision for doubtful debts is to be created @ 5% on debtors.
- Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2020	90,000
2021	1,40,000
2022	1,20,000
2023	1,30,000

- Amount due to Q is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Q's retirement.



Q9 The following is the Balance Sheet of A, B, C on 31st December, 2023 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	3,000	Sundry Assets	72,750
A's Loan	7,500	Cash	750
Capital Accounts:			
A	22,500		
B	27,000		
C	13,500		
	<u>73,500</u>		<u>73,500</u>

The assets realized the following sums in installments:

Inst.	₹
I	1,500
II	4,500
III	5,850
IV	9,000
V	30,150
	<u>51,000</u>

The expenses of realization were expected to be ₹750 but ultimately amounted to ₹600 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

Q10 The following is the Balance Sheet of M/s. Vivek Bros as at 31st March, 2024, they share profit and losses equally:

Balance Sheet as at 31st March, 2024

Liabilities		₹	Assets	₹
Capital	Amit	24,600	Machinery	30,000
	Puneet		Furniture	16,800
	Sumit	24,600	Fixture	12,600
General Reserve		27,000	Cash	9,000
Trade payables		9,000	Inventories	5,700
		14,100	Trade receivables	27,000
			Less: Provision for Doubtful debts	<u>1,800</u>
				25,200
		99,300		99,300

Sumit died on 1st April, 2024 and the following agreement was to be put into effect.

- Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.
- ₹ 6,000 is to be paid to the executors of the dead partner on 5th April, 2023.
- After death of Sumit, Amit and Puneet share profit equally.

You are required to prepare:

- Journal Entry for Goodwill adjustment.
- Revaluation Account and Capital Accounts of the partners.

Q11 A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 31.3.2024 was as follow:

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	25,800	Building	52,000
Bill Payable	8,200	Furniture	11,600
Bank Overdraft	18,000	Stock-in-Trade	42,800
Capital Accounts:		Debtors	70,000
A 88,000		Less: Provision	<u>400</u>
B <u>72,000</u>	1,60,000	Investment	5,000
		Cash	31,000
	2,12,000		2,12,000

'C' was admitted to the firm on the above date on the following terms:

- i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 50,000.
- ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
- iii) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- iv) Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.
- v) It is found that the creditors included a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

- i) Revaluation Account.
- ii) Partners' Capital Accounts.
- iii) Balance Sheet of New Partnership firm after admission of 'C'.

Q12 P and Q were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit R for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2024 were 1,80,00,000.

Calculate share of profit for each partner when:

- i) Guarantee is given by firm
- ii) Guarantee is given by P and Q equally.

Q13 The Balance Sheet of a Partnership Firm M/s Thomas & Associates consisted of two partners Albert and Andrew who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	₹	Assets	₹
Albert's Capital	8,20,000	Land & Building	7,60,000
Andrew's Capital	6,60,000	Plant & Machinery	3,40,000
Profit & Loss A/c	2,24,000	Furniture	2,18,960
Trade Creditors	1,09,600	Stock	2,90,520
		Sundry debtors	1,20,000
		Cash at Bank	84,120
	18,13,600		18,13,600

On the above date, David was admitted as a partner on the following terms:

- a) David should get 1/5th of share of profits.
- b) David brought ₹ 4,80,000 as his capital and ₹ 64,000 for his share of Goodwill.
- c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- d) A provision for doubtful debts to be created at 5% on sundry debtors.
- e) An unrecorded liability of ₹ 12,000 for repairs to Buildings would be recorded in the books of accounts.
- f) Immediately after David's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the Firm after the admission of David.

Q14 P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2024:

Liabilities	Amount (₹)	Assets	Amount(₹)
Capital Accounts		Land & building	2,46,000
P	2,16,000	Furniture & fixtures	65,000
Q	<u>1,44,000</u>	Stock	1,00,000
	3,60,000	Debtors	72,500
		Cash in hand	15,500
Sundry creditors	36,000	Capital overdrawn:	
Mortgage loan	1,10,000	R	1,000
		S	<u>6,000</u>
			7,000
	<u>5,06,000</u>		<u>5,06,000</u>

- (i) The assets were realized as under: ₹
- | | |
|----------------------|----------|
| Land & building | 2,30,000 |
| Furniture & fixtures | 42,000 |
| Stock | 72,000 |
| Debtors | 65,000 |
- (ii) Expenses of dissolution amounted to ₹ 7,800.
- (iii) Further creditors of ₹ 18,000 had to be met.
- (iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.

Q15 The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2024, they share profit and losses equally:

Balance Sheet as at 31st March, 2024

Liabilities	₹	Assets	₹
Capital		Machinery	30,000
Amit	24,600	Furniture	16,800
Lalit	24,600	Fixture	12,600
Sumit	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	<u>1,800</u>
			25,200
	<u>99,300</u>		<u>99,300</u>

Sumit died on 1st April, 2024 and the following agreement was to be put into effect.

- a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.
- c) ₹ 6,000 is to be paid to the executors of the dead partner on 5th April, 2024.
- d) After death of Sumit, Amit and Lalit shares the profit equally.

You are required to prepare:

- i) Journal Entry for Goodwill adjustment.
- ii) Revaluation Account, Capital Accounts of the partners and Balance Sheet after the death of Sumit.

Q16 A, B and C shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2020 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2020 Nil

2021 ₹ 900

2022 ₹ 2,000

2023 ₹ 3,600

A retired on 15th April, 2024 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2020 to 2024 (assuming the Policy Account is maintained at surrendered value basis).

Q17 Mr. Nikhil gives the following particulars in respect of business carried on by him:

Particulars	Amount(₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative	
Employment of proprietor if he was not engaged in Business	36,000

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2020, 2021 and 2023 respectively but made a loss of ₹ 36,000 in the year 2022.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

Q18 The Balance Sheet of a Partnership Firm M/s Dutch and Associates consisted of two partners P and Q who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31st March,2024 was as follows:

Liabilities	₹	Assets	₹
P's Capital	4,10,000	Land & Building	3,80,000
Q's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank	42,060
	9,06,800		9,06,800

On the above date, R was admitted as a partner on the following terms:

- R should get 1/5th of share of profits.
- R brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- A provision for doubtful debts to be created at 5% on sundry debtors.
- An unrecorded liability of ₹ 2,000 for repairs to Buildings would be recorded in the books of accounts and trade creditors are to be increased by ₹ 4,000.
- Immediately after R's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare revaluation A/c, capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the firm after the admission of R.

Q19 P, Q and R were partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st March,2024 when their Balance Sheet was as follows:

Liabilities	Amount(₹)	Assets	Amount(₹)
Capital A/c:		Land & Building	4,85,000
P	3,55,000	Machinery	1,88,000
Q	2,20,000	Furniture	1,05,000
R	<u>1,25,000</u>	Stock	55,800
General Reserve	1,50,000	Trade Debtors	1,56,000
Employees Provident Fund	60,000	Cash & Bank	44,200
Trade Creditors	1,24,000		
	10,34,000		10,34,000

The following information is given to you:

- There was an unrecorded investment which was sold for ₹ 30,000.
- One of the creditors agreed to take over some items of furniture of Book value ₹ 25,000 at ₹ 24,000. The rest of the creditors were paid at a discount of 5%.

iii) Out of the trade debtors ₹ 9,000 proved bad, remaining were fully realized.

iv) The other assets were realised as under:

Land & Building	₹ 5,25,000
Machinery	₹ 1,70,000
Furniture	Remaining taken over by P at ₹ 75,000
Stock	₹ 60,000

v) Expenses of dissolution amounted to ₹ 18,700.

vi) There was an outstanding bill for repairs which had to be paid for ₹ 3,500.

You are required to prepare:

1. Realisation A/c
2. Cash & Bank A/c
3. Partner's Capital A/c in the books of partnership firm.

Q20 Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm's Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet as on 31st March,2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	3,80,000
Anu	2,80,000	Machinery	1,43,000
Manu	2,50,000	Furniture	85,000
Long Term Loan	2,00,000	Trade Receivables	1,64,000
Trade Payables	1,19,500	Inventories	48,400
Outstanding liabilities	16,200	Investments	15,200
		Cash & Bank	30,100
	8,65,700		8,65,700

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

- i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.
- ii) Ranu will bring ₹ 1,00,000 as his capital.
- iii) Goodwill of firms is to be valued at 2 years' purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

31st March,2022	₹ 87,000
31st March,2023	₹ 1,06,000
31st March,2024	₹ 1,22,000

iv) It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

v) It was also decided to value the assets:

Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at ₹ 80,000. Investments at ₹ 16,000 and Inventories at ₹ 47,500.

Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm as on 1st April, 2024.

Q21 The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Land & Buildings	28,000
Krish 25,000			
Bala <u>15,000</u>	40,000		
General Reserve	26,000	Plant & Machinery	15,000
Workmen's		Stock	10,000
Compensation			
Reserve	10,000		
Creditors	10,000	Debtors 25,000	
Employee's		Less: Provision for	
Provident Fund	8,000	Doubtful debts <u>4,000</u>	21,000
		Bank	20,000
	94,000		94,000

On admission of Sobha for 1/6th share in the profits, it was decided that:

1. Value of land and buildings to be increased by ₹ 5,000.
2. Value of stock to be increased by ₹ 3,500.
3. Provision of doubtful debts to be increased by ₹ 1,500.
4. Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.
5. Sobha was to bring in cash of ₹ 25,000 as her capital.
6. Sobha brought in her share of goodwill ₹ 12,000 in cash.

Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm.

Q22 X, Y and Z were in a firm sharing profit and loss as 3: 2: 1. Their Balance Sheet on 31st March, 2024 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
X's Capital	78,000	Goodwill	12,000
X's Capital	42,000	Patents	30,000
Z's Capital	31,000	Machinery	60,000
Investment		Investment (Market value ₹27,600)	25,000
Fluctuation Fund	6,000	Stock	30,650
Workmen's Compensation	12,000	Debtors 50,000	
Trade Creditors	31,000	Less: Provision for doubtful debts <u>4,000</u>	46,000
Employee's Provident Fund	12,000	Cash at Bank	8,350
	2,12,000		2,12,000

Z retired on the above date on the following terms:

- Goodwill of the firm was valued at ₹ 60,000.
- Value of patents was to be reduced by 20% and that of machinery to 90%.
- Provision for doubtful debts was to be raised to 10%.
- Liability on account of Provident fund was only ₹ 6,000.
- Liability for workmen compensation to the extent of ₹ 6,000 is to be created.
- Z took over the investment at market value.
- Amount due to Z is to be settled on the following basis- 50% on retirement, 50% of the balance within one year and the balance by a bill of exchange (without interest) at 3 months.

You are required the following:

- Show entries for the treatment of goodwill,
- Prepare Revaluation Account,
- Partner Capital Account, &
- Balance Sheet.

SOLUTIONS

Answer :1

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To revaluation profit		By Provision for doubtful debt	2,000
Arun	8,500		
Varun	8,500		
Tarun	8,500		
	27,000		27,000

Partners' Capital Accounts

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

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

Balance Sheet of Firm as on 1st July, 2024

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

Calculation of goodwill and Tarun's share

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

31.3.2019	28,750
31.3.2020	35,000
31.3.2021	22,500
31.3.2022	20,000
31.3.2023	<u>25,000</u>
Total	<u>1,31,250</u>
Average profit	26,250

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

Tarun's Share of Goodwill = ₹ 26,250 x 1/3 = ₹ 8,750

Which is contributed by Arun and Varun in their gaining Ratio Arun = ₹ 8,750 x 1/2 = ₹ 4,375

Varun = ₹ 8,750 x 1/2 = ₹ 4,375

Answer :2

Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors ₹	Amar's Loan ₹	Amar ₹	Akbar ₹	Antony ₹
Balance due	80,000	20,000	1,00,000	30,000	90,000
15 th April 2024 realised ₹ 60,000					
Paid to creditors	<u>(60,000)</u>	-	-	-	-
Balance due	20,000	20,000	1,00,000	30,000	90,000
1 st May, 2024 realised ₹ 1,46,000					
Paid to creditors (₹ 20,000)	20,000	-	-	-	-
Paid to Amar's loan (₹ 20,000)	-	<u>20,000</u>	-	-	-
Balance due (1)	Nil	Nil	1,00,000	30,000	90,000
Balance ₹ <u>1,06,000</u>					
Maximum Loss (1,00,000 + 30,000 + 90,000 - 1,06,000) = ₹ 1,14,000					
shared in Profit & Loss ratio 5:3:2			<u>(57,000)</u>	<u>(34,200)</u>	<u>(22,800)</u>
			43,000	(4,200)	67,200

Partners' Capital Accounts

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Y's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To Y's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By X's capital A/c		90,000	
				By Z's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2024 (After Y's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
X	11,21,000		Furniture		2,00,000
Z	<u>5,07,000</u>	16,28,000	Office equipment		3,27,000
Y's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	<u>(15,000)</u>	2,85,000
			Cash at bank		3,00,000
		<u>28,12,000</u>			<u>28,12,000</u>

Working Notes:

Calculation of goodwill:

- Average of last 4 year's profit
 $= (90,000 + 1,40,000 + 1,20,000 + 1,30,000) / 4$
 $= ₹1,20,000$

2. Goodwill at three years' purchase

$$₹1,20,000 \times 3 = ₹3,60,000$$

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
X	1,80,000	2,70,000	90,000 (Dr.)
Y	1,20,000	-	1,20,000 (Cr.)
Z	60,000	90,000	30,000 (Dr.)

Note: Alternatively Joint Life Policy can also be routed through Partners Capital Account.

Answer :4

Realization Account

Particulars	₹	Particulars	₹
To Debtors	48,000	By Creditors	48,000
To Stock	60,000	By Cash A/c (Assets realized):	
To Fixtures	24,000	Plant and Machinery	1,02,000
To Plant and machinery	1,08,000	Fixtures	18,000
To Cash A/c (Creditors)	45,600	Stock	84,000
To Cash A/c (GST)	4,200	Sundry Debtors	<u>44,400</u>
To Cash A/c (Realization expenses)	1,500	By Q (Unrecorded asset) *	4,800
To Profit on Realization			
P	3,960		
Q	3,960		
R	<u>1,980</u>		
	9,900		
	<u>3,01,200</u>		<u>3,01,200</u>

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000
				By Realization A/c (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

* An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

Answer :5

Particulars	Ram	Lakhan	Bharat	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2022-23, 2023-24)	78,000	78,000	78,000	2,34,000
II. Amount which should have been credited:				
C's Salary (2022-23, 2023-24)			30,000	
Interest on Capital (2022-23, 2023-24)	15,000	7,500	7,500	
Share of Profit	87,000	43,500	43,500	1,74,000
	1,02,000	51,000	81,000	
Net effect (I-II)	(24,000)	27,000	(3,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Lakhan's Current A/c	27,000	
To Ram's Current A/c		24,000
To Bharat's Current A/c		3,000
(Salary to Bharat, Interest on capital charged and profit shared among partners in the ratio of capital)		

Answer :6

Total Profit for 3 years = (₹ 17,000) + ₹ 50,000 + ₹ 75,000 = ₹ 1,08,000.

Average profits = $\frac{\text{Total Profit}}{\text{No. of years}} \times \frac{\text{Rs. 1,08,000}}{3} = ₹ 36,000$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration
= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit = Interest on Capital employed
= ₹ 20,000 (i.e. ₹ 2,00,000 x 10/100) = ₹ 20,000

Super Profit = Average Profit - Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 = ₹ 20,000

Answer :7

Revaluation A/c

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To X's Capital A/c(5/8)	73,438		
To Y's Capital A/c(3/8)	44,062		
	1,52,000		1,52,000

Partners Capital A/c

	X	Y	Z		X	Y	Z
To X's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To Y's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Y's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By Z's Capital A/c	20,000	12,000	-
				By X's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

$$Z's \text{ Share of Profit} = 1/5 = 2/10$$

$$\text{Remaining Share} = 1 - 1/5 = 4/5$$

$$X's \text{ Share} = 5/8 \times 4/5 = 20/40 = 5/10$$

$$Ys \text{ Share} = 3/8 \times 4/5 = 12/40 = 3/10$$

$$\text{New Profit sharing Ratio} = 5:3:2$$

$$\text{Gaining ratio} = 5:3 \text{ (same as old profit sharing ratio among old partners)}$$

Balance sheet of Alpha and Associates as on 31.3.2024

Liabilities		₹	Assets		
Capital Accounts:			Land &		5,32,000
			Buildings		
X	6,00,000		Plant &	1,70,000	
			Machinery		
Y	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
Z	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
Y's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			X's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

Z's Capital after writing off Goodwill = 2,72,000 - 32,000 = 2,40,000

Z's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

X's Capital = 12,00,000 x 5/10 = 6,00,000 and

Y's Capital = 12,00,000 x 3/10 = 3,60,000

Answer :8

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	30,000	By Building A/c	5,00,000
To Partners' capital A/cs:		By Provision for doubtful debts	15,000
P	2,46,000		
Q	1,64,000		
R	<u>82,000</u>		
	<u>4,92,000</u>		
	5,62,000		5,62,000

Partners' Capital Accounts

	P ₹	Q ₹	R ₹		P ₹	Q ₹	R ₹
To Q's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To Q's loan A/c		8,24,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,36,000		5,12,000	By revaluation reserve	2,46,000	1,64,000	82,000
				By P's capital A/c		90,000	
				By R's capital A/c		30,000	
	<u>12,26,000</u>	8,24,000	5,42,000		<u>12,26,000</u>	8,24,000	5,42,000

Balance Sheet as on 1.4.2024 (After Q's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
P	11,36,000		Furniture		2,00,000
R	<u>5,12,000</u>	16,48,000	Office equipment		3,27,000
Q's loan account		8,24,000	Stock		2,20,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	<u>(15,000)</u>	2,85,000
			Cash at bank		<u>3,10,000</u>
		<u>28,42,000</u>			<u>28,42,000</u>

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit
 $= (90,000+1,40,000+1,20,000+1,30,000)/4$
 $= ₹ 1,20,000$
2. Goodwill at three years' purchase
 $₹ 1,20,000 \times 3 = ₹ 3,60,000$

Goodwill adjustment

	<i>Share of goodwill (Old ratio)</i>	<i>Share of goodwill (New ratio)</i>	<i>Adjustment</i>
P	1,80,000	2,70,000	90,000 (Dr.)
Q	1,20,000	-	1,20,000 (Cr.)
R	60,000	90,000	30,000 (Dr.)

Answer :9

Statement showing Realization of Cash

Sr. No.	Particulars	Realization	Creditors	Partner's Loan	Partner's Capital
1	After taking into account cash balance and amount Set aside for Expenses	1,500	1,500	-	-
2		4,500	1,500	3,000	
3		5,850	-	4,500	1,350
4		9,000	-	-	9,000
	Including Savings in Exp	30,150	-	-	30,150
		51,000	3,000	7,500	40,500

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

Statement of Distribution on Capital Accounts

(1) **Calculation to determine the mode of distribution of ₹1,350**

Particulars	Total	A	B	C
Balance	63,000	22,500	27,000	13,500
Less: Maximum Loss in 2:2:1	(61,650)	(24,660)	(24,660)	(12,330)
	+1,350	-2,160	+2,340	+1,170
Deficiency of A's capital written off against those of B and C in the ratio of their capital 27,000: 13,500, (Garner vs. Murray)			(1,440)	(720)
Manner in which the first ₹ 1,350 should be distributed			+ 900	+ 450

(2) **Distribution of ₹9,000**

Balance after (1)	61,650	22,500	26,100	13,050
Less : Maximum Loss in 2:2:1	(52,650)	(21,060)	(21,060)	(10,530)
Balance available and Distributed	9,000	1,440	5,040	2,520

(3) **Distribution of ₹30,150**

Balance after (2)	52,650	21,060	21,060	10,530
Less: Maximum Loss in 2:2:1	(22,500)	(9,000)	(9,000)	(4,500)
Distribution of ₹ 30,150	30,150	12,060	12,060	6,030
Summary:				
- Balance	63,000	22,500	27,000	13,500
- Total Amounts Paid	40,500	13,500	18,000	9,000
- Loss	22,500	9,000	9,000	4,500

Answer :10

i) **Journal Entry in the books of the M/s VivekBros**

Date	Particulars	Dr. ₹	Cr. ₹
April, 1 2024	Amit's Capital A/c Puneet's Capital A/c To Sumit'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**

Particulars	Dr. ₹	Particulars	Cr. ₹
To Furniture A/c (₹ 16,800 - 13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100
To Inventory A/c (₹ 5,700 - 4,500)	1,200		
To Partners' Capital A/c (Amit - ₹ 300, Puneet - ₹ 300, Sumit - ₹ 300)	900		
	5,100		5,100

Partners' Capital Accounts

Particulars	Amit	Puneet	Sumit	Particulars	Amit	Puneet	Sumit
To Sumit (Goodwill)	3,000	3,000	-	By Balance b/d	24,600	24,600	27,000
To Bank 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 Amit (Goodwill)	-	-	3,000
				By Puneet (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	Amit	Puneet	Sunit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Answer :11
(i) Revaluation Account

		₹			₹
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (₹ 3,500 - ₹ 400)	3,100	By	Investment	900
To	Outstanding wages	3,120			—
		<u>10,100</u>			<u>10,100</u>

(ii) Partners' Capital Accounts

		A	B	C		A	B	C	
		₹	₹	₹		₹	₹	₹	
To	A's Capital			9,000	By	Balance b/d	88,000	72,000	-
To	B's Capital			6,000	By	Cash A/c	-	-	50,000
To	Balance c/d	97,000	78,000	35,000	By	C's Capital A/c (Working Note)	9,000	6,000	
		<u>97,000</u>	<u>78,000</u>	<u>50,000</u>			<u>97,000</u>	<u>78,000</u>	<u>50,000</u>

(iii) Balance Sheet of New Partnership Firm (after admission of C) as on 31.3.2024

Liabilities	₹	Assets	₹
Capital		Building (52,000 + 6,400)	58,400
Accounts:			
A 97,000		Furniture (11,600 - 1,740)	9,860
B 78,000		Stock-in-trade (42,800 - 2,140)	40,660
C <u>35,000</u>	2,10,000	Debtors 70,000	
Bills Payable	8,200	Less: Provision for bad Debts (<u>3,500</u>)	66,500
Bank Overdraft	18,000	Investment (5,000 + 900)	5,900
Sundry creditors (25,800-2,800)	23,000	Cash (31,000 + 50,000)	81,000
Outstanding wages	<u>3,120</u>		
	<u>2,62,320</u>		<u>2,62,320</u>

Working Note:

1. Calculation of goodwill

C's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of A, B and C amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 - ₹ 2,10,000). C's share 1/6th = 15,000

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{6}$	$\frac{3}{5}$	$\frac{-3}{30}$	-
B	$\frac{2}{6}$	$\frac{2}{5}$	$\frac{-2}{30}$	-
C	$\frac{1}{6}$	-	-	$\frac{1}{6}$

Therefore,

$$A \text{ will get} = ₹ 90,000 \times \frac{3}{30} = ₹ 9,000;$$

$$B \text{ will get} = ₹ 90,000 \times \frac{2}{30} = ₹ 6,000; \text{ and}$$

$$C \text{ will be debited on account of goodwill} = ₹ 90,000 \times \frac{1}{6} = ₹ 15,000$$

Answer :12

(i) If Guarantee is given by firm

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

Particulars	₹	Particulars	₹
To P's Capital A/c (3/5 of ₹ 1,30,00,000)	78,00,000	By Profit and Loss A/c	1,80,00,000
To Q's Capital A/c (2/5 of ₹ 1,30,00,000)	52,00,000		
To R's Capital A/c (1/6 of ₹ 1,80,00,000 or ₹ 50,00,000 whichever is more	50,00,000		
	1,80,00,000		1,80,00,000

(ii) If Guarantee is given by P and Qequally

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

Particulars		₹	Particulars	₹
To P's Capital A/c (3/6 of ₹ 1,80,00,000)	90,00,000		By Profit and Loss, A/c (net profits)	1,80,00,000
Less: Deficiency borne for R (1/2 of 20,00,000)	<u>(10,00,000)</u>	80,00,000		
To Q's Capital A/c (2/6 of ₹ 1,80,00,000)	60,00,000			
Less: Deficiency borne for R (1/2 of 20,00,000)	<u>(10,00,000)</u>	50,00,000		
To R's Capital A/c (1/6 of ₹ 1,80,00,000)	30,00,000			
Add: Deficiency Recovery from P	10,00,000			
Add: Deficiency Recovery from Q	<u>10,00,000</u>	50,00,000		
		1,80,00,000		1,80,00,000

Answer :13

Revaluation Account

	₹		₹
To Plant & Machinery (3,40,000 x15%)	51,000	By Land & Building A/c	3,04,000
To Provision for Bad & Doubtful Debts (1,20,000 x5%)	6,000		
To Outstanding Repairs to Building	12,000		
To Albert's Capital A/c (5/8)	1,46,875		
To Andrew's Capital A/c (3/8)	88,125		
	3,04,000		3,04,000

Capital Accounts of Partners

	Albert	Andre	David		Albert	Andre	David
To Albert's Capital A/c	-	-	40,000	By Balance b/d	8,20,000	6,60,000	-
To Andrew's Capital A/c			24,000	By Revaluation A/c	1,46,875	88,125	-
To Andrew's Current A/c	-	1,36,125		By Profit & Loss A/c	1,40,000	84,000	-
To Balance c/d	12,00,000	7,20,000	4,80,000	By Bank			5,44,000
				By David's Capital A/c	40,000	24,000	
				By Albert's Current A/c	53,125		
	12,00,000	8,56,125	5,44,000		12,00,000	8,56,125	5,44,000

Calculation of New Profit Sharing Ratio and gaining ratio:

David's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

Albert's Share = $5/8 \times 4/5 = 20/40 = 5/10$

Andrew's Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Thomas & Associates as on 31.3.2024

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		10,64,000
Albert	12,00,000		Plant & Machinery	3,40,000	
Andrew	7,20,000		Less: Depreciation	<u>51,000</u>	2,89,000
David	<u>4,80,000</u>	24,00,000	Furniture		2,18,960
Andrew's Current A/c		1,36,125	Stock		2,90,520
Trade Creditors		1,09,600	Sundry Debtors	1,20,000	
Outstanding		12,000	Less: Provision	<u>6,000</u>	1,14,000
Repairs to Building					
			Cash at Bank		6,28,120
			Albert's current A/c		<u>53,125</u>
		<u>26,57,725</u>			<u>26,57,725</u>

Working Note:
Required Balance of Capital Accounts

David's Capital after writing off Goodwill = 5,44,000 - 64,000 = 4,80,000

David's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Albert's Capital = 24,00,000 x 5/10 = 12,00,000 and

Andrew's Capital = 24,00,000 x 3/10 = 7,20,000

Realisation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Land and building	2,46,000	By Sundry creditors	36,000
To Furniture and fixtures	65,000	By Mortgage loan	1,10,000
To Stock	1,00,000	By Cash account - Land and building	2,30,000
To Debtors	72,500	Furniture & fixtures	42,000
To Cash A/c (expenses on dissolution)	7,800	Stock	72,000
To Cash A/c (creditors ₹ 36,000 + ₹ 18,000)	54,000	Debtors	65,000
To Cash A/c (Mortgage loan)	1,10,000	By Partners' capital accounts (Loss 4:3:2:1)	
		P = 40,120	
		Q = 30,090	
		R = 20,060	
		S = <u>10,030</u>	
	6,55,300		1,00,300
			6,55,300


Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d	-	-	1,000	6,000	By Balance b/d	2,16,000	1,44,000		
To Realization A/c (Loss)	40,120	30,090	20,060	10,030	By Cash A/c (realization loss)	40,120	30,090	-	10,030
To R's Capital A/c (Deficiency)	12,636	8,424	-	-	By P's Capital A/c			12,636	
To Cash A/c	2,03,364	1,35,576	-	-	By Q's Capital A/c			8,424	
	2,56,120	1,74,090	21,060	16,030	By Cash A/c				6,000
						2,56,120	1,74,090	21,060	16,030

Note: P, Q and S brought cash to make good, their share of the loss on realization. However, in actual practice they will not be bringing any cash, only a notional entry will be made.

Cash Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	15,500	By Realization A/c:	
To Realization A/c:		Expenses on dissolution	7,800
Land and building	2,30,000	Creditors (36,000 + 18,000)	54,000
Furniture & fixtures	42,000	Mortgage loan	1,10,000
Stock	72,000	By P's capital A/c	2,03,364
Debtors	65,000	By Q's capital A/c	1,35,576
To P, Q, S's capital	80,240		
A/c's (Realisation Loss-)			
(40,120 + 30,090 + 10,030)			
To S's capital A/c	<u>6,000</u>		
	<u>5,10,740</u>		<u>5,10,740</u>

Working Note:

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of Capital Ratio of Solvent Partners

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216 : 144 = 3 : 2

Deficiency of R will be shared by P & Q in the capital ratio of 3 : 2 i.e.

$$P = ₹21,060 \times \frac{3}{5} = ₹12,636$$

$$Q = ₹21,060 \times \frac{2}{5} = ₹8,424$$

Answer :15

i) Journal Entry in the books of the M/s Krishna

Date	Particulars		Dr. ₹	Cr. ₹
April, 1 2024	Amit's Capital A/c	Dr.	3,000	
	Lalit's Capital A/c	Dr.	3,000	
	To Sumit's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts)			6,000

(ii) **Revaluation Account**

Particulars	₹	Particulars	₹
To Furniture A/c	3,000	By Machinery A/c	5,100
To Inventory A/c	1,200		
To Partners' Capital A/cs (Amit - ₹ 300, Lalit - ₹ 300, Sumit - ₹ 300)	900		
	5,100		5,100

Partners' Capital Account

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit (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 Amit (Goodwill)	-	-	3,000
				By Lalit (Goodwill)	-	-	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Balance Sheet M/s Krishna Bros after death of Sumit

Liabilities	₹	Assets	₹
Capital		Machinery	35,100
Amit	24,900	Furniture	13,800
Lalit	24,900	Fixture	12,600
Sumit's	30,300	Cash (9,000-6,000)	3,000
Executors A/c			
Trade payables	14,100	Inventories	4,500
		Trade receivables	27,000
		Less: Provision for Doubtful debts	<u>1,800</u>
	94,200		25,200
			94,200

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Lalit	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Answer :16

Joint Life Policy Account

		₹			₹
10th June, 2020	To Bank Account	3,000	31st Dec., 2020	By Profit and Loss A/c	3,000
10th June, 2021	To Bank Account	3,000	31st Dec., 2021	By Profit and Loss A/c	2,100
			31st Dec., 2021	By Balance c/d	900
		3,000			3,000
1st January, 2022	To Balance b/d	900	31st Dec., 2022	By Profit and Loss A/c	1,900
10th June, 2022	To Bank Account	3,000	31st Dec., 2022	By Balance c/d	2,000
		3,900			3,900
1st January, 2023	To Balance b/d	2,000	31st Dec., 2023	By Profit and Loss A/c	1,400
10th June, 2023	To Bank Account	3,000	31st Dec., 2023	By Balance c/d	3,600
		5,000			5,000
1st January, 2024	To Balance b/d	3,600	15th April, 2024	By Bank	3,600
		3,600			3,600

Computation of Goodwill of Mr.Nikhil

Average maintainable profits:		₹
Trading profit during	2020	2,40,000
	2021	2,16,000
	2023	3,00,000
		7,56,000
Less: Loss during	2022	(36,000)
Total		7,20,000
Average Profits (₹ 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ₹ 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative:	₹
Total profit (₹ 2,40,000+₹ 2,16,000+₹ 3,00,000-₹ 36,000) =	7,20,000
Normal Profit (11% on capital employed of ₹ 9,00,000) =	(99,000)
Remuneration for the proprietor =	<u>(36,000)</u>
	(1,35,000)
Average Profits (₹ 7,20,000 / 4)	<u>1,80,000</u>
Super Profit	45,000
Goodwill at 6 year's purchase of Super Profit =	2,70,000

Answer :18

Revaluation A/c

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	2,000		
To Trade Creditors	4,000		
To P's Capital A/c (5/8)	73,438		
To Q's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners Capital A/c

	P	Q	R		P	Q	R
To P's Capital A/c	-	-	20,000	By KA Balance b/d	4,10,000	3,30,000	-
To Q's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Q's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By R's Capital A/c	20,000	12,000	-
				By P's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

$$R's \text{ Share of Profit} = 1/5 = 2/10$$

$$\text{Remaining Share} = 1 - 1/5 = 4/5$$

$$P's \text{ Share} = 5/8 \times 4/5 = 20/40 = 5/10$$

$$Q's \text{ Share} = 3/8 \times 4/5 = 12/40 = 3/10$$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of M/s Dutch and Associates as on 31.3.2024

Liabilities		₹	Assets		₹
Capital Accounts:			Land &	3,80,000	
			Buildings		
			Add:		
			Appreciation	<u>1,52,000</u>	5,32,000
P	6,00,000		Plant &	1,70,000	
			Machinery		
Q	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
R	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
Q's Current A/c		68,062	Stock		1,45,260
Trade Creditors		58,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		2,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			P's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

R's Capital after writing off Goodwill = 2,72,000 - 32,000 = 2,40,000

R's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

P's Capital = 12,00,000 x 5/10 = 6,00,000 and

Q's Capital = 12,00,000 x 3/10 = 3,60,000

Answer :19

Realisation Account

<i>Particulars</i>	Amount (₹)	Amount (₹)	<i>Particulars</i>	Amount (₹)	Amount (₹)
To Sundry Assets:			By Creditors		1,24,000
Debtors	1,56,000		By Employee's Provident Fund		60,000
Stock	55,800		By Bank A/c:		
Furniture	1,05,000		Land and Building	5,25,000	
Plant & Machinery	1,88,000		Debtors	1,47,000	
Land and Building	4,85,000	9,89,800	Stock	60,000	
To Bank-Creditors: (W.No.1)		95,000	Machinery	1,70,000	
To Bank A/c o/s bill for repairs		3,500	Unrecorded Investment	30,000	9,32,000
To Bank A/c (expenses)		18,700	By P's Capital A/C		75,000
To Bank (Employee Provident Fund)		60,000			
To Profit transferred to:					
P's Capital A/c	12,000				
Q's Capital A/c	8,000				
R's Capital A/c	4,000	24,000			
		11,91,000			11,91,000

Partner's Capital Accounts

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Realisation	75,000			By Bal. b/d	3,55,000	2,20,000	1,25,000
A/c - Furniture							
To Bank	3,67,000	2,78,000	1,54,000	By Gen. Reserve	75,000	50,000	25,000
				By Realisation Profit	12,000	8,000	4,000
	4,42,000	2,78,000	1,54,000		4,42,000	2,78,000	1,54,000

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	44,200	By Realisation A/c:	
To Realisation A/c (Assets realized)	9,32,000	(Liabilities Paid)	1,77,200
		By P's Capital A/c	3,67,000
		By Q's Capital A/c	2,78,000
		By R's Capital A/c	1,54,000
	9,76,200		9,76,200

Working Note 1:

Payment to Trade Creditors:

Particulars	Amount (₹)
Trade creditors as per Balance sheet	1,24,000
Less: Furniture (Book Value ₹ 25,000 accepted at ₹ 24,000)	24,000
	1,00,000
Less: Discount @ 5% Amount	5,000
Paid to Creditors	95,000

Answer :20

Revaluation Account

Particulars	₹	Particulars	₹
To Machinery A/c	14,300	By Building A/c	50,000
To Furniture A/c	5,000	By Investments	800
To Provision for Doubtful Debts	8,200		
To Inventories	900		
To Partner's capital A/c:			
(Profit on revaluation)			
Anu (5/8) 14,000			
Manu (3/8) 8,400	22,400		
	50,800		50,800

Partner's Capital Accounts

Particulars	Anu (₹)	Manu (₹)	Ranu (₹)	Particulars	Anu (₹)	Manu (₹)	Ranu (₹)
To Bal c/d.	3,20,250	2,74,150	1,00,000	By Bal. b/d	2,80,000	2,50,000	
				By Profit on Revaluation	14,000	8,400	
				By Bank (Capital)	-	-	1,00,000
				By Bank (Goodwill)	26,250	15,750	-
			—				
	3,20,250	2,74,150	1,00,000		3,20,250	2,74,150	1,00,000

Balance Sheet (after admission of Ranu) as on 1st April, 2024

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	4,30,000
Anu	3,20,250		Machinery	1,28,700
Manu	2,74,150		Furniture	80,000
Ranu	<u>1,00,000</u>	6,94,400	Trade Receivable	1,55,800
Long term loan		2,00,000	Inventories	47,500
Trade Payable		1,19,500	Investments	16,000
Outstanding liabilities		16,200	Cash and Bank	1,72,100
		<u>10,30,100</u>		<u>10,30,100</u>

Working Notes:

1. Calculation of Goodwill:

$$\text{Average profit} = \frac{87,000 + 1,06,000 + 1,22,000}{3} = ₹ 1,05,000$$

$$\text{Two years' purchase of average profits} = 1,05,000 \times 2 = ₹ 2,10,000$$

$$\text{Goodwill to be brought in by Ranu} = ₹ 2,10,000 \times \frac{2}{10} = ₹ 42,000$$

2. Calculation of Sacrificing Ratio = Old- New Ratio

$$\text{Anu} = 5/8 - 5/10 = 5/40$$

$$\text{Manu} = 3/8 - 3/10 = 3/40$$

Goodwill brought in by Ranu shared (at the profit sacrificing ratio) by:

	₹
Anu (₹ 42,000 x 5/8)	26,250
Manu (₹ 42,000 x 3/8)	15,750
	42,000

3. Bank balance after admission of Ranu:

Bank Account

Particulars	₹	Particulars	₹
To bal. b/d	30,100	By Balance c/d	1,72,100
To Anu's Capital A/c	26,250		
To Manu's Capital A/c	15,750		
To Ranu's capital A/c	1,00,000		
	1,72,100		1,72,100

Alternatively, goodwill can also be calculated on the basis of weighted average profit, since the profit of the firm is on increasing trend.

Answer :21

Revaluation A/c

Liabilities	₹	Assets	₹
To Provision for Doubtful Debts	1,500	By Land and Building	5,000
To Profit on revaluation		By stock	3,500
Krish 4,200			
Bala <u>2,800</u>	7,000		
	8,500		8,500

Partners' Capital A/c

Particulars	Krish	Bala	Sobha	Particulars	Krish	Bala	Sobha
To Krish and Bala's capital			12,000	By balance b/d	25,000	15,000	
A/c-				By Bank- (Capital + GW)			37,000
To Balance c/d	53,200	33,800	25,000	By Sobha's Capital A/c	7,200	4,800	
				By General Reserve	15,600	10,400	
				By Workman comp. Reserve	1,200	800	
				By Revaluation A/c	4,200	2,800	
	53,200	35,400	37,000		53,200	33,800	37,000

Balance Sheet of the Firm (after admission of Sobha)

Liabilities	₹	Assets	₹
Capital Accounts:		Land and Building	33,000
Krish	53,200	Plant & Machinery	15,000
Bala	33,800	Stock	13,500
Sobha	<u>25,000</u>	Debtors	25,000
	1,12,000	Less: Provision for Doubtful	
Employees provident fund	8,000	Debts	<u>5,500</u>
workman compensation Reserve	8,000	Bank (W.N.2)	57,000
Creditors	10,000		
	<u>1,38,000</u>		<u>1,38,000</u>

Working Note:

(1) Calculation of Sacrificing ratio

Partner	Old Share		New Share		Difference
Krish	3/5	-	3/6	=	3/30
Bala	2/5	-	2/6	=	2/30
Sobha		-	1/6		

(2) Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	20,000	By Balance c/d	57,000
To Sobha's capital A/c	37,000		
	57,000		57,000

Answer :22

(i) Entries for the treatment of goodwill

Total goodwill of firm is ₹ 60,000

Z's share $(1/6 \times ₹ 60,000) = ₹ 10,000$

(a) X's Capital A/c	Dr.	6,000	Y's	
Capital A/c	Dr.	4,000		
Z's Capital A/c	Dr.	2,000		
				To Goodwill A/c
				12,000

(Being existing goodwill written off)

(b) X's Capital A/c	Dr.	6,000	Y's	
Capital A/c	Dr.	4,000		
				To Z's Capital A/c
				10,000

(Being Z's share of goodwill credited to him and debited to gaining partners in gaining ratio)



(ii) Revaluation Account

	₹		₹
To Patents A/c	6,000	By employee provident fund A/c	6,000
To Machinery A/c	6,000	By Investments A/c By	
To Provision for	1,000	Revaluation Loss	2,600
Bad Debts A/c		Partners' Capital A/cs -	10,400
To workmen's compensation*	6,000	X	5,200
		Y	3,467
		Z	1,733
	19,000		19,000

(iii) Partners' Capital Account

		X (₹)	Y (₹)	Z (₹)		X (₹)	Y (₹)	Z (₹)	
To	Goodwill	6,000	4,000	2,000	By	Balance b/d	78,000	42,000	31,000
To	Revaluation	5,200	3,467	1,733	By	Investment	3,000	2,000	1,000
To	A/c			27,600	By	Fluctuation Fund			
	Investments				By	X's Capital A/c			6,000
To	Z's Capital	6,000	4,000		By	Y's Capital A/c			4,000
To	A/c			5,334					
To	Bank A/c			2,667					
	Z's Loan A/c								
To	Bills			2,666					
	Payable A/c								
To	Balance c/d	63,800	32,533						
		81,000	44,000	42,000		81,000	44,000	42,000	

(iv) Balance Sheet as on 1st April, 2024

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Patent		24,000
X	63,800		Machinery		54,000
Y	32,533	96,333	Closing stock		30,650
Z's loan account		2,666	Sundry debtors	50,000	
Trade creditors		31,000	Less: Provision for	(5,000)	45,000
Bills payable		2,667	bad debts		
Workman			Cash and bank		3,016
compensation		18,000	Balances		
Employee Provident		6,000			
Fund					
		1,56,666			1,56,666

Working Notes:

1. Gaining ratio of existing partners:

$$X \frac{3}{5} - \frac{3}{6} = \frac{3}{30}$$

$$Y \frac{2}{5} - \frac{2}{6} = \frac{2}{30}$$

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CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 11 – COMPANY ACCOUNTS

Q1 Face Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31 March, 2023:

Particulars	₹	₹
Shareholder's fund		
(a) Authorized Share Capital 90,000 equity shares of ₹10 each fully paid up		9,00,000
Issued, Subscribed & Paid up 60,000 equity shares of ₹10 each fully paid up		6,00,000
(b) Reserve and Surplus		
Profit & Loss Account	3,24,000	
Debenture redemption reserve	<u>36,000</u>	3,60,000
Non-current liabilities		
(a) Long term borrowings		
(b) 12% Debentures		3,60,000
Current Liabilities		
(a) Trade Payable		3,45,000
Total		16,65,000
Non-current Assets		
(a) Property, Plant and Equipment	3,45,000	
(b) Non-current Investments (DRR Investment)	<u>54,000</u>	3,99,000
Current Assets		
(a) Inventories	4,05,000	
(b) Trade Receivables	2,25,000	
(c) Cash in Hand	90,000	
(d) Cash at Bank	<u>5,46,000</u>	12,66,000
Total		16,65,000

At the AGM on 01.04.2023, it was resolved:

- To give existing equity shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Q2 Avent Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2023. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

- i) ₹ 2 per share payable on application, to be received by 31st May, 2023;
- ii) Allotment to be made on 10th June, 2023 and a further ₹ 5 per share (including the premium to be payable);
- iii) The final call for the balance to be made, and the money received by 31st December, 2023.

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 Avent Limited.

Q3 Following notes pertain to the Balance Sheet of Verma Ltd. as at 31st March, 2023

	₹
Share capital:	
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹10 each	<u>30,00,000</u>
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paidup	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium(collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Preference dividend for the year 2022-2023 has already been paid by the entity.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue.

Q4 Woodland Mills Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i)	On Application	₹ 1 per share
(ii)	On Allotment	₹ 2 per share
(iii)	On First call	₹ 3 per share
(iv)	On Second and final Call	₹ 4 per share

The issue was fully subscribed. Amar to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Kabir to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Dilip to whom 50 shares were allotted failed to pay the second and final call.

His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Woodland Mills Ltd.

Q5 Amar Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation.

Q6 Following is the extract of the Balance Sheet of Puri Ltd. as at 31st March, 2024

Authorised capital:	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹10 each	<u>15,00,000</u>
	<u>16,50,000</u>
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paidup	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Reserve (profit realized on sale of plant)	60,000
Securities premium	37,500
Profit and Loss Account	3,00,000

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2024 after bonus issue.

Q7 Devis Ltd. invited applications for issuing 3,00,000 equity shares of ₹ 20 each.

The amounts were payable as follows:

On application	- ₹ 6 per share
On allotment	- ₹ 10 per share
On first and final call	- ₹ 4 per share

Applications were received for 4,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 9,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 7,500 shares were reissued as fully paid-up @ ₹ 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Devis Ltd.

Q8 On 1st April, 2023 Universe Ltd. issued 12% debentures of the face value of ₹ 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th September and 31st March every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the financial year 2023-24.

Q9 Safari Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2024:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹ 10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of ₹ 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2024, it was resolved:

- To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Q10 X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of X Limited.

Q11 The following notes pertain to Snowberry Ltd.'s Balance Sheet as on 31st March, 2024:

Notes	₹in Lakhs
1. Share Capital Authorised :	
20 crore shares of ₹ 10 each	<u>20,000</u>
Issued and Subscribed:	
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and paidup:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000
2. Reserves and Surplus:	
Capital Reserve (profit on fixed assets realized in cash)	485
Capital Redemption	1,000
Reserve Securities Premium	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2024, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2024.

On 1st June 2024, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the

maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Q12 Give necessary journal entries for the forfeiture and re-issue of shares:

- i) Gama Pvt. Ltd. forfeited 9,000 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Katen for ₹ 8 per share.
- ii) Mr. Y, who was the holder of 10,000 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 8,000 of such shares to Mr. Z at ₹ 60 per share paid-up as ₹ 70 per share.

Q13 Given below are the extracts of Balance Sheet of Shell Chemicals Limited as on 31st March, 2024:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arrears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:

- Preference Shares are of 100 each fully-called, due for immediate redemption.
- Calls-in-arrears are on account of final call on 1000 Preference shares held by four members whose whereabouts are not known.
- Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries to give effect to the above redemption.

Q14 Following is the extract of the Balance Sheet of Substance Ltd. as at 31st March, 2024

Authorised capital:	₹
45,000 12% Preference shares of ₹ 10 each	4,50,000
4,50,000 Equity shares of ₹ 10 each	<u>45,00,000</u>
	<u>49,50,000</u>
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paidup	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Reserve(profit realized on sale of plant)	1,80,000
Securities premium	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2024 after bonus issue.

Q15 X Limited issued 2,00,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. P who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 2,000 shares and one another shareholder having 1,000 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. P. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation.

Q16 The books of Rishab Ltd. showed the following balance on 31st December, 2024:

60,000 Equity Shares of ₹ 10 each fully paid; 36,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2024).

Undistributed Reserve and Surplus stood as: Profit and Loss Account

₹ 1,60,000; General Reserve ₹ 2,40,000; Securities Premium Account ₹ 30,000 and Capital Reserve ₹ 42,000.

For redemption, 6,000 equity shares of ₹10 each are issued at 10% premium. At the same time, 12% Preference shares are redeemed on 1st January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 200 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column)

Q17 Samuel Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application - ₹ 3 per share

On Allotment - ₹ 5 per share (including premium)

On First and Final Call - ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of Samuel Ltd. Open call in arrears account whenever required.

Q18 The following is the abstract of Balance Sheet Happy Ltd. as on 31st March,2024:

	₹
Issued and paid up capital	
90,000 Equity shares of ₹ 10 each fully paid-up 9,00,000	
Less: Calls-in-arrear (10,000 Equity shares of ₹ 2 each) <u>20,000</u>	8,80,000
40,000 Equity shares of ₹ 10 each, ₹ 4 cash paid up	1,60,000
<u>Reserves and Surplus:</u>	
Capital Reserve (realized in cash)	60,000
Capital Redemption Reserve	1,60,000
Securities Premium	1,00,000
General Reserve	1,20,000
Profit and Loss Account	7,00,000

On 1st April, 2024. The company makes final call @ 6 each on 40000 equity shares. The call money is duly received by 30th April,2024.

On 1st May,2024 the Board of Directors of the company decided:

- i) To forfeit the share on which final call of ₹ 2 each is due:
- ii) To re- issue the forfeited share @₹ 11 each as fully paid up:
- iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and
- iv) To use minimum balance of Profit and Loss Account.

Pass necessary journal entries in the books of the company on the basis of the above decisions.

Q19 The following balances appeared in the Books of Mac Ltd. as on 31st December, 2023:

	Amount (₹)
80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	60,00,000
2,00,000 Equity share of ₹ 100 each fully paid up	2,00,00,000
Securities Premium	6,50,000
Capital Redemption Reserve	42,00,000
General Reserve	85,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including

premium) on allotment and the balance on 1st August, 2024. The issue was fully subscribed and the allotment made on 1st March,2024. The amount due on allotment was duly received by 25th March,2024.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal.

- Q20** XYZ Ltd. an unlisted company issued 6000, 12% debentures of ₹ 100 each at a discount of 5% on 01.04.2021. Interest is payable annually on 31st March every year. The debentures are redeemable at premium of 10% in 3 equal annual installments beginning from 31.03.2022. The company invested in specified securities for the redemption of debentures. Entire loss on issue to be booked in the 1st year. You are required to pass journal entries for all the 3 years.
- Q21** P Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and the balance in two calls of equal amount. Applications were received for 8,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Harish to whom 1600 shares were allotted failed to pay both calls and his shares were subsequently forfeited after second call. You are required to pass journal entries in the books of P Limited and prepare bank account.



SOLUTIONS

Answer :1

Sr. No.	Particulars		Dr (₹)	Cr (₹)
(i)	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being 15,000 Equity Shares Issued at a premium of ₹ 5)	Dr.	2,25,000	1,50,000 75,000
(ii)	Securities Premium A/c Profit & Loss A/c To Bonus to Equity Shareholders A/c (Being amount transferred for issue of Bonus Shares to ESH in the ratio of 1:5)	Dr Dr	75,000 75,000	1,50,000
(iii)	Bonus to Equity Shareholders A/c To Equity Share Capital A/c (Being bonus shares issued)	Dr.	1,50,000	1,50,000
(iv)	12% Debentures A/c Premium on Redemption A/c To Debenture Holders A/c (Being amount payable to debenture holders)	Dr Dr	3,60,000 10,800	3,70,800
(v)	Profit & Loss A/c To Premium on Redemption A/c (Being premium on redemption transferred to P&L)	Dr	10,800	10,800
(vi)	Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve)	Dr	36,000	36,000
(vii)	Bank A/c To DRR Investment A/c (Being DRR Investment sold)	Dr	54,000	54,000
(viii)	Debenture Holders A/c To Bank A/c (Being Debenture Holders paid)		3,70,800	3,70,800

Answer : 2

Journal of Avent Limited

Date	Particulars		Dr. ₹	Cr. ₹
2023				
May 31	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share)	Dr.	11,20,000	11,20,000
June 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1– Column 6) (Being application money on 1,35,000 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 @ ₹ 5 each including premium at ₹ 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 @ ₹ 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 @ ₹ 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) X ₹2
(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹2

Answer :3

Journal Entries in the books of Verma Ltd.

		₹	₹
1-4-2023	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)	5,40,000	5,40,000
20-4-2023	Bank A/c Dr. To Equity share final call A/c (For final call money on 2,70,000 equity shares received)	5,40,000	5,40,000
	Securities Premium A/c Dr. Capital Redemption Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.)	75,000 1,20,000 3,60,000 1,20,000	
	To Bonus to equity shareholders A/c (For making provision for bonus issue of one share for every four shares held)		6,75,000
	Bonus to equity shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares)	6,75,000	6,75,000

Extract of Balance Sheet as at 30th April, 2023 (after bonus issue)

		₹
Share Capital		
Authorised Capital		
30,000 12% Preference shares of ₹ 10 each		3,00,000
3,37,500 Equity shares of ₹ 10 each (refer working note below)		<u>33,75,000</u>
Issued and subscribed capital		
24,000 12% Preference shares of ₹ 10 each, fully paid		2,40,000
3,37,750 Equity shares of ₹ 10 each, fully paid (Out of above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus)		33,75,000
Reserves and surplus		
Securities Premium	75,000	
Less: Utilised for bonus issue	<u>(75,000)</u>	NIL
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	<u>(3,60,000)</u>	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	4,80,000

Working Notes:

- Number of Bonus shares to be issued- ₹
(2,70,000 shares / 4) X 1 = 67,500 shares
- The authorised capital should be increased as per details given below:

Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	<u>6,75,000</u>
	<u>33,75,000</u>

In the books of Woodland Mills Ltd. Journal Entries

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000 shares @ ₹ 1 per share)		10,000	10,000
Equity Share Application A/c To Equity Share Capital A/c Dr. (Transfer of application money on allotment of 10,000 shares)		10,000	10,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)		20,000	20,000
Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received on 9,900 shares)		19,800	19,800
OR			
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share Allotment A/c (Allotment Amount received except 100 shares)		19,800 200	20,000
Equity Share Capital A/c Dr. To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Amar forfeited)		300	100 200
OR			
Equity Share Capital A/c Dr. To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non- payment of allotment money)		300	100 200
Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call made due on 9,900 shares at ₹3 per share)		29,700	29,700
Bank A/c Dr. To Equity Share First Call A/c (First call money received on 9,750 shares at ₹3 per share)		29,250	29,250

OR			
Bank A/c	Dr.	29,250	
Calls in arrears A/c	Dr.	450	
To Equity Share First Call A/c			29,700
(First Call money received except 150 shares)			
Equity Share Capital A/c	Dr.	900	
To Share Forfeiture A/c			450
To Equity Share First Call A/c	Dr.	450	
(150 Shares of Kabir forfeited)			
OR			
Equity Share Capital A/c		900	
To Share Forfeiture A/c			450
To Calls in arrears A/c			450
(150 shares forfeited due to non - payment of First call money)			
Equity Share Second and Final Call A/c	Dr.	39,000	
To Equity Share Capital A/c			39,000
(Second and Final call made due on 9,750 shares at ₹4 per share)			
Bank A/c	Dr.	38,800	
To Equity Share Second and Final Call A/c			38,800
(Second and Final call money received on 9,700 shares at ₹ 4 per share)			
OR			
Bank A/c	Dr.	38,800	
Calls in arrears A/c	Dr.	200	
To Equity Shares Second and Final call A/c			39,000
(Second and Final call money received except 50 shares)			
Equity Share Capital A/c	Dr.	500	
To Share Forfeiture A/c			300
To Equity Share Second and Final Call A/c			200
(50 Shares of Dilip forfeited)			
OR			
Equity Share Capital A/c	Dr.	500	
To Shares Forfeiture A/c			300
To Calls in arrears A/c			200
(50 shares forfeited due to non- payment of Second and final call money)			
Bank A/c	Dr.	2,700	
Share Forfeiture A/c	Dr.	300	
To Equity Share Capital A/c			

(300 shares reissued at ₹ 9 per share)			3,000
Share Forfeiture A/c To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)	Dr.	550	550

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Amar forfeited	₹100
Surplus out of 150 shares of Kabir forfeited	₹450
Surplus out of 50 shares of Dilip forfeited	<u>₹300</u>
	₹850
Less: Loss on re-issue of shares	<u>₹300</u>
Transferred to Capital Reserve	<u>₹550</u>

Answer :5

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per share)	Dr.	40,000	40,000
2	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)	Dr.	40,000	40,000
3	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹ 1 per share)	Dr.	80,000	60,000 20,000
4	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	80,000	80,000
5	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
6	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per	Dr.	46,000	40,000 6,000

	share)			
7	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹3 each)	Dr.	60,000	60,000
8	Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)	Dr. Dr. Dr.	53,100 6,000 900	60,000
9	Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)	Dr.	240	240
10	Shareholders A/c To Bank A/c (Being payment of interest made to shareholder)	Dr.	240	240
11	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.	15	15
12	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)	Dr.	615	600 15
13	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.	10	10
14	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 100 share for calls in arrears and interest thereupon)	Dr.	310	300 10

Calculation of Interest on Calls in Advance & Calls in Arrears: Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240 Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act, 2013 prescribes 10% and 12% p.a. as the maximum rates respectively for

calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

Answer :6

Journal Entries in the books of PuriLtd.

		₹	₹
1-4-2024	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)	2,70,000	2,70,000
20-4-2024	Bank A/c Dr. To Equity share final call A/c (For final call money on 1,35,000 equity shares received)	2,70,000	2,70,000
	Securities Premium A/c Dr. Capital Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	37,500 60,000 1,80,000 60,000	3,37,500
	Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares)	3,37,500	3,37,500

Extract of Balance Sheet as at 30th April, 2024 (after bonus issue)

	₹
Authorised Capital	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,83,750 Equity shares of ₹ 10 each (W.N.2)	<u>18,37,500</u>
Issued and subscribed capital	
12,000 12% Preference shares of ₹ 10 each, fully paid	1,20,000
1,68,750 Equity shares of ₹ 10 each, fully paid	16,87,500

(Out of above, 33,750 equity shares @ ₹ 10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

Working Notes:

The authorized capital should be increased as per details given below:	₹
Existing authorized Equity share capital	15,00,000
<i>Add:</i> Issue of bonus shares to equity shareholders (25% of ₹ 13,50,000)	<u>3,37,500</u>
	<u>18,37,500</u>

Answer :7

In the books of Devis Ltd.

Journal Entries

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 4,50,000 shares at ₹ 6 per share)	27,00,000	27,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c To Share allotment A/c (Being share allotment made for 3,00,000 shares and excess adjusted towards allotment)	27,00,000	18,00,000 9,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 3,00,000 equity shares at ₹ 10 per share as per Directors' resolution no... dated...)	30,00,000	30,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Being balance allotment money received for 3,00,000 shares)	21,00,000	21,00,000

Equity Share first and final call A/c To Equity Share Capital A/c (Being first and final call amount due on 3,00,000 equity shares at ₹ 4 per share as per Directors' resolution no... dated...)	Dr.	12,00,000	
Bank A/c Calls in arrears A/c To Equity Share first and final call A/c (Being final call received on 2,91,000 shares)	Dr.	11,64,000 36,000	12,00,000
Share capital A/c (9,000 x ₹ 20) To Forfeited shares A/c (9,000 x ₹ 16) To Calls in arrears A/c (9,000 x ₹ 4) (Being forfeiture of 9,000 shares of ₹ 20 each fully called-up for non payment of first and final call @ ₹ 4 as per Directors' resolution no... dated..)	Dr.	1,80,000	1,44,000 36,000
Bank A/c (7,500 x ₹ 16) Forfeited shares A/c (7,500 x ₹ 4) To Equity Share Capital A/c (7,500 x ₹ 20) (Being re-issue of 7,500 shares @ ₹ 16)	Dr.	1,20,000 30,000	1,50,000
Forfeited share A/c (7,500 x ₹ 12) To capital reserve A/c (7,500 x ₹ 12) (Being profit on re-issue transferred to capital reserve)		90,000	90,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c

Forfeited amount per share	= 1,44,000/9,000	=	₹ 16
Loss on re issue (20-16)			<u>₹ 4</u>
Surplus per share			12
Transfer to capital reserve	= ₹ 12 x 7,500	=	₹ 90,000

Answer :8
In the Books of Universe Limited Journal Entries

			Dr. (₹)	Cr. (₹)
1-4-2023	Bank A/c	Dr.	36,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	6,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			
30-9-2023	Debenture Interest A/c	Dr.	2,40,000	
	To Debenture holders A/c			2,16,000
	To Tax Deducted at Source A/c			24,000
	(For interest payable)			
30-9-2023	Debenture holders A/c	Dr.	2,16,000	
	Tax Deducted at Source A/c	Dr.	24,000	
	To Bank A/c			2,40,000
	(For payment of interest and TDS)			
31-3-2024	Debenture Interest A/c	Dr.	2,40,000	
	To Debenture holders A/c			2,16,000
	To Tax Deducted at Source A/c (For interest payable)			24,000
31-3-2024	Debenture holders A/c	Dr.	2,16,000	
	Tax Deducted at Source A/c	Dr.	24,000	
	To Bank A/c			2,40,000
	(For payment of interest and tax)			
31-3-2024	Profit and Loss A/c	Dr.	4,80,000	
	To Debenture Interest A/c			4,80,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
31-3-2024	Profit and Loss A/c	Dr.	1,20,000	
	To Discount/Loss on issue of debenture A/c			1,20,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 6,00,000 x 1/5)			

Journal Entries in the Books of Safari Ltd.

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated...)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	

To General Reserve (For DRR transferred to general reserve)			18,000
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment (for DRR Investment realised)			27,000
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c (Amount paid to debenture holders on redemption)			1,85,400

Answer :10

			<i>Dr.</i> ₹	<i>Cr.</i> ₹
1	Bank A/c To Share Application & Allotment A/c (Being Application money on 3,00,000 shares at ₹ 9 per share received.)	Dr.	27,00,000	27,00,000
2	Share Application & Allotment A/c To Share Capital A/c (75,000 x ₹ 4) To Securities premium A/c (75,000 x ₹ 5) To Bank A/c (2,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred)	Dr.	27,00,000	3,00,000 3,75,000 18,00,000 2,25,000
3	Share First & Final Call A/c (75,000 x6) To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)	Dr.	4,50,000	4,50,000
4	Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.)	Dr. Dr.	2,21,625 3,375	2,25,000
5	Equity share capital A/c To Share forfeiture A/c To Calls in arrear A/c (Being 1,125 shares forfeited for non payment of final call.)	Dr.	11,250	7,875 3,375

6	Bank Account A/c (1,125 x ₹ 6) Share forfeiture A/c (1,125 x ₹ 4) To Share Capital A/c (1,125 x ₹ 10) (Being forfeited shares reissued at ₹ 4 discount)	Dr.	6,750 4,500	11,250
7	Share forfeiture A/c To Capital reserve A/c (Being share forfeiture transferred to capital reserve)		3,375	3,375

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money Transferred to Security Premium @ ₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call including excess appl. Money received	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	4,46,625	-
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

* ₹2,25,000 + ₹ 2,25,000 - ₹ 3,375.

2. Number of shares allotted to Mr. Raj = $1,500 \times 75,000 / 1,00,000 = 1,125$ shares

3. Calculation of calls in arrear

Application money received from Raj	(1,500 x 9)	13,500
Less: actual application money	1,125 x 9	<u>10,125</u>
Excess Application & Allotment Money Adjusted with first and final call		<u>3,375</u>
Final call due from Raj		6,750
Less: Adjusted with final call		<u>(3,375)</u>
Calls in arrear		<u>3,375</u>

Answer :11

Journal Entries in the books of SnowberryLtd.

2024		Dr. ₹ in lakhs	Cr. ₹ in lakhs
April 2	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 2 per share on 10 crore equity shares made due)	2,000	2,000
	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 10 crore equity shares received)	2,000	2,000
June 1	Capital Redemption Reserve A/c Securities Dr. Premium A/c Dr. Capital Reserve A/c General ReserveA/c Dr. To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, byutilising various reserves as per Board's resolution dated.....)	1,000 2,000 485 515	4,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalisation of profit)	4,000	4,000

Notes to Accounts

		₹ in lakhs
1.	Share Capital	
	Authorised share capital 20 crore shares of ₹ 10 each	<u>20,000</u>
	Issued, subscribed and fully paid up share capital 14 crore Equity shares of ₹ 10 each, fully paid up (Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)	14,000
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up	<u>2,000</u>
		<u>16,000</u>
2.	Reserves and Surplus	
	Capital Reserves	485
	Less: Utilized for bonus issue	(485)
		-

Capital Redemption reserve	1,000	
<i>Less: Utilized for bonus issue</i>	<u>(1,000)</u>	-
Securities Premium	2,000	
<i>Less: Utilized for bonus issue</i>	<u>(2,000)</u>	-
General Reserve	1,040	
<i>Less: Utilized for bonus issue</i>	<u>(515)</u>	525
Surplus (Profit and Loss Account)		<u>273</u>
Total		<u>798</u>

Answer :12

i) Journal Entries in the books of Gama Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (9000 x ₹ 3) To Equity Share Final Call A/c (9000 x ₹ 4) To Forfeited Shares A/c (9000 x ₹ 3) (Being the forfeiture of 9000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.....dated.....)	Dr.	90,000	27,000 36,000 27,000
(b)	Bank A/c (9,000 x 8) Forfeited Shares A/c (9,000x2) To Equity Share Capital A/c (Being the re-issue of 9,000 forfeited shares @ ₹ 8 each as fully paid up to Katen as per Board's resolution No.....dated.....)	Dr. Dr.	72,000 18,000	90,000
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	9,000	9,000

(ii) **Journal Entries in the book of Mr. Y**

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (10,000 x ₹ 70) To Preference Share Allotment A/c (10,000 x ₹ 20) To Preference Share First Call A/c (10,000 x ₹ 20) To Forfeited Share A/c (Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated....)	Dr.	7,00,000	2,00,000 2,00,000 3,00,000
Bank A/c (8,000 x ₹ 60) Forfeited Shares A/c (8,000 x ₹ 10) To Preference Share Capital A/c (Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)	Dr. Dr.	4,80,000 80,000	5,60,000
Forfeited Shares A/c To Capital Reserve A/c (WN 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	1,60,000	1,60,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,00,000/10,000

₹ 30

Loss on re-issue = ₹ 70 - ₹ 60 =

₹ 10

Surplus per share re-issued

₹ 20

Transferred to capital Reserve ₹ 20 x 8,000 = ₹ 1,60,000

In the books of Shell chemicals Ltd.
Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c (W N)	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....)			
General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
To Preference Shareholders A/c			9,00,000
(For amount payable to preference shareholders)			
Preference Shareholders A/c	Dr.	9,00,000	
To Bank A/c			9,00,000
(For amount paid to preference shareholders)			

Working Note:
Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	<u>7,00,000</u>
	<u>2,00,000</u>
Therefore, number of shares to be issued = ₹ 2,00,000/ ₹ 10 = 20,000 shares.	

Answer :14

Journal Entries in the books of Substance Ltd.

			₹	₹
1-4-2024	Equity share final call A/c To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)	Dr.	8,10,000	8,10,000
20-4-2024	Bank A/c To Equity share final call A/c (For final call money on 4,05,000 equity shares received)	Dr.	8,10,000	8,10,000
	Securities Premium A/c Capital Reserve A/c General Reserve A/c Profit and Loss A/c To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	1,12,500 1,80,000 5,40,000 1,80,000	10,12,500
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	10,12,500	10,12,500

Extract of Balance Sheet as at 30th April, 2024 (after bonus issue)

	₹
Authorised Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
5,06,250 Equity shares of ₹ 10 each (W.N.)	<u>50,62,500</u>
Issued and subscribed capital	
36,000 12% Preference shares of ₹ 10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid (Out of above. 1.01.250 equity shares @ ₹ 10 each were issued by way of bonus)	50,62,500
Reserves and surplus	
Profit and Loss Account	7,20,000

W.N.: The authorised capital has been increased by sufficient number of shares. $(5,06,250 - 4,50,000) = 56,250$ shares

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c To Equity Share Application A/c (Money received on applications for 2,00,000 shares @ ₹ 2 per share)	Dr.	4,00,000	4,00,000
2	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)	Dr.	4,00,000	4,00,000
3	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share and Securities Premium @ ₹ 1 per share)	Dr.	8,00,000	6,00,000 2,00,000
4	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	800,000	800,000
5	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹2 per share)	Dr.	4,00,000	4,00,000
6	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 20,000 shares at ₹3 per share)	Dr.	4,60,000	4,00,000 60,000
7	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 2,00,000 shares at ₹3 each)	Dr.	6,00,000	6,00,000
8	Bank A/c	Dr.	53,1000	

	Calls in Advance A/c	Dr.	60,000	
	Calls in ArrearsA/c	Dr.	9,000	
	To Equity Share Final Call A/c			6,00,000
	(Being final call received for 1,77,000 shares, call in advance for 20,000 shares and calls in arrears on 3,000 shares adjusted)			
9	Interest on Calls in Advance A/c	Dr.	2,400	
	To ShareholdersA/c			2,400
	(Being interest made due on calls in advance of ₹60,000 at the rate of 12% p.a.)			
10	Shareholders A/c	Dr.	2,400	
	To Bank A/c			2,400
	(Being payment of interest made to shareholder)			
				
11	Shareholders A/c	Dr.	150	
	To Interest on Calls in Arrears A/c			150
	(Being interest on calls in arrears made for 2000 shares due at the rate of 10%)			
12	Bank A/c	Dr.	6,150	
	To Calls in Arrears A/c			6,000
	To ShareholdersA/c			150
	(Being money received from shareholder having 2,000 shares for calls in arrears and interestthereupon)			
13	Shareholders A/c	Dr.	100	
	To Interest on Calls in Arrears A/c			100
	(Being interest on calls in arrears made on 1,000 shares due at the rate of 10%)			
14	Bank A/c	Dr.	3,100	
	To Calls in Arrears A/c To ShareholdersA/c			3,000
	(Being money received from shareholder having 1,000 share for calls in arrears and interestthereupon)			100

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

Interest on Calls in Advance = ₹ 60,000 x 12% x 4 / 12 = ₹ 2,400

Interest on Calls in Arrears ₹6,000 x 10% x 3 / 12 = ₹150

Interest on Calls in Arrears ₹3,000 x 10% x 4 / 12 = ₹100

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly, these rates have been considered while passing the above entries,

Answer :16

In the books of Rishab Limited Journal Entries

Particulars	Dr. (₹)	Cr. (₹)
12% Redeemable Preference Share Capital A/c Dr.	3,60,000	
Premium on Redemption of Preference Shares A/c Dr.	72,000	
To Preference Shareholders A/c		4,32,000
(Being the amount payable on redemption of 36,000 12% Redeemable Preference Shares transferred to Shareholders Account)		
Preference Shareholders A/c Dr.	4,29,600	
To Bank A/c		4,29,600
(Being the amount paid on redemption of 35,800 preference shares)		
Bank A/c Dr.	66,000	
To Equity Shares Capital A/c		60,000
To Securities Premium A/c		6,000
(Being the issue of 6,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No..... Dated.....)		
General Reserve A/c Dr.	2,40,000	
Profit & Loss A/c Dr.	60,000	
To Capital Redemption Reserve A/c (Working Note)		3,00,000
(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)		
Capital Redemption Reserve A/c Dr.	2,40,000	
To Bonus to Shareholders A/c		2,40,000
(Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No..... dated...)		
Bonus to Shareholders A/c Dr.	2,40,000	

To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 24,000 equity shares of ₹ 10 each fully paid)		2,40,000
Profit & Loss A/c	Dr.	72,000
To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)		72,000

Working Note:

- (1) Partly paid-up preference shares cannot be redeemed.
- (2) Amount to be Transferred to Capital Redemption Reserve Account Face value of share to be redeemed ₹3,60,000
Less: Proceeds from fresh issue (excluding premium) (₹60,000)
₹3,00,000
- (3) No bonus shares on 6,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

Answer :17
In the books of Samuel Limited Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c (Note 1 – Column 3)	Dr.	10,80,000	
To Equity Share Application A/c (Being application money received on 3,60,000 shares @ ₹ 3 per share)			10,80,000
Equity Share Application A/c	Dr.	10,80,000	
To Equity Share Capital A/c			3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)			4,40,000
To Bank A/c (Note 1 – Column 6)			2,80,000
(Being application money on 1,20,000 shares transferred to Equity Share Capital Account; out of the excess application money received, ₹ 4,40,000 is adjusted towards allotment and ₹ 2,80,000 refunded as per Board's Resolution No.....dated...)			
Equity Share Allotment A/c	Dr.	6,00,000	
To Equity Share Capital A/c			3,60,000
To Securities Premium a/c			2,40,000
(Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹ 4 each as per Board's Resolution No.....dated....)			

Bank A/c (Note 1 – Column 8)	Dr.	1,60,000	
To Equity Share Allotment A/c (Being balance allotment money received)			1,60,000
Equity Share First and Final Call A/c	Dr.	4,80,000	
To Equity Share Capital A/c (Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board's Resolution No.....dated....)			4,80,000
Bank A/c	Dr.	4,78,640	
Calls in Arrears A/c	Dr.	1,360	
To Equity Share First and Final Call A/c (Being final call money on 1,19,660 shares @ ₹ 4 each received)			4,80,000
Equity Share Capital A/c	Dr.	3,400	
To Calls in Arrears A/c			1,360
To Forfeited Shares A/c			2,040
Being forfeiture of 340 equity shares for non- payment of call money as per Board's Resolution No.....dated)			
Bank A/c	Dr.	4,420	
To Equity Shares Capital A/c			3,400
To Securities Premium A/c			1,020
Being re-issue of 340 shares @ ₹ 13 each as per Board's Resolution No.....dated....)			
ForfeitedShares A/c	Dr	2,040	
To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)			2,040

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)
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x ₹3

(ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹3

Answer :18

Journal Entries in the books of Happy Ltd.

Date	Particulars		Debit ₹	Credit ₹
1-4-2024	Equity share final call A/c To Equity share capital A/c (Being final calls of ₹ 6 per share on 40,000 equity shares due as per Board's Resolution dated....)	Dr.	2,40,000	2,40,000
30-4-2024	Bank A/c To Equity share final call A/c (Being final call money on 40,000 equity shares received)	Dr.	2,40,000	2,40,000
1-5-2024	Equity Share Capital Account To Calls-in-Arrears A/c To Forfeited Shares A/c (Bring forfeiture of 10,000 Shares due to Non-Payment of Final Call of 2 per share)		1,00,000	20,000 80,000
1-5-2024	Bank A/c To Securities Premium A/c To Equity Share Capital A/c (Being re-issue of 10,000 forfeited shares at ₹ 11 each)	Dr.	1,10,000	10,000 1,00,000

1-5-2024	Forfeited Shares A/c	Dr.	80,000	
	To Capital Reserve A/c (Being the profit on re-issue transferred to Capital Reserve)			80,000
1-5-2024	Capital Reserve	Dr.	1,40,000	
	Securities Premium A/c	Dr.	1,10,000	
	Capital Redemption Reserve A/c	Dr.	1,60,000	
	General Reserve A/c	Dr.	1,20,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c (Being making provision for bonus issue of one share for every two shares held)			6,50,000
1-5-2024	Bonus to shareholders A/c	Dr.	6,50,000	
	To Equity share capital A/c (Being issue of bonus shares @ ₹ 10 per share)			6,50,000

Working Notes:

1. Number of Bonus shares to be issued - $(1,30,000 \text{ shares} / 2) \times 1 = 65,000 \text{ shares}$	₹
2. The authorised capital should be increased as per details given below:	
Existing issued Equity share capital (9,00,000 +4,00,000)	13,00,000
<i>Add:</i> Issue of bonus shares to equity shareholders	<u>6,50,000</u>
Total	<u>19,50,000</u>

Answer :19
Journal Entries In the books of Mac Ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c To 10% Preference Share Capital A/c (Being final call made on preference shares @ ₹ 25 each to make them fully paid up)	Dr.	20,00,000	20,00,000
Bank A/c To 10% Preference Share Final Call A/c (Being receipt of final call money on preference shares)	Dr.	20,00,000	20,00,000
Bank A/c To Equity Share Application A/c (Being receipt of application money on 60,000 equity shares @ ₹ 25 per share)	Dr.	15,00,000	15,00,000
Equity Share Application A/c To Equity Share Capital A/c (Being capitalization of application money received)	Dr.	15,00,000	15,00,000
Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment money due on 60,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)	Dr.	27,00,000	21,00,000 6,00,000
Bank A/c To Equity Share Allotment A/c (Being receipt of allotment money on equity shares)	Dr.	27,00,000	27,00,000
General Reserve A/c To Capital Redemption Reserve A/c (Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 80,00,000 - 15,00,000 - 21,00,000)	Dr.	44,00,000	44,00,000
10% Preference Share Capital A/c	Dr.	80,00,000	

Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium)	Dr.	4,00,000	84,00,000
Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	84,00,000	84,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	4,00,000	4,00,000

Notes to Accounts:

		₹	
1	Share Capital: Equity Share Capital Issued, Subscribed & Paid Up: 2,00,000 Equity Shares of ₹ 100 each fully paid up 60,000 Equity Shares of ₹ 100 each, ₹ 60 called up & paid up	2,00,00,000 <u>36,00,000</u>	2,36,00,000
2	Reserves and Surplus: Securities Premium Add: Amount received @ - 10 per share on 60,000 Equity Shares Capital Redemption Reserve Add: Transferred on Redemption (WN-1) General Reserve Less: Transferred to Capital Redemption Reserve Less: Adjustment of Premium payable on Redemption	6,50,000 <u>6,00,000</u> 42,00,000 <u>44,00,000</u> 85,00,000 (44,00,000) <u>(4,00,000)</u>	12,50,000 86,00,000 37,00,000
			1,35,50,000

Working Note 1
Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 80,000 Preference Shares Redeemed	80,00,000
<i>Less:</i> Proceeds of 60,000 Equity Shares issued,	
- 60 called up & paid up	<u>36,00,000</u>
Transfer to Capital Redemption Reserve	<u>44,00,000</u>

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

Answer :20
In the Books of XYZ Ltd. Journal Entries

		(₹)	(₹)
1-4-21	Bank A/c Dr.	5,70,000	
	Loss on Issue of Debentures A/c* Dr. (W.N. 1)	90,000	
	To 12% Debentures A/c		6,00,000
	To Premium on Redemption of Debentures A/c		60,000
	(For issue of debentures at discount and redeemable at premium)		
1-4-21	Profit and Loss A/c Dr.	60,000	
	To Debenture Redemption Reserve A/c		60,000
	(Being Debenture Redemption Reserve (DRR) created at 10%)		
1-4-21	Debenture Redemption Reserve Investment Dr.	30,000	
	To Bank A/c		30,000
	(Being DRR Investment created at 15%)		
31-3-22	Profit & Loss A/c Dr.	90,000	
	To Loss on issue of debentures		90,000
	(Being entire loss on issue of debentures written off)		
31-3-22	Debenture Interest A/c** Dr.	72,000	
	To Bank A/c		72,000
	(Being interest to debentures holder paid)		
31-3-22	Debenture Redemption Reserve (DRR) Dr.	20,000	
	To General Reserve		20,000

	(For DRR transferred to General reserve)			
31-3-22	Bank A/c To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	Dr.	30,000	30,000
31-3-22	12% Debentures ** Premium on redemption of debentures A/c To Bank A/c (Being amount of redemption of 2000 debentures paid to debentures holders)	Dr. Dr.	2,00,000 20,000	2,20,000
01-04-22	Debenture Redemption Reserve To Bank A/c (Being DRR Investment created at 15%)	Dr. Investment	30,000	30,000
31-03-23	Debenture Interest A/c To Bank A/c (Being interest to debentures holder paid)	Dr.	48,000	48,000
31-03-23	Debenture Redemption Reserve (DRR) To General Reserve (For DRR transferred to General reserve)	Dr.	20,000	20,000
31-03-23	Bank A/c To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	Dr.	30,000	30,000
31-03-23	12% Debentures A/c Premium on redemption of debentures A/c To Bank A/c (Being amount of redemption of debentures paid to debenture holders)	Dr. Dr.	2,00,000 20,000	2,20,000
01-04-23	Debenture Redemption Reserve Investment To Bank A/c (Being DRR Investment created at 15%)	Dr.	30,000	30,000
31-03-24	Debenture Interest A/c To Bank A/c (Being interest to debentures holder paid)	Dr.	24,000	24,000
31-03-24	Debenture Redemption Reserve	Dr.	20,000	

	To General Reserve (For DRR transferred to General reserve)			20,000
31-03-24	Bank A/c To Debenture Redemption Reserve Investment (being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	Dr.	30,000	30,000
31-03-24	12% Debentures A/c Premium on redemption of debentures A/c To Bank A/c (Being final redemption of remaining 2000 debentures paid)	Dr. Dr.	2,00,000 20,000	2,20,000

Working Note:

1. Discount /Loss on issue of debentures

Discount on Issue of debentures = $6,000 \times 100 \times 5\% = ₹30,000$

Premium on redemption of debentures = $6,000 \times 100 \times 10\% = 60,000$

Total loss on issue of debentures = $₹30,000 + ₹60,000 = ₹90,000$

*Alternatively, discount on issue and premium on redemption of debentures can also be shown separately. In that case, the entry will be

Bank A/c	Dr.	5,70,000	
Discount on Issue of Debentures A/c (W.N.1)	Dr.	30,000	
Loss on Issue of Debentures A/c (W.N.2)	Dr.	60,000	
To 12% Debentures A/c			
To Premium on Redemption of Debentures A/c			6,00,000
(For issue of debentures at discount and redeemable at premium)			60,000

** The entries for interest on Debentures and Redemption of debentures can also be routed through debentures holders a/c.

In addition to above, the following entry every year to transfer debenture interest and Premium on redemption of Debentures A/c to Profit and Loss A/c can also be passed

Profit and Loss A/c Dr.

To Debenture Interest A/c

To Premium on Redemption of Debentures A/c

Answer :21

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr. To Equity Share Application A/c (Being application money received for 8,00,000 shares @ ₹3 per share)	24,00,000	24,00,000
Equity Share Application A/c Dr. To Equity Share Allotment A/c To Equity Share Capital A/c (Being excess application money adjusted against allotment and application money transferred to share capital on 6,00,000 shares at ₹ 3 each)	24,00,000	6,00,000 18,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment money due, ₹ 5 per share including ₹ 3 towards share capital and ₹2 towards premium)	30,00,000	18,00,000 12,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received after adjusting excess application money)	24,00,000	24,00,000
Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due @ ₹2 per share)	12,00,000	12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares) Or	11,96,800 3,200	12,00,000
Bank A/c Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares)	11,96,800	11,96,800
Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due @ ₹ 2 per share)	12,00,000	12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share Final Call A/c	11,96,800 3,200	12,00,000

(Being first call money received, except on 1600 shares)			
Or			
Bank A/c	Dr.	11,96,800	
To Equity Share Final Call A/c			11,96,800
(Being first call money received, except on 1600 shares)			
Equity Share Capital A/c	Dr.	16,000	
To Call in Arrear			6,400
To Share Forfeiture A/c			9,600
(Being forfeiture of 1600 shares of Harish for non-payment of calls money)			
Or			
Equity Share Capital A/c	Dr.	16,000	
To Equity Share First Call A/c			3,200
To Equity Share Final Call A/c			3,200
To Share Forfeiture A/c			9,600
(Being forfeiture of 1600 shares of Harish for non-payment of calls money)			


VIDHYODAY
 VIDHYA KA UDAY
Bank Account

Particulars	Debit (₹)		Credit (₹)
To Equity Share Application A/c	24,00,000	By Balance c/d	71,93,600
To Equity Share Allotment A/c	24,00,000		
To Equity Share First Call A/c	11,96,800		
To Equity Share Second Call A/c	11,96,800		
Total	71,93,600		71,93,600

SPACE FOR NOTES



CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS
TRUE & FALSE

Q1 State with reasons whether the following statements are True or False:

- i) Accounting Standards for non-corporate entities in India are issued by the Central Government.
- ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
- iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- iv) Discount at the time of retirement of a bill is a gain for the drawee.
- v) Business of partnership comes to an end on death of a partner.
- vi) Receipts and Payments Account highlights total income and expenditure.

Q2 State with reasons whether the following statements are True or False:

- i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
- ii) Accrual concept implies accounting on cash basis.
- iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- iv) Discount at the time of retirement of a bill is a gain for the drawee.
- v) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
- vi) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

Q3 State with reasons whether the following statements are True or False:

- i) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
- ii) In the balance sheet of Angel Limited, preliminary expenses amounting to ₹ 15 lakhs and securities premium account of ₹ 105 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
- iii) The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- iv) 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.
- v) The debit notes issued are used to prepare Sales Return Book.
- vi) Debenture holders enjoy the voting rights in the company.

Q4 State with reasons whether the following statements are True or False:

- i) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
- ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- iii) The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- iv) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.
- v) Nominal Accounts are kept under Single Entry System.
- vi) A person holding preference shares of a company cannot hold equity shares of the same company.

Q5 State with reasons, whether the following statements are true or false:

1. The balance in petty cash book represents an asset.
2. Finished goods are normally valued at cost or market price whichever is higher.
3. Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
4. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
5. Discount at the time of retirement of a bill is a gain for the drawee.
6. Bills receivable and bills payable books are type of subsidiary books.

Q6 State with reasons, whether the following statements are true or false:

- i) Wages paid for erection of machinery are debited to Profit and Loss Account.
- ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
- iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- iv) Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.
- v) The business of partnership must be carried on by all the partners.
- vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Q7 State with reasons whether the following statements are True or False:

- i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.
- ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
- iii) Stock at the end, if appears in the trial balance, is taken only to the Balance Sheet.
- iv) Re-issue of forfeited shares is allotment of shares but not a sale.
- v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.
- vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Q8 State with reasons whether the following statements are True or False:

- i) Depreciation cannot be provided in case of loss, in a financial year.
- ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
- iii) Any amount spent for replacement of worn out part of a machine is capital expenditure.
- iv) 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.
- v) The debit notes issued are used to prepare Sales Return Book.
- vi) Debentures Suspense Account appears on the liability side of the Balance Sheet of a Company.

Q9 State with reasons, whether the following statements are True or False:

- i) If Closing Stock appears in the Trial Balance then it does not enter in Trading Account. It is shown only in the Balance Sheet.
- ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.
- iii) Accounting Standards can override the statute.
- iv) Promissory Note is different from Bill of Exchange because the amount is paid by maker in case of former and by the acceptor in the later.
- v) All errors are rectified by means of journal entries.
- vi) Revaluation Account is also known as Profit and Loss Adjustment Account.

Q10 State with reasons, whether the following statements are True or False:

- i) The rule of nominal accounts states that all expenses and losses are recorded on credit side.
- ii) Overhaul Expenses of a second-hand machinery purchased are Revenue Expenditure.
- iii) Valuation of inventory at cost or net realizable value is based on Principle of Conservatism.
- iv) A Promissory Note can be made payable to the Bearer.
- v) The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
- vi) Legal heirs of a deceased partner are entitled to his capital account balance only.

SOLUTIONS

Answer :1

- i) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- 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) **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.
- iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- v) **False:** Surviving partners may continue to carry on the business in case of partnership.
- vi) **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.

Answer :2

- i) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- ii) **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.
- iii) **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.
- iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- v) **False:** If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
- vi) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vacation.

Answer :3

- i) **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.
- 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 ₹ 15 lakhs.
- iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- iv) **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.
- v) **False:** The debit notes issued are used to prepare purchases return book.
- vi) **False:** Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

Answer :4

- i) **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.
- ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- iv) **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
- v) **False:** Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.
- vi) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

Answer :5

1. **True:** The balance represents the cash physically in existence and is therefore an asset.
2. **False:** Finished goods are normally valued at cost or net realizable value whichever is lower.
3. **False:** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.
4. **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
5. **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
6. **True:** Yes they are types of subsidiary books which is alternate to the journals.

Answer :6

- i) **False:** Such wages being related to capital asset should be debited to the machinery account.
- ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- v) **False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
- vi) **False:** Debenture interest is payable before the payment of any dividend on shares.

Answer :7

- i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
- ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- iii) **True:** If closing stock appears in trial balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.
- iv) **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.

- v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.
- vi) **True:** As per perpetual existence the company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Answer :8

- i) **False:** Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.
- ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.
- iii) **False:** Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.
- iv) **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.
- v) **False:** The debit notes issued are used to prepare purchases return book.
- vi) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

Answer :9

- i) **True:** If closing stock appears in the trial balance then it is not entered in the trading account but it is shown only in the balance sheet because it has already been adjusted to purchase account.
- ii) **False:** If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of commission and not error of Principle.
- iii) **False:** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.
- iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- v) **False:** Errors not affecting the trial balance can be rectified by passing a rectification journal entry. While other errors that affect one account of trial balance cannot be rectified by passing journal entries. Totalling errors cannot be rectified by passing journal entries
- vi) **True:** Revaluation is also called as profit and loss adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.

Answer :10

- i) **False:** The rule of nominal accounts states that all expenses and losses are recorded on debit side.
- ii) **False:** Overhaul expenses are incurred to put second-hand machinery in working condition to derive durable long-term advantage. So, it should be capitalized.
- 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 realisable value whichever is less, therefore is based on principle of conservatism.
- iv) **False:** A promissory note should not be made payable to the bearer. The payee must be to a certain person.
- v) **False:** It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
- vi) **False:** Legal heirs of a deceased partner are entitled to all the dues of deceased partner.