

Paper-1: Accounting

IMPORTANT QUESTIONS LIST

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Chapter 1: Theoretical Framework

Question 1

Differentiate between provision and contingent liability.

Answer

Difference between Provision and Contingent liability

	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	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
	be made of the amount of the obligation.	amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Question 2

Change in accounting policy may have a material effect on the items of financial statements."

Explain the statement with the help of an example.

Answer

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

Question 3

Write short notes on Fundamental Accounting Assumptions.

Answer

Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

- 1. Going concern:** The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
- 2. Consistency:** It is assumed that accounting policies are consistent from one period to another.
- 3. Accrual:** Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

Question 4

Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Answer

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

- (i) 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.
- (ii) 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.
- (iii) Accounting ignores changes in some money factors like inflation etc.
- (iv) There are occasions when accounting principles conflict with each other.
- (v) Certain accounting estimates depend on the sheer personal judgement of the accountant.
- (vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.

Question 5

Distinguish between Going concern and cost concept.

Answer

Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its 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, it should be disclosed in the financial statements.

Cost concept: It means that the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity.

Chapter 2: Accounting Process

QUESTION 1

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

Date		Rs
1	Cash in hand	9,000
1	Cash at bank	36,000
2	Paid into bank	3,000
5	Bought furniture and issued cheque	4,500
8	Purchased goods for cash	1500
12	Received cash from Ms. Kamini	2,940
	Discount allowed to her	60
14	Cash sales	15,000
16	Paid to Ms. Shikha by cheque	4,350
	Discount received	150
19	Paid into Bank	1500
20	Sales through Credit Card	4,000
23	Withdrawn from Bank for Private expenses	1,800
24	Received cheque from Ms. Reema	4,290
	Allowed her discount	60
26	Deposited Ms. Reema's cheque into Bank	
28	Withdrew cash from Bank for Office use	6,000
30	Paid rent by cheque	2,400
30	Bank Charged 1% commission on sale through debit/credit card	

ANSWER

Triple Column Cash Book

Dr-					Cr-					
Date	Particulars	Discount	Cash	Bank	Date	Particulars	Discount	Cash	Bank	
2022		-	-	-	2022		-	-	-	
April 1	To Balance b/d		9,000	36,000	April 2	By Bank (C)		3,000		
April 2	To Cash (C)			3,000	April 5	By Furniture A/c			4,500	
April 12	To Ms- Kamini	60	2,940		April 8	By Purchase A/c		1500		
April 14	To Sales A/c		15,000		April 16	By Ms- Shikha	150		4,350	
April 19	To Cash (C)			1500	April 19	By Bank (C)		1500		
April 20	To Sales			4000	April 23	By Drawings A/c			1800	
April 24	To Ms- Reema (Note 2)	60	4,290		April 26	By Bank (C)		4,290		

April 26	To	Cash (C)			4,290	April 28	By	Cash (C)			6,000
April 28	To	Bank (C)	6000			April 30	By	Rent A/c			2,400
						April 30	By	Commission			40
						April 30	By	Balance c/d		26,940	29,700
			<u>120</u>	<u>37,230</u>	<u>48,790</u>				<u>150</u>	<u>37,230</u>	<u>48,790</u>
May 1	To	Balance b/d	26,940	29,700							

Note:

- (1) Discount allowed and discount received - 120 and - 150 respectively should be posted in respective Accounts in the ledger-
- (2) When cheque is not promptly deposited into Bank, fi-t it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited-

QUESTION 2

The following are some of the transactions of M/s Sameer traders - a garment dealer. Prepare the sales book.

Sold to M/s. Chawla & Verma on credit:

30 shirts @ Rs 700 per shirt.

20 trousers @ Rs1,000 per trouser.

Less: Trade Discount @ 10%

Sold furniture to M/s. Mittal & Co. on credit Rs8,000.

Sold 50 shirts to M/s. Nagpal & Sons @ Rs800 per shirt.

Sold typewriter to M/s. Goyal & Co. Rs7,200 for cash

Sold 30 shirts to Cheap Stores @ Rs750 each for cash.

Sold on credit to M/s. Madhu & Garg.

50 shirts @ Rs750 per shirt

20 overcoats @ Rs5,000 per overcoat.

Less: Trade Discount @ 10%

ANSWER

Sales Book

Date	Particulars	Details Rs	Amount Rs
2023	M/s- Chawla & Verma		
	30 shirts @ - 700	21,000	
	20 Trousers @ - 1,000	20,000	

	41,000	
Less: Trade discount @10%	(4,100)	
Sales as per invoice no- dated -----		36,900
M/s- Nagpal & Sons 50 shirts @ - 800		40,000
Sale as per invoice no- dated -----		
M/s Madhu & Garg		
50 shirts @ - 750	37,500	
20 overcoats @ - 5,000	1,00,000	
	1,37,500	
Less: Trade discount @10%	(13,750)	1,23,750
Sales as per invoice no- dated-----		
	Total	2,00,650

Note: Cash sale, sale of furniture and sale of typewriter are not entered in Sales Book.

QUESTION 3

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

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

The closing inventory was Rs1,722. 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.

ANSWER

Corrected Trial Balance of Mr- X as on 31st March, 2022

Particulars	Dr- Amount -	Cr- Amount -
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from custome-	1,590	
Purchases	3,777	
Purchases returns		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 (1-4-2021)	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-

QUESTION 4

Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

- (i) **Minor Repairs made to the building amounting to Rs 1,850 were debited to the Building Account.**
- (ii) **An amount of Rs 3,000 due from Shayam Lal, which had been written off as bad**

- debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.
- (iii) Furniture purchased for office use amounting to Rs 20,000 has been entered in the purchase day book.
 - (iv) Goods purchased from Ram Singh amounting to Rs 8,000 have remained unrecorded so far.
 - (v) College fees of proprietor's son, Rs 15,000 debited to the Audit fees Account.
 - (vi) Receipt of Rs 4,500 from Meet Kumar credited to the Pinki Rani.
 - (vii) Goods amounting to Rs 6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.
 - (viii) Rs 1500 paid for wages to workmen for making office furniture had been charged to wages account.
 - (ix) Salary paid to a clerk Rs 12,000 has been debited to his personal account.
 - (x) A purchase of goods from Raghav amounting to Rs 20,000 has been wrongly entered through the sales book.

ANSWER

In the books of Hare Rama & Sons

Journal

	Particulars	L-F-	Dr-Rs	Cr-Rs
(i)	Repairs A/c Dr- To Building A/c (Correction of wrong debit to building A/c for repairs made)		1,850	1,850
(ii)	Shyam Lal 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)	Furniture A/c Dr- To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)		20,000	20,000
(iv)	Purchases A/c Dr- To Ram Singh A/c (Purchases of goods from Ram Singh remained unrecorded)		8,000	8,000
(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)	Pinki Rani A/c To Meet Kumar A/c (Correction of wrong credit to Pinki Rani- instead of Meet Kumar-)	Dr-	4,500	4,500
(vii)	Returns Inwards / Sales Return A/c To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records)	Dr-	6,200	6,200
(viii)	Furniture A/c To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)	Dr-	1,500	1,500
(ix)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	Dr-	12,000	12,000
(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

QUESTION 5

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

- (i) Cheque amounting Rs 9,000 from Hari Krishan in full settlement of his account for Rs 10,000.
- (ii) Withdrawn for personal use: Goods (Sales Price Rs 8,000, Cost Rs 6,000), cash Rs 1,000
- (iii) Goods costing Rs 3,000 (Sale price Rs 4,000) distributed as free samples.
- (iv) Received commission Rs 10,000, half of which does not relate of current year and is received in advance.
- (v) Purchased second hand machinery from Jawahar for Rs 30,000 against a cheque. Goods of Rs 12,000 (Cost Rs 9,000) used in repairs of this machinery which is necessary to make it ready for working.

ANSWER

In the books of Kewal

Journal entries

	Particulars		Dr- Amount Rs	Cr- Amount Rs
(i)	Bank A/c Discount allowed A/c To Hari Krishan A/c	Dr- Dr-	9,000 1,000	10,000

	(Amount received from Hari Krishan after allowing discount of 1,000)-			
(ii)	Drawings Dr-	7,000		
	To Purchases A/c		6,000	
	To Cash A/c		1,000	
	(Goods and cash withdrawn for personal use)-			
(iii)	Free Samples/Sales promotion A/c Dr-	3,000		
	To Purchases A/c		3,000	
	(Being the goods distributes as free samples)-			
(iv)	Bank A/c Dr-	10,000		
	To Commission A/c		10,000	
	(Commission received)-			
	Commission A/c Dr-	5,000		
	To Commission received in Advance A/c		5,000	
	(Commission received in advance adjusted)-			
(v)	Machinery A/c Dr-	30,000		
	To Bank A/c		30,000	
	(Machinery purchased from Jawahar)			
	Machinery A/c Dr-	9,000		
	To Purchases A/c		9,000	
	(Goods used in repairs of Machinery)-			

Chapter 3: Bank Reconciliation Statement

QUESTION 1

On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of Rs 13,530 although his Bank Statement showed only Rs 9,600 overdrawn. An examination of the two records showed the following errors:

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

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

ANSWER

Bank Reconciliation Statement as on 31st October, 2022

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

(ix) Interest debited by the Bank and yet to be entered in the Cash Book	900	<u>6,270</u>
Bank overdraft as per the Cash Book (Cr-)		<u>13,530</u>

QUESTION 2

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

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

ANSWER

Bank Reconciliation Statement as on 31st March, 2021

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

QUESTION 3

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

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

ANSWER 3

Bank Reconciliation Statement as on 30th June 2018

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

QUESTION 4

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

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

You are required:

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

ANSWER

**In the Books of G
Cash Book (Bank Column)**

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

Bank Reconciliation Statement as on 30th June, 2021

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

QUESTION 5

From the following particulars, prepare a Bank Reconciliation Statement as on 31st December, 2022.

- 1) Debit balance (overdraft) shown by the pass book 2,48,000.
- 2) Cheques of 2,10,000 were issued in the last week of December, but of these only Rs1,40,000 were presented for payment.
- 3) A Cheque for Rs 19,200 drawn for the payment of telephone bill had been entered in the cash book as Rs 29,200 but was shown correctly in the bank statement.
- 4) A cheque received for Rs 37,520 entered twice in the Cash book.
- 5) A Cheque for Rs 1,17,000 was issued for purchase of merchandise and was paid by the bank but not recorded in cash book.
- 6) Interest on overdraft and bank charges amounting to Rs 3,500 were not entered in the Cash Book.
- 7) A Cheque for 45,000 was credited in the Pass Book but was not recorded in the Cash Book.
- 8) A bill of exchange for Rs 26,200 which was discounted with bank returned dishonored but on entry was made in the cash book.
- 9) Payment side of the Cash Book has been undercast by Rs 12,000.

ANSWER 5

Bank Reconciliation Statement as on 31st December, 2022

	Particulars	Amount (₹)	Amount (₹)
	Overdraft as per Pass Book (Dr. Balance)		2,48,000
<i>Add:</i>	Cheques issued but not yet presented ₹ (2,10,000 - 1,40,000)	70,000	
	Cheque wrongly entered in cash book (29,200-19,200)	10,000	
	Cheque credited in Pass Book was not recorded in the Cash book	<u>45,000</u>	1,25,000
<i>Less:</i>	Cheques received entered twice in Cash Book	37,520	
	Cheque issued not recorded in the Cash book	1,17,000	
	Interest on Overdraft and bank charges not entered in Cash Book	3,500	

Bill of exchange dishonoured	26,200	
Payment side of bank column of Cash Book was undercast	<u>12,000</u>	<u>1,96,220</u>
Overdraft as per Cash Book		1,76,780



Chapter 4: Inventories

QUESTION 1

The following are the details of the spare parts of an Oil Mill:

1-1-2021	Opening Inventory	Nil
1-1-2021,	Purchases	10 units @ Rs 300 per unit
15-1-2021	Issued for consumption	5 units
1-2-2021	Purchases	20 units @ Rs 400 per unit
15-2-2021	Issued for consumption	10 units
20-2-2021	Issued for consumption	10 units

Find out the value of Inventory as on 31.3.2021, if the company follows Weighted Average Method.

Answer

Oil Mill

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

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

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

QUESTION 2

M/s Sam, Profit and loss account showed a net profit of Rs 24,00,000, after considering the closing stock of Rs 22,50,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included Rs 90,000 paid for new electric fittings for the shop.
- (ii) M/s Sam gave away goods valued at Rs 2,40,000 as free samples for which no entry was made in the books of accounts.

- (iii) Invoices for goods amounting to Rs 15,00,000 have been entered on 27th March, 2022, but the goods were not included in stock.
- (iv) In March, 2022 goods of Rs 12,00,000 sold and delivered were taken in the sales for April, 2022.
- (v) Goods costing Rs 4,50,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

You are required to determine the adjusted net profit for the year ended on 31.3.2022 and calculate the value of stock on 31st March, 2022.

ANSWER

Profit and Loss Adjustment Account

	Rs		Rs
To Advertisement (samples)	2,40,000	By Net profit	24,00,000
To Sales (goods approved in April to be taken as April sales)	6,00,000	By Electric fittings	90,000
To Adjusted net profit	50,40,000	By Samples	2,40,000
		By Stock (Purchases of March not included in stock)	15,00,000
		By Sales (goods sold in March wrongly taken as April sales)	12,00,000
		By Stock (goods sent on approval basis not included in stock)	4,50,000
	<u>58,80,000</u>		<u>58,80,000</u>

Calculation of value of inventory on 31st March, 2022

	Rs
Stock on 31st March, 2022 (given)	22,50,000
Add: Purchases of March, 2022 not included in the stock	15,00,000
Goods lying with custome- on approval basis	4,50,000
	<u>42,00,000</u>

QUESTION 3

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

- (i) Sales Rs 1,23,000 (including cash sales Rs 30,000)
- (ii) Purchases Rs 15,102 (including cash purchases Rs 5970)
- (iii) Sales Return Rs 3,000.
- (iv) On 15th March, goods of the sale value of Rs 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the

goods on 10th April, approving the rest; the customer was billed on 16th April.

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

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

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

Answer

Statement of Valuation of Stock on 31st March, 2021

	₹	₹
Value of stock as on 15th April, 2021		1,50,000
Add: Cost of sales during the period from 31 st March, 2021 to 15th April, 2021		
Sales (₹ 1,23,000 – ₹ 3,000)	1,20,000	
Less: Gross Profit (20% of ₹ 1,20,000)	<u>24,000</u>	96,000
Cost of goods sent on approval basis (80% of ₹ 18,000)		<u>14,400</u>
		260400
Less: Purchases during the period from 31 st March, 2021 to 15th April, 2021	15,102	
Unsold stock out of goods received on consignment basis (30% of ₹ 24,000)	<u>7,200</u>	<u>22,302</u>
		<u>2,38,098</u>

QUESTION 4

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

- Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.
- Purchases are entered in the Purchase Book on the day the Invoices are received.
- Sales between 1st April 2019 to 9th April 2019 amounting to Rs 20,000 as per Sales Day Book.
- Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to Rs 4,000 at cost.
- Purchases during 1st April 2019 to 9th April 2019 amounting to Rs 10,000 but goods amounts to Rs 2,000 not received till the date of stock taking.
- Invoices for goods purchased amounting to Rs 20,000 were entered on 28th March 2019 but the goods were not included in stock.
- Rate of Gross Profit is 25% on cost.

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

Answer

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

	Rs	Rs
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Value of stock as on 10 th April, 2019		1,25,000
<i>Add:</i> Cost of sales during the intervening period		
Sales made between 1-4-2019 and 9-4-2019	20,000	
<i>Less:</i> Gross profit @20% on sales	<u>(4,000)</u>	16,000
Free sample		<u>4,000</u>
		1,45,000
<i>Less:</i> Purchases actually received during the intervening period:		
Purchases from 1-4-2019 to 9-4-2019	10,000	
<i>Less:</i> Goods not received upto 9-4-2019	<u>(2,000)</u>	<u>(8,000)</u>
		1,37,000
<i>Add:</i> Purchases during March, 2019 but not recorded in stock		<u>20,000</u>
<i>Value of physical stock as on 31-3-2019</i>		<u>1,57,000</u>

Chapter 5: Depreciation and Amortisation

QUESTION 1

S & Co. purchased a machine for Rs1,00,000 on 1.1.2019 Another machine costing Rs1,50,000 was purchased on 1.7.2020. On 31.12.2021 the machine purchased on 1.1.2019 was sold for Rs50,000. 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.

Answer

S & Co

Dr		Machinery Account		Cr	
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
1-1-2019	To, Bank A/c	1,00,000	31-12-2019	By Balance c/d	1,00,000
		1,00,000			1,00,000
1-1-2020	To, Balance b/d	1,00,000			
1-7-2020	To, Bank A/c	1,50,000	31-12-2020	By Balance c/d	2,50,000
		2,50,000			2,50,000
1-1-2021	To, Balance b/d	2,50,000	31-12-2021	By, Machinery Disposal A/c	1,00,000
		2,50,000	31-12-2021	By Balance c/d	1,50,000
		2,50,000			2,50,000
1-1-2022	To, Balance b/d	1,50,000			

Dr		Provision for Depreciation Account		Cr	
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
31-12-2019	To, Balance c/d	15,000	31-12-2019	By, Depreciation A/c	15,000
		15,000			15,000
31-12-2020	To, Balance c/d	39,000	1-1-2020	By, Balance b/d	15,000
		39,000	31-12-2020	By, Depreciation A/c (- 12,750+11,250)	24,000
		39,000			39,000
31-12-2021	To, Machinery Disposal A/c [100000-61,413]	38,587	1-1-2021	By, Balance b/d	39,000
31-12-2021	To, Balance c/d	32,063	31-12-2021	By, Depreciation A/c	20,813
		70,650	31-12-2021	By Depreciation	10,837
					70,650

		1-1-2022	By, Balance b/d	32,063
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Dr Machinery Disposal Account Cr

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
31-12-2021	To, Machinery A/c	1,00,000	31-12-2021	By, Provision for Depreciation A/c	38,587
			31-12-2021	By, Bank A/c	50,000
			31-12-2021	By, Profit & Loss A/c (Loss on Sale)	11,413
		1,00,000			1,00,000

QUESTION 2

A Firm purchased an old Machinery for Rs 37,000 on 1st January, 2019 and spent Rs 3,000 on its overhauling. On 1st July 2020, another machine was purchased for Rs 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for Rs 28,000 and the same day a new machinery costing Rs 25,000 was purchased. On 1st July, 2022, the machine which was purchased on 1st July, 2020 was sold for Rs 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, 2020 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, 2019

Answer

**In the books of Firm
Machinery Account**

		₹			₹
1.1.2019	To Bank A/c	37,000	31.12.2019	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2019	By Balance c/d	36,000
		<u>40,000</u>			<u>40,000</u>
1.1.2020	To Balance b/d	36,000	31.12.2020	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2020	To Bank A/c	10,000	31.12.2020	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		<u>46,000</u>			<u>46,000</u>
1.1.2021	To Balance b/d	39,850	1.7.2021	By Bank A/c (sale)	28,000
1.7.2021	To Bank A/c	25,000	1.7.2021	By Profit and Loss A/c (Loss on Sale W.N. 1)	305
			31.12.2021	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>
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c (sale)	2,000
			1.7.2022	By Profit and Loss A/c (Loss on Sale W.N. 1)	5,272
			31.12.2022	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2022	By Balance c/d	19,656
		30,987			30,987

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery (Machinery cost for 2019)	40,000	10,000	25,000
Depreciation for 2019	<u>4,000</u>		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	<u>5,400</u>	<u>750</u>	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	<u>2,295</u>		
Written down value as on 1.7.2021	28,305		
Sale proceeds	<u>28,000</u>		
Loss on sale	<u>305</u>		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		<u>1,388</u>	<u>1,875</u>
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		<u>590</u>	
Written down value as on 1.7.2022		7,272	
Sale proceeds		<u>2,000</u>	
Loss on sale		<u>5,272</u>	
Depreciation for 2022			<u>3,469</u>
Written down value as on 31.12.2022			<u>19,656</u>

QUESTION 3

M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000. Another machine was purchased for Rs. 1,60,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Answer

In the books of M/s JP Wires Co
Machinery Account

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
1-1-2017	To Bank A/c	3,20,000	31-12-2017	By Depreciation A/c	96,000
	To Bank A/c	80,000		(--80,000+ -- 16,000)	
	(Erection charges)		31-12-2017	By Balance c/d	4,64,000
1-7-2017	To Bank A/c	1,60,000		(--3,20,000+ --1,44,000)	
		<u>5,60,000</u>			<u>5,60,000</u>

01-01-18	To Balance b/d	4,64,000	31-12-2018		1,12,000
				By Depreciation A/c (-- 80,000+ -- 32,000)	
			31-12-2018	By Balance c/d	3,52,000
				(--2,40,000+-- 1,12,000)	
		<u>4,64,000</u>			<u>4,64,000</u>
01-01-19	To Balance b/d	3,52,000	01-07-2019	By Bank A/c	1,60,000
30-9-19	To Bank A/c	60,000		By Profit and Loss A/c (Loss on Sale – W-N-)	40,000
			31-12-2019	By Depreciation A/c (-- 40,000 + -- 32,000 + -- 3,000)	75,000
				By Balance c/d (-- 80,000 + -- 57,000)	1,37,000
		<u>4,12,000</u>			<u>4,12,000</u>
01-01-20	To Balance b/d	1,37,000	31-12-2020	By Depreciation A/c (-- 12,000 + -- 8,550)	20,550
				By Balance c/d (-- 68,000 + -- 48,450)	1,16,450
		<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
	Rs	Rs	Rs
Cost	4,00,000	1,60,000	60,000
Depreciation for 2017	<u>80,000</u>	<u>16,000</u>	
Written down value as on 31-12-2017	<u>3,20,000</u>	<u>1,44,000</u>	
Depreciation for 2018	<u>80,000</u>	<u>32,000</u>	
Written down value as on 31-12-2018	<u>2,40,000</u>	<u>1,12,000</u>	
Depreciation for 2019	<u>40,000</u>	<u>32,000</u>	
Written down value as on 31-12-2019	<u>2,00,000</u>	<u>80,000</u>	
Sale proceeds	<u>1,60,000</u>		
Loss on sale	<u>40,000</u>		

QUESTION 4

The Machinery Account of a Factory showed a balance of Rs 95 Lakhs on 1st April,2020. The Books of Accounts

Depreciation is written off of the Factory are closed on 31st March every year and @ 10% per annum under the Diminishing Balance Method. On 1st September,2020 a new machine was acquired at a cost of Rs 14 Lakhs and Rs 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September,2020 a machine which had cost Rs 21,87,000 on 1st April,2018 was sold for Rs 3,75,000. Another machine which had cost Rs 21,85,000 on 1st April,2019 was scrapped on 1st September,2020 and it realized nothing.

Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

Answer

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

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
				By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i) Calculation of loss on sale of machine on 01-09-2020		₹
Cost on 1-4-2018		21,87,000
Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
W.D.V. on 31-03-2019		19,68,300
Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
W.D.V. on 31-03-2020		17,71,470
Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
		16,97,659
Less: Sale proceeds on 01-09-2020		(3,75,000)
Loss		13,22,659

(ii) Calculation of loss on scrapped machine		
Cost on 1-4-2019		21,85,000
Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
W.D.V. on 31-3-2020		19,66,500
Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
Loss		18,84,562
(iii) Depreciation		
Balance of machinery account on 1-4-2020		95,00,000
Less: W.D.V of machinery sold	17,71,470	
W.D.V. of machinery scrapped	19,66,500	(37,37,970)
Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
		6,60,471

Note: The figures are rounded off to nearest rupee.

Chapter 6: Bills of Exchange and Promissory Notes

QUESTION 1

Ramesh had the following bills receivable and bills payable against Ravi.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1st June	10,200	3 month	29th May	7,500	2 month
5th June	8,700	3 month	3rd June	10,200	3 month
9th June	17,400	1 month	9th June	17,100	1 month
12th June	5,100	2 month			
20th June	5,700	3 month			

15th August was a public holiday. However, 6th September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

Answer

Let us take 12-07-2021 as Base date

Bills receivable

Due date	No of days from 12-07-2021	Amount	Product
04/09/2021	54	10,200	5,50,800
08/09/2021	58	8,700	5,04,600
12/07/2021	0	17,400	0
14/08/2021	33	5,100	1,68,300
23/09/2021	73	<u>5,700</u>	<u>4,16,100</u>
		<u>47,100</u>	<u>16,39,800</u>

Bills payable

Due date	No of days from 12-07-2021	Amount	Product
01/08/2021	20	7,500	1,50,000
07/09/2021	57	10,200	5,81,400
12/07/2021	0	<u>17,100</u>	<u>0</u>
		<u>34,800</u>	<u>7,31,400</u>

Excess of products of bills receivable over bills payable = 16,39,800 - 7,31,400 = 9,08,400 Excess

of bills receivable over bills payable = 47,100 - 34,800 = 12,300

Number of days from the base date to the date of settlement is 9,08,400/12,300

= 73-85 (approx-)

Hence date of settlement of the balance amount is 74 days after 12th July i-e 24th

September- On 24th September, 2021 Ravi has to pay Ramesh - 12,300 to settle the account-

QUESTION 2

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

Pass journal entries (with narration) in the books of Ritu.

Answer

In the books of Ritu

Journal Entries

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

To Bills Receivable A/c (Being the dishonour of the bill due to Chavi's insolvency)				50,000
Bank A/c		Dr-	20,000	
Bad Debts A/c		Dr-	30,000	
To Chavi A/c (Being the receipt of 40% of the amount due on the bill from Chavi's estate)				50,000

QUESTION 3

Mr. David draws two bills of exchange on 1.1.2022 for Rs6,000 and Rs10,000. The bills of exchange for Rs6,000 is for two months while the bill of exchange for Rs10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2022, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2022, Mr. Thomas retires the acceptance for Rs10,000, the interest rebate i.e. discount being

Rs100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

You are to give the journal entries in the books of Mr. David.

Answer

Journal Entries in the books of Mr- David

2022			(Rs)	(Rs)
Jan- 1	Bills receivable (No- 1) A/c	Dr-	6,000	
	Bills receivable (No- 2) A/c	Dr-	10,000	
	To Mr- Thomas's A/c			16,000
	(Being drawing of bills receivable No- 1 due for maturity on 4-3-2022 and bills receivable No- 2 due for maturity on 4-4-2022)			
4-Mar	Mr- Thomas's A/c	Dr-	6,000	
	To Bills receivable (No-1) A/c			6,000
	(Being the reversal entry for bill No-1 on agreed renewal)			

4-Mar	Bills receivable (No- 3) A/c To Dr- 6,180 Interest A/c 180 To Mr- Thomas's A/c 6,000 (Being the drawing of bill of exchange no- 3 due for maturity on 7-5-2022 together with interest at 18%p-a- in lieu of the original acceptance of Mr- Thomas)	
20-Mar	Bank A/c Discount A/c Dr- 9,900 To Bills receivable (No- 2) A/c Dr- 100 (Being the amount received on retirement of bills No-2 before the due date)	10,000
7-May	Mr- Thomas's A/c Dr- 6,180 To Bills receivable (No- 3) A/c 6,180 (Being the amount due from Mr- Thomas on dishonour of his acceptance on presentation on the due date)	
7-May	Bank A/c Dr- 3,090 To Mr- Thomas's A/c 3,090 (Being the amount received from official assignee of Mr- Thomas at 50 paise per rupee against dishonoured bill)	
May 7	Bad debts A/c Dr- 3,090 To Mr- Thomas's A/c 3,090 (Being the balance 50% debt in Mr- Thomas's Account arising out of dishonoured bill written as bad)	

Question 4

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

- (i) Katrak's acceptance to Basu for Rs 2,500 discharged by a cash payment of Rs 1,000 and a new bill for the balance plus Rs 50 for interest.
- (ii) G. Gupta's acceptance for Rs 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs 2,000 drawn on him by Katrak for Rs10 discount.
- (iv) Katrak's acceptance to Patel for Rs 5,000 and Mody's acceptance to Katrak for a similar amount were duly discharged.

Books of K. Katrak Journal Entries

			Rs	Rs
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs1,000 and a new bill for Rs1,550 including Rs50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs4,000 endorsed to M. Mehta dishonoured, Rs20 paid by M. Mehta as noting charges)			
(ii)	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for Rs2,000. Allowed him a discount of Rs10)			
(iv)			5,000	5,000

Chapter 7: Preparation of Final Accounts of Sole Proprietors

QUESTION 1

The following are the balances extracted from the books of Shri Shrinivas as on 31.03.2023, who carries on business under the name and style of M/s Shrinivas and Associates at Chennai:

Particulars	Debit (Rs)	Credit (Rs)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the

Balance Sheet as at that date after making provision for the following:

- (a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- (b) Value of stock at the close of the year was Rs 4,10,000.
- (c) One month rent for godown is outstanding.
- (d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022
- (e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- (f) Insurance premium includes Rs 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Answer

M/s Shrinivas & Associates

Trading Account for the year ended 31st March 2023

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

M/s Shrinivas & Associates

Profit and Loss Account for the year ended 31st March 2023

Particulars	Details	Amount	Particulars	Details	Amount
		Rs			Rs
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000		By Discount received		12,000
Add: Outstanding	<u>5,000</u>	60,000			
To Provision for Doubtful Debts (W-N-4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			

To Electricity charges		14,000		
To Insurance premium (W-N- 1)		4,800		
To Depreciation (W-N- 2)		80,000		
To General expenses		11,000		
To Bank Charges		3,800		
To Interest on loan	4,400			
Add: Outstanding (W-N- 3)	<u>100</u>	4,500		
To Motor car expenses (Repairs)		13,000		
To Net Profit transferred to Capital A/c		<u>8,700</u>		
		<u>3,34,000</u>		<u>3,34,000</u>

**Balance Sheet of M/s Shrinivas & Associates as at
31st March 2023**

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

Working Notes:

(1) Insurance premium -

Insurance premium as given in trial balance 48,000
 Less: Personal premium (42,000)

Less: Prepaid for 3 months

6,000)
 | × 3 (1,200)

Transfer to Profit and Loss A/c 4,800

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

(3) Interest on Loan

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

(4) Provision for bad debts A/c

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

QUESTION 2

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

	Dr.	Cr.
	Rs	Rs
Prakesh's capital account		3,83,450
Stock 1st January, 2022	2,34,000	-
Sales	-	19,48,000

Returns inward	43,000	-
Purchases	16,08,500	-
Returns outward	-	29,000
Carriage inwards	98,000	-
Rent & taxes	23,500	-
Salaries & wages	46,500	-
Sundry debtors	1,20,000	-
Sundry creditors	-	74,000
Bank loan @ 14% p.a.	-	1,00,000
Bank interest	5,500	-
Printing and stationary expenses	72,000	-
Bank balance	40,000	-
Discount earned	-	22,200
Furniture & fittings	25,000	-
Discount allowed	9,000	-
General expenses	57,250	-
Insurance	6,500	-
Postage & telegram expenses	11,650	-
Cash balance	1,900	-
Travelling expenses	4,350	-
Drawings	1,50,000	-
	25,56,650	25,56,650

The following adjustments are to be made:

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

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

Answer

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

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

To Printing and stationary	72,000				
Less: Prepaid (1/4)	18,000	54,000			
To Discount allowed		9,000			
To General expenses		57,250			
To Insurance		6,500			
To Postage & telegram expenses		11,650			
To Travelling expenses		4350			
To Provision for bad debts [W.N.(ii)]		5,750			
To Provision for discount on debtors [W.N.(iii)]		2185			

To Depreciation on furniture & fittings	2,500	
To Net profit	<u>1,72,515</u>	
	<u>4,09,700</u>	<u>4,09,700</u>

Balance Sheet of Prakash as at 31st December, 2022

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

QUESTION 3

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

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

Other information :

- (i) Closing stock was valued at Rs 4,500

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

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

Answer

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

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

Balance Sheet of Mr- Sandeep as on 31-3-2018

Particulars	Rs	Rs	Particulars	Rs	Rs
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	(160)	1,440
Net loss	<u>(2,500)</u>	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	

Add: interest	<u>300</u>	2,300	Add: accrued interest	<u>210</u>	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	Less: Provision on bad debts	<u>(1,000)</u>	4,000
Outstanding expenses:			Closing stock		4,500
Salary	100		Cash in hand		1,500
Tax	<u>200</u>	300	Prepaid insurance		50
Commission received in advance		100			
		<u>18,700</u>			<u>18,700</u>

QUESTION 4

The following is the trial balance of Mr. B for the year ended 31st March, 2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		

	43,89,000	43,89,000
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Additional Information:

- (i) Stock of finished goods at the end of the year was Rs 3,50,000.
- (ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.
- (iii) Accrued commission is 43,750. Interest has accrued on investment Rs 52,500.
- (iv) Salary Outstanding is Rs 7,000 and Prepaid Interest is Rs 5,250.

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

Answer

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent and Rates		70,000		
To Depreciation on Machinery		10,500		
		28,28,000		28,28,000

Trading Account for the year ended 31st March, 2021

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

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

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

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

Balance Sheet as on 31st March, 2021

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

		Less: Provision for Bad & Doubtful Debts	7,000	1,33,000
		Bills Receivable		52,500
		Accrued Commission		43,750
		Accrued Interest		52,500
		Prepaid Interest		5,250
		Cash in Hand		70,000
		Cash at Bank		17,500
	14,10,500			14,10,500

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

QUESTION 5

The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

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

Additional Information:

- Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
- Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
- Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
- Free samples distributed for publicity costing ₹ 825.
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

Answer

RECTIFICATION ENTRIES

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

Trading and Profit and Loss Account of Mr- XYZ for the year ended 31st March, 2017

Dr-				Cr-			
		Amount				Amount	
		Rs	Rs			Rs	Rs
To	Opening stock		32,250	By	Sales	2,13,575	
To		1,53,100					2,11,000
						<u>2,575</u>	

	Purchases	<u>1,725</u>	1,51,375	By	Less: Sales return		
	Less:				Closing stock		1,25,000
To	Purchase		1,125				
To	sales return		11,715				
To	Carriage inward		1,39,535		$\left(- 80,000 \times \frac{100}{80} \times \frac{100}{80} \right)$		
	Wages						
	Gross profit c/d						
			<u>3,36,000</u>				<u>3,36,000</u>
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of - 1,20,000	6,000					
	Less: Existing provision	<u>3,200</u>	2,800				
To	Provision for discount on Debtors						
	2-5% of - 1,14,000	2,850					
	Less: Existing provision	<u>1,375</u>	1,475				
To	Depreciation:						
	Plant and machinery	3,000					
	Furniture and fittings	<u>1,025</u>	4,025				
To	Office expenses		10,160				
To	Interest on loan		3,000				
To	Net profit (Transferred to capital account)						
			<u>83,800</u>				
			<u>1,39,985</u>				<u>1,39,985</u>

Balance Sheet of Mr- XYZ as on 31st March, 2017

		Amount			Amount
Liabilities	Rs	Rs	Assets	Rs	Rs
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	<u>83,800</u>		Less: Depreciation	<u>3,000</u>	17,000
	1,48,800		Furniture and fittings	10,250	
Less:	<u>11,500</u>	1,37,300	Less: Depreciation	<u>1,025</u>	9,225
Drawings					
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable		2,450	Less: Provision for	6,000	

salaries			doubtful debts		
			Provision for bad		
			debts	<u>2,850</u>	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		<u>3,125</u>
		<u>2,67,250</u>			<u>2,67,250</u>

QUESTION 6

On 31st March, 2021 the Trial Balance of Mr. Black was as follows:

Particulars	Debit (Rs)	Particulars	Credit (Rs)
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	<u>30,28,000</u>		<u>30,28,000</u>

The following additional information is available:

Stocks on 31st March,2021 were:

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

Salaries and wages unpaid for the year ended 31st March,2021 were respectively, Rs 9,000 and Rs 20,000. Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be

charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March, 2021.

Answer

In the books of Mr- Black

Manufacturing Account for the year ended 31st March, 2021

Particulars		Rs	Particulars	Rs
Raw material consumed:			By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap	25,000
<i>Add:</i> Purchases	8,50,000		By Cost of goods Manufactured	
<i>Less:</i> Closing Stock	1,62,000	8,98,000	(Transferred to Trading Account)	11,90,000
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
<i>Add:</i> Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation of Plant		70,000		
		12,93,000		12,93,000

Trading Account for the year ended 31st March, 2021

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

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

Particulars		Rs	Particulars	Rs
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	<u>9,000</u>	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		<u>4,500</u>		
To General Expenses		<u>15,000</u>		
To Provision for doubtful Debts: Required (1% of -1,67,200)				
Less: Existing Provision		<u>220</u>		
To Net Profit		<u>3,47,780</u>		
		<u>5,12,500</u>		5,12,500

QUESTION 7

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

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

Investments 12% (01.8.2021)	7,50,000	-
Bank Balance	5,07,000	-
	93,57,000	93,57,000

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

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

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

Answer

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c To Drawings (Entry for the amount wrongly debited to the latter A/c, now corrected)	Dr.	36,000	36,000
(ii)	Purchase A/c To Creditors (Entry for purchases not recorded)	Dr.	48,000	48,000
(iii)	Suspense A/c To Purchase Returns A/c To Sales Returns A/c (Rectification entry for amount wrongly entered in Sales Journal)	Dr.	6,000	3,000 3,000
(iv)	Prepaid Expenses A/c To Expenses A/c (Prepaid expenses adjusted)	Dr.	18,000	18,000

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

Dr.			Cr.		
		₹			₹
To Opening Stock		1,80,000	By Sales	66,00,000	
To Purchases	48,00,000		Less: Sales Return		
Add: Amount not recorded	<u>48,000</u>		(2,97,000 – 3,000)	<u>2,94,000</u>	63,06,000
	48,48,000		By Closing Stock		3,00,000
Less: Purchases Returns					
(2,07,000 + 3,000)	<u>210,000</u>	46,38,000			
To Gross Profit c/f		<u>17,88,000</u>			
		<u>66,06,000</u>			<u>66,06,000</u>
To Expenses		1,68,000	By Gross Profit		17,88,000
(1,50,000 – 18,000 + 36,000)					
To Rent (51,000 – 15,000)		36,000	By Interest on Fixed Deposit		60,000
To Depreciation	42,000		By Interest on Investments		60,000
Add: Further Depreciation	<u>30,000</u>	72,000	(7,50,000 × $\frac{12}{100} \times \frac{8}{12}$)		
(6,00,000 × $\frac{10}{100} \times \frac{6}{12}$)					
To Net Profit		<u>16,32,000</u>			
		<u>19,08,000</u>			<u>19,08,000</u>

Balance Sheet as on 31st March, 2022

Liabilities		–	Assets		–
Capital	18,00,000		Fixed Assets	4,20,000	
Add: Net Profit	16,32,000		Additions	<u>6,00,000</u>	
Less: Drawings			Less: Depreciation	<u>30,000</u>	9,90,000
(2,10,000 – 36,000)	<u>1,74,000</u>	32,58,000	Stock		3,00,000
Credito-	6,60,000		Debt- Investments		7,50,000
Add: Purchases not recorded	<u>48,000</u>	7,08,000			7,50,000
Overdraft		24,000	Interest accrued		60,000
			Prepaid Expenses (18,000 + 15,000)		33,000
			Bank		<u>5,07,000</u>
		<u>39,90,000</u>			<u>39,90,000</u>

Chapter 8: Financial Statements of Not-for-Profit Organisations

QUESTION 1

The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (Rs)	Payments	Amount (Rs)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per Pass Book:		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary (2019-20)	40,000
Contribution to Club night	10,000	Balance at Bank as per Pass Book:	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		6,62,000

You are given the following additional information (All figures are in Rs)

	01.04.20	31.03.21
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unpresented being payment for repairs	30,000	25,000
Interest not yet entered in the Pass book	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of Rs 20,000 and Ground man is to receive a bonus of Rs 20,000.

Prepare the Income and Expenditure Account for period ended 31st March,2021 and the Balance Sheet as at that date.

Answer

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

Expenditure		₹	Income		₹
To Groundsman's fee		75,000	By Donations and Subscription (W.N.2)		2,45,000
To Rent of Ground		25,000			
To Club night Expenses	38,000		By Receipts from bar room		20,000
Less: Contribution	(10,000)	28,000*			

To Printing & Office Expenses (W.N. 3)		28,000	By Proceeds of club night	78,000*
To Repairs to Equipment (W.N.4)		45,000	By Interest (5,000+2,000)	7,000
To Depreciation on Machinery (W.N. 5)		52,000		
To Honorarium to Secretary		60,000		
To Bonus to Groundsman		20,000		
To Excess of Income over Expenditure		17,000		
		3,50,000		3,50,000

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

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

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

Balance Sheet as on 1st April,2020

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

Calculation of Donations and Subscriptions

₹

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

Printing and Office Expenses

₹

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

Repairs to Equipment

₹

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

Depreciation on Machinery and equipment

₹

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

QUESTION 2

The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.

Expenditure	Rs	Income	Rs
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for Annual Dinner	10,000
To Secretary's honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationary and Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest and bank charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments:

	Rs
Subscription outstanding at the end of 2020	6,000
Subscription received in advance on 31st December, 2020	4,500
Subscription received in advance on 31st December, 2021	2,700
Subscription outstanding on 31st December, 2021	7,500

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

The Club owned a freehold lease of ground valued at Rs 1,00,000. The club had sports equipment on 1st January, 2021 valued at Rs 26,000. At the end of the year 2021, after depreciation, this equipment amounted to Rs27,000. In the year 2020, the Club had raised a bank loan of Rs20,000. This was outstanding throughout the year 2021. On 31st December, 2021 in hand was Rs 16,000. You are required to:

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

Answer

The Women Club

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

Receipts	Rs	Rs	Payments	Rs	Rs
To Balance b/d (balancing figure)		13,900	By Salaries (W-N-2)		47,000

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

Balance Sheet of Women Club as on December 31, 2021

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

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

Liabilities	Rs	Assets	Rs
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000

Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		1,45,900

Working Note 1:

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

	Rs
Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31-12-2021	2,700
	83,700
Less: Subscription received in advance on 31-12-2020	(4,500)
Less: Subscription outstanding on 31-12-2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

$$= 27,000 + 3,000 - 26,000 = - 4,000$$

QUESTION 3

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

	01.04.2021 Rs	31.03.2022 Rs
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84000
Machinery	60,000	120000
Sports goods	90,000	150000

Subscription for the year amount to Rs 18,00,000/-. Salaries paid Rs 3,60,000. Face value of the

Investment was Rs 10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs 84,000. Furniture was sold for Rs 48,000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	Rs 3,00,000
Rent:	Rs 1,44,000 out of which Rs 12,000 outstanding
Misc. Expenses:	Rs 30,000

Answer

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

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

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

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

Working Notes:

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

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

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

value of investment sold: $- 10,50,000 \times 50\% = - 5,25,000$
 Sales price: $- 5,25,000 \times 80\% = - 4,20,000$

Cost price of investment sold: $- 8,40,000 \times 50\% = -4,20,000$
 Profit/loss on sale of investment: $- 4,20,000 - - 4,20,000 = NIL$

3. Loss on sale of furniture

	Rs
Value of furniture as on 01-04-2021	1,68,000
Value of furniture as on 31-03-2022	84,000
Value of furniture sold at the beginning of the year	84,000
Less: Sales price of furniture	<u>(48,000)</u>
Loss on sale of furniture	<u>36,000</u>

4. Depreciation

Furniture - $- 84,000 \times 10\%$	=	8,400
Machinery - $- 60,000 \times 15\%$	=	9,000
Sports goods - $- 90,000 \times 15\%$	=	13,500

5. Interest accrued on investment

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

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

QUESTION 4

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Amar Leela Hospital:

Receipts and Payments Account for the year ended 31 December, 2022

RECEIPTS	Rs		PAYMENTS	Rs
Balance b/d			By Salaries:	
To			(Rs 21,600 for 2021)	93,600
Cash	2,400		By Hospital Equipment	51,000
Bank	15,600	18,000	By Furniture purchased	18,000
To Subscriptions:			By Additions to Building	150,000
For 2021		15,300	By Printing and Stationery	7,200
For 2022		73,500	By Diet expenses	46,800
For 2023		7200	By Rent and rates (Rs 900 for 2023)	6,000
To Government Grant:			By Electricity and water charges	7,200
For building		2,40,000	By office expenses	6,000
For maintenance		60,000	By Investments	60,000
Fees from sundry Patients		14,400	By Balances:	
To Donations (not to be capitalized)		24,000	Cash	4,200
To Net collections from benefit shows		18,000	Bank	20,400
		4,70,400		24,600
				4,70,400
Additional information:				Rs
Value of building under construction as on 31.12.2022				4,20,000
Value of hospital equipment on 31.12.2022				1,53,000
Building Fund as on 1.1. 2022				2,40,000
Subscriptions in arrears as on 31.12.2021				19,500
Investments in 8% Govt. securities were made on 1st July, 2022.				

Answer

Amar Leela Hospital

Income & Expenditure Account for the year ended 31 December, 2022

Expenditure	(Rs)	Income	(Rs)
To Salaries	72,000	By Subscriptions	73,500
To Diet expenses	46,800	By Govt- Grants (Maintenance)	60,000
To Rent & Rates	5,100	By Fees from Sundry Patients	14,400
To Printing & Stationery	7,200	By Donations	24,000

To Electricity & Water-charges	7,200	By Benefit shows (net collections)	18,000
To Office expenses	6,000	By Interest on Investments	2,400
To Excess of Income over expenditure transferred to Capital Fund	<u>48,000</u>		
	<u>1,92,300</u>		<u>1,92,300</u>

Balance Sheet as at 31st Dec-, 2022

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital Fund :			Building :		
Opening balance	1,47,900		Opening balance	2,70,000	
Excess of Income			Addition	<u>1,50,000</u>	4,20,000
Over Expenditure	<u>48,000</u>	1,95,900	Hospital Equipment :		
Building Fund :			Opening balance	1,02,000	
Opening balance	2,40,000		Addition	<u>51,000</u>	1,53,000
Add : Govt- Grant	<u>2,40,000</u>	4,80,000	Furniture		18,000
Subscriptions received in advance		7,200	Investments -		
			8% Govt- Securities		60,000
			Subscriptions receivable		4,200
			Accrued interest		2,400
			Prepaid expenses (Rent)		900
			Cash at Bank		20,400
			Cash in hand		<u>4,300</u>
		<u>6,83,100</u>			<u>6,83,100</u>

Working Notes:

(1) Balance sheet as at 31st Dec-, 2021

Liabilities	Rs	Assets	Rs
Capital Fund		Building	2,70,000
(Balancing Figure)	1,47,900	Equipment	1,02,000
Building Fund	2,40,000	Subscription Receivable	19,500
Creditors for Expenses:		Cash at Bank	15,600
Salaries payable	<u>21,600</u>	Cash in hand	<u>2,400</u>
	<u>4,09,500</u>		<u>4,09,500</u>
(2) Value of Building			-
Balance on 31st Dec- 2022			4,20,000
Paid during the year			<u>1,50,000</u>
Balance on 31st Dec- 2021			<u>2,70,000</u>
(3) Value of Equipment			

Balance on 31st Dec- 2022	1,53,000
Paid during the year	<u>(51,000)</u>
Balance on 31st Dec- 2021	<u>1,02,000</u>
(4) Subscription due for 2021	
Receivable on 31st Dec- 2021	19,500
Received in 2022	<u>15,300</u>
Still Receivable for 2021	<u>4,200</u>



Chapter 9: Accounts from Incomplete Records

QUESTION 1

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	.	Assets	.
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors Cash	1,00,000
		in hand Cash	28,000
		at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

His sales, for the year ended 31st March, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales. Total sales during the year 2020-21 were Rs 5,00,000.

Payments for all the purchases were made by cheques only.

Goods were sold for cash and credit both. Credit customers pay by cheques only.

Deprecation on furniture is to be charged 10% p.a.

Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs 2,000 to the clerk, office expenses Rs 1,200 and personal expenses Rs 500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	.s
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2022	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2022:

	.
Stock	1,60,000
Debtors	1,20,000

Creditors for goods	1,46,000
---------------------	----------

On the evening of 31st March 2022, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

Answer

In the books of Mr- A

Trading Account for the year ending 31st March, 2022

<i>Particulars</i>	<i>Rs</i>	<i>Particulars</i>	<i>Rs</i>
To Opening stock	2,80,000	By Sales (W-N- 3)	
To Purchases (W-N- 1)	3,64,000	Credit 4,80,000	
To Gross profit (b-f-)	1,16,000	Cash <u>1,20,000</u>	6,00,000
		By Closing stock	1,60,000
	7,60,000		7,60,000

Profit and Loss Account for the year ending 31st March, 2022

<i>Particulars</i>	<i>Rs</i>	<i>Particulars</i>	<i>Rs</i>
To Salary (2,000 x 12)	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses (1,200 x 12)	14,400		
To Loss of cash (W-N- 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit (b-f-)	34,000		
	1,16,000		1,16,000

Balance Sheet as on 31st March, 2022

<i>Liabilities</i>	<i>Rs</i>	<i>Assets</i>	<i>Rs</i>
A's Capital 4,04,000		Furniture 40,000	
Add: Net Profit 34,000		Less: Depreciation <u>(4,000)</u>	36,000

Less: Drawings		Stock	1,60,000
(500 x 12) (6,000)	4,32,000	Debto-	1,20,000
Credito-	1,46,000	Cash at bank	2,62,000
	5,78,000		5,78,000

Working Notes:

1) Calculation of purchases

Creditors Account

<i>Particulars</i>	<i>Rs</i>	<i>Particulars</i>	<i>Rs</i>
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal- fig)	3,64,000
	4,46,000		4,46,000

2) Calculation of total sales

	<i>Rs</i>
Sales for the year 2020-21X	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 2021-22	6,00,000

3) Calculation of credit sales

	<i>-Rs</i>
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

4) Calculation of cash collected from debtors

Debtors Account

<i>Particulars</i>	<i>Rs</i>	<i>Particulars</i>	<i>Rs</i>
To Balance b/d	1,00,000	By Bank A/c (Bal- fig-)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

5) Calculation of closing balance of cash at bank

Bank Account

Particulars	Rs	Particulars	Rs
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b-f-)	2,62,000
	5,78,000		5,78,000

6) Calculation of the amount of cash defalcated by the cashier

		Rs
Cash balance as on 1 st April 2021		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (-2,000x12)	24,000	
Office expenses (-1,200 x 12)	14,400	
Drawings of A (-500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31 st March 2022 (defalcated by the cashier)		23,600

QUESTION 2

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs 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 1.4.2021	As on 31.3.2022
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	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

- (a) Payment to creditors Rs 7,00,000
- (b) Payment for business expenses Rs 1,20,000
- (c) Receipts from debtors Rs 7,50,000
- (d) Loan Rs 1,00,000 taken on 1.10.2021 at 10% per annum
- (E) Cash deposited in the bank Rs 1,00,000

He informs you that he paid creditors for goods Rs 20,000 in cash and salaries Rs 40,000 in cash. He has drawn Rs 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. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

Answer

**Trading Account of Ram
for the year ended 31st March, 2022**

	<i>Rs</i>		<i>Rs</i>
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.)	1,20,000
	13,60,000		13,60,000

Profit and Loss Account of Ram for the year ended 31st March, 2022

	<i>Rs</i>		<i>Rs</i>
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 x 6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet of Ram as at 31st March, 2022

Liabilities	<i>Rs</i>	<i>Rs</i>	Assets	<i>Rs</i>

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

Working Notes:

1) Sundry Debtors Account

	Rs		Rs
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal- fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2) Sundry Creditors Account

	Rs		-
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	90,000		
	8,10,000		8,10,000

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 Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

Question 3

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022.

			Rs
1-4-2020	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 Moti's Brother
		Sundry creditors	35,000
1-4-2022	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
		Loan to Moti's Brother	20,000
		Liabilities :	Sundry creditors

During the two years the domestic expenditure was Rs 4,000 p.m. The declared incomes of the financial years were Rs 1,05,000 for 2020-2021 and Rs 1,23,000 for 2021-2022 respectively.

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

Answer

Calculation of Capital of Shri Moti

	₹	1-4-2020₹	₹	1-4-2022₹
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 Moti's Brother		—		20,000
		3,88,000		6,20,000
<i>Liabilities:</i>				
Owing to Moti'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 1-4-2022				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-2020				(3,13,000)
Income earned in 2020-2021 and 2021-2022				3,48,000
Income declared (₹ 1,05,000 + ₹ 1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000 based on the information available

Chapter 10: Partnership and LLP Accounts

QUESTION 1

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2023 stood as:

Liabilities	Rs		Assets	Rs	
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
		_____	Joint life policy		1,60,000
		23,50,000	Cash at Bank		1,50,000
					23,50,000

B retired on 1st April, 2023 subject to the following conditions:

- (i) Office Equipment's revalued at Rs 3,27,000.
- (ii) Building revalued at Rs 15,00,000. Furniture is written down by Rs 40,000 and Stock is reduced to Rs 2,00,000 .
- (iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
- (iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is Rs 1,50,000
- (v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	Rs
2019	90,000
2020	1,40,000
2021	1,20,000
2022	1,30,000

- (vi) Amount due to B is to be transferred to his Loan Account.

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

Answer

Revaluation Account

	Rs		Rs
To Furniture A/c	40,000	By Office equipment A/c	47,000

To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy*	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C <u>77,000</u>	<u>4,62,000</u>		
	<u>5,62,000</u>		<u>5,62,000</u>

*Alternatively JLP A/c of -- 10,000 can be debited to Partners Capital A/c in the profit sharing ratio- In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio-

Partners' Capital Accounts

	A Rs	B Rs	C Rs		A Rs	B Rs	C Rs
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	<u>12,11,000</u>	<u>8,14,000</u>	<u>5,37,000</u>		<u>12,11,000</u>	<u>8,14,000</u>	<u>5,37,000</u>

Balance Sheet as on 1-4-2023 (After B's retirement)

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	<u>5,07,000</u>	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	<u>(15,000)</u>	2,85,000
			JLP		1,50,000
			Cash at bank		<u>1,50,000</u>
		<u>28,12,000</u>			<u>28,12,000</u>

Working Notes:

Calculation of goodwill:

- Average of last 4 year's profit

$$= (90,000 + 1,40,000 + 1,20,000 + 1,30,000) / 4$$

$$= - 1,20,000$$
- Goodwill at three year's purchase

$$- 1,20,000 \times 3 = - 3,60,000$$

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr-)
B	1,20,000	-	1,20,000 (Cr-)
C	60,000	90,000	30,000 (Dr-)

QUESTION 2

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms' balance sheet as on 31.03.2022 was as follows:

Liabilities	Rs	Assets	Rs
Capital accounts:		Fixed assets	3,00,000
Gopal	1,20,000	Investments	50,000
Govind	80,000	Current assets	2,00,000
Long term loan	2,00,000	Loans and advances	1,00,000
Current liabilities	2,50,000		
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2022 on the following terms:

Guru will be paid 40% of the profits.

Guru will bring in cash Rs 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

For the year ended 31.3.2020: profit Rs 20,000 (includes insurance claim received of Rs40,000).

For the year ended 31.3.2021: loss Rs 80,000 (includes voluntary retirement compensation paid Rs 1,10,000).

For the year ended 31.3.2022: profit of Rs 1,05,000 (includes a profit of Rs 25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2022 as follows:

	Rs
Fixed assets (net)	4,00,000

Investments	Nil
Current assets	1,80,000
Loans and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass journal entries on admission, show goodwill calculation and prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2022 after the admission of Guru.

Answer

Calculation of Profit/ Loss for the year ended

	31-3-2020	31-3-2021	31-3-2022
Profit/(loss) for the year	20,000	(80,000)	1,05,000
Add/(less): Abnormal items	(40,000)	1,10,000	(25,000)
Net Profit/(loss)	(20,000)	30,000	80,000

$$\text{Average profit} = \frac{(20,000) + 30,000 + 80,000}{3} = - 30,000$$

Two year's purchase of average profits = $30,000 \times 2 = - 60,000$ Goodwill to be brought in by Guru = $- 60,000 \times 40\% = - 24,000$ Goodwill brought in by Guru shared (at the profit sacrificing ratio) by:

	-
Gopal (- 24,000 x 5/8)	15,000
Govind (- 24,000 x 3/8)	9,000
	24,000

(II) Journal Entries

Date	Particulars	Dr- Rs	Cr- Rs
1-4-2022	Bank A/c To Guru's capital A/c (Amount of capital and goodwill brought in by Guru)	1,24,000	1,24,000
1-4-2022	Guru's capital A/c	24,000	

	To Gopal's capital A/c To Govind's capital A/c (Amount of goodwill brought in by Guru credited to capital accounts of the old partners in the profit sacrificing ratio 5:3)			15,000 9,000
1-4-2022	Revaluation A/c To Investment A/c To Current assets A/c (Writing down the value of investments to nil and current assets from – 2,00,000 to – 1,80,000 on the occasion of admission of Guru)	Dr-	70,000	50,000 20,000
1-4-2022	Fixed assets A/c To Revaluation A/c (Writing up the value of fixed assets from – 3,00,000 to – 4,00,000 on the occasion of admission of Guru)	Dr-	1,00,000	1,00,000
1-4-2022	Revaluation A/c To Guru's capital A/c To Govind's capital A/c (Net revaluation profit credited to the capital accounts of the old partner in the old profit sharing ratio of 60:40)	Dr-	30,000	18,000 12,000

(ii) Revaluation Account

Particulars	Rs	Particulars	Rs
To Investments A/c	50,000	By Fixed assets A/c	1,00,000
To Current assets A/c	20,000		
To Partner's capital A/c: (Profit on revaluation)			
Gopal (60%)	18,000		
Govind (40%)	12,000		
	1,00,000		1,00,000

(iii) Partner's Capital Accounts:

Gopal's Capital Account

Particulars	Rs	Particulars	Rs
To Balance c/d	1,53,000	By Balance b/d	1,20,000
		By Bank A/c	15,000
		By Revaluation A/c	18,000
	1,53,000		1,53,000

Govind's Capital Account

Particulars	Rs	Particulars	Rs
To Balance c/d	1,01,000	By Balance b/d	80,000
		By Bank A/c	9,000
		By Revaluation A/c	12,000
	1,01,000		1,01,000

Guru's Capital Account

Particulars	Rs	Particulars	Rs
To Balance c/d	1,00,000	By Bank b/d	1,00,000
	1,00,000		1,00,000

Closing Balance Sheet (after admission of Guru) as on 1st April, 2022

Liabilities		Rs	Assets	Rs
Capital accounts:			Fixed assets	4,00,000
Gopal	1,53,000		Current assets	3,04,000
Govind	1,01,000		(including bank balance	
Guru	<u>1,00,000</u>	3,54,000	of - 1,24,000)	
Long term loan		2,00,000	Loans & advances	1,00,000
Current liabilities		2,50,000		
		<u>8,04,000</u>		<u>8,04,000</u>

Working Notes:

1. Calculation of profit sacrificing ratio Profit sacrificed by

Gopal = 60% - 35% = 25%

Profit sacrificed by Govind = 40% -

25% = 15% Sacrificing ratio = 25% : 15% or

5:3

2. Bank balance after admission of Guru:

Bank Account

Particulars	Rs	Particulars	Rs
To Guru's capital A/c	1,24,000	By Balance c/d	1,24,000
	1,24,000		1,24,000

QUESTION 3

Dowell llp. with partners Mr. A, Mr. B and Mr., C, are sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2022 is as under:

Liabilities		Rs	Assets	Rs
Capitals :			Land	10,000
Mr. A	80,000		Buildings	2,00,000
Mr. B	20,000		Plant and Machinery	1,30,000
Mr. C	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2022. For this purpose, the following adjustments are to be made:

- Goodwill is to be valued at Rs 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- In the reconstituted firm, the total capital will be Rs 2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.

- (i) The surplus funds, if any, will be used for repaying bank overdraft.
- (ii) The amount due to retiring partner shall be transferred to his loan account.

Required Prepare

- (a) Revaluation account;
- (b) Partners' capital accounts;
- (c) Bank account; and
- (d) Balance sheet of the reconstituted firm as on 1st April, 2022.

Answer

Revaluation Account

	Rs		Rs
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partne-:	
To Provision for Doubtful Debts A/c	27,800	A	30,400
		B	18,240
		C	12,160
	63,800		60,800
			63,800

A's Capital Account

	Rs		Rs
To Revaluation A/c	30,400	By Balance b/d	80,000
To Balance c/d	80,000	By Reserves A/c	10,000
		By C and D's Capital A/c	10,000
		By Bank A/c (balancing figure)	10,400
	1,10,400		1,10,400

B's Capital Account

	Rs		Rs
To Revaluation A/c	18,240	By Balance b/d	20,000
To Investments A/c	15,000	By Reserves A/c	6,000
To B's Loan A/c	22,760	By C and D's Capital A/c	30,000
	56,000		56,000

C's Capital Account

	Rs		Rs
To Revaluation A/c	12,160	By Balance b/d	30,000
To A and B's Capital A/c	20,000	By Reserves A/c	4,000
To Balance c/d	80,000	By Bank A/c (balancing figure)	78,160
	1,12,160		1,12,160

D's Capital Account

	Rs		Rs
To A and B's Capital A/cs	20,000	By Bank A/c	60,000
To Balance c/d	40,000		
	60,000		60,000

Bank Account

	Rs		Rs
To A's Capital A/c	10,400	By Bank Overdraft A/c	44,000
To C's Capital A/c	78,160	By Balance c/d	1,04,560
To D's Capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of Dowell llp-as at 1st April, 2022

Liabilities		Rs	Assets		Rs
Capital Accounts:			Land		10,000
A	80,000		Buildings		1,90,000
C	80,000		Plant and Machinery		1,04,000
D	40,000	2,00,000	Furniture		43,000
Long Term Debts		3,00,000	Inventories	1,39,000	1,30,000
Trade payables		1,70,000	Trade receivables		
B's Loan Account		22,760	Less: Provision for Doubtful Debts)	(27,800)	1,11,200
		6,92,760	Balance at Bank		1,04,560
					6,92,760

Note: Even though the problem says goodwill - 1,00,000 to appear in new Balance Sheet, it is written off so as to company with Accounting Standard- Net entry for goodwill is:

C's capital	Dr-	20,000
D's capital	Dr-	20,000

To A's capital	10,000
To B's capital	30,000

QUESTION 4

On 31st March, 2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs	Assets	Rs
Capital Account:		Land and Building	1,20,000
Mr. Aadi	80,000	Plant and Machinery	80,000
Mr. Arnav	1,20,000	Stock of goods	48,000
Mr. Aarush	80,000	Sundry debtors	44,000
Sundry Creditors	40,000	Cash and Bank Balances	28,000
	3,20,000		3,20,000

On 1st April, 2022, Aadi desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%. Plant and Machinery be depreciated by 30%.
- (ii) Stock of goods to be valued at Rs40,000. Old credit balances of Sundry creditors, Rs8,000 to be written back.
- (iii) Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained Rs 30,200.
- (iv) Goodwill of the entire firm is valued at Rs56,000 and Aadi's share of the goodwill is adjusted in the A/cs of Arnav and Aarush, who would share the future profits equally. No goodwill account being raised.
- (v) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
- (vi) Amount due to Mr. Aadi is to be settled on the following basis: @ 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) Capital Accounts of the partners, (c) Cash and Bank Account and (d) Balance Sheet of the new firm M/s Arnav & Aarush as on 1.04.2022.

Answer

(a) Revaluation Account

Date		Particulars	Rs	Date		Particulars	Rs
2022				2022			
April	To	Plant & Machinery	24,000	April	By	Land and building	24,000
	To	Stock of goods	8,000		By	Sundry creditors	8,000
	To	Provision for bad and doubtful debts	2,200		By	Cash & Bank - Joint life Policy	30,200

To	Capital accounts (profit on revaluation transferred)				surrendered	
	Mr- Aadi (2/7)	8,000				
	Mr- Arnav(3/7)	12,000				
	Mr- Aarush (2/7)	<u>8,000</u>	<u>28,000</u>			
			<u>62,200</u>			<u>62,200</u>

(b) Partners' Capital Accounts

Dr-				Cr-			
Particulars	Aadi	Arnav	Aarush	Particulars	Aadi	Arnav	Aarush
	(Rs)	(Rs)	(Rs)		(Rs)	(Rs)	(Rs)
To Aadi's Capital A/c - goodwill	-	4,000	12,000	By Balance b/d	80,000	1,20,000	80,000
To Cash & bank A/c - (50% dues paid)	52,000	-	-	By Revaluation A/c	8,000	12,000	8,000
To Aadi's Loan A/c - (50% transfer)	52,000	-	-	By Arnav & Aarush's Capital A/cs - goodwill	16,000	-	-
To Balance c/d	-	140,000	1,40,000	By Cash & bank A/c - amount brought in (Balancing figures)	-	12,000	64,000
	<u>1,04,000</u>	<u>1,44,000</u>	<u>1,52,000</u>		<u>1,04,000</u>	<u>1,44,000</u>	<u>1,52,000</u>

c) Cash and Bank Account

Particulars	Rs	Particulars	Rs
To Balance b/d	28,000	By Aadi's Capital A/c - 50% dues paid	52,000
To Revaluation A/c – surrender value of joint life policy	30,200	By Balance c/d	82,200
To Arnav's Capital A/c	12,000		
To Aarush's Capital A/c	<u>64,000</u>		
	<u>1,34,200</u>		<u>1,34,200</u>

(d) Balance Sheet of M/s Arnav & Aarush as on 01-04-2022

Liabilities	Rs	Assets	Rs
Partners Capital account		Land and Building	1,20,000
Mr- Arnav	1,40,000	Add: Appreciation 20%	<u>24,000</u>
Mr- Aarush	<u>1,40,000</u>		80,000
	2,80,000		1,44,000

Mr- Aadi's Loan account	52,000	Plant & Machinery	24,000	56,000
Sundry Creditors	32,000	Less: Depreciation 30%	48,000	
		Stock of goods	8,000	40,000
		Less: revalued	44,000	
		Sundry Debtors		
		Less: Provision for bad debts 5%	2,200	41,800
		Cash & Bank balances		82,200
	<u>3,64,000</u>			<u>3,64,000</u>

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	56,000
Mr- Aadi's Share (2/7)	16,000
Gaining ratio of Arnav & Aarush;	
Arnav = $\frac{1}{2} - \frac{3}{7} = \frac{1}{14}$	
Aarush = $\frac{1}{2} - \frac{2}{7} = \frac{3}{14}$	
Arnav: Aarush = 1:3	

Therefore, Arnav will bear – $\frac{1}{4} \times 16000$ or –4,000 Aarush will bear = $\frac{3}{4} \times 16000$ or –12,000

QUESTION 5

- (i) Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (Rs)
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 Rs 2,40,000, Rs 2,16,000 and Rs 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of Rs 36,000 in the year 2020.

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

- (ii) Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	Rs	Assets	Rs
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	90,000		—
	19,65,000		19,65,000

The partnership earned profit Rs 6,00,000 in 2022 and the partners withdrew Rs 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed

Answer

(I) **Computation of Goodwill of Mr- X**

Average maintainable profits:		Rs
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(36,000)
Total		7,20,000
Average Profits (- 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of - 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative:

$$\text{Total profit } (- 2,40,000 + - 2,16,000 + - 3,00,000 - - 36,000) = - 7,20,000$$

$$\text{Normal Profit (11% on capital employed of - 9,00,000)} = (99,000)$$

$$\text{Remuneration for the proprietor} = \underline{(36,000)}$$

	(1,35,000)
Average Profits (- 7,20,000 / 4)	1,80,000
Super Profit	45,000
Goodwill at 6 year's purchase of Super Profit	= 2,70,000

(ii)

Valuation of Goodwill:		Rs
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31-12-2022	18,75,000
	Add: 1/2 of the amount withdrawn by partne-	<u>2,25,000</u>
		21,00,000
	Less: 1/2 of the profit earned in 2022	<u>(3,00,000)</u>
		<u>18,00,000</u>
(2)	Super Profit:	
	Profit of M/s Ved, Jain & Agrawal	6,00,000
	Normal profit @ 30% on - 18,00,000	<u>5,40,000</u>
	Super Profit	<u>60,000</u>
(3)	Value of Goodwill	- 3,00,000

QUESTION 6

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2022 their Balance Sheet was as under:

Liabilities	.	Assets	.
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2022.

The partnership deed provides as follows:

- (a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.
- (b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase

of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000
2021-22	1,96,000

Average capital during preceding four years may be assumed as Rs 3,00,000

- (c) Profits till the date of death to be ascertained on the basis of average profit of previous four years
- (d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. Rs 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at Rs 80,000. Bad debts amounted Rs 1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare

1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2022, assuming other Assets and liabilities remaining the same.

Answer

Revaluation A/c

Particulars	Rs	Particulars	Rs
To Furniture	7,500	By Land & Building	33,000
To Inventory	8,740		
To Bad Debts	1,760		
To Profit on Revaluation			
Diya	6,000		
Riya	3,000		
Kiya	<u>6,000</u>		
	15,000		
	33,000		33,000

Partner Capital A/c

Particulars	Diya Rs	Riya Rs	Kiya Rs	Particulars	Diya Rs	Riya Rs	Kiya Rs
To Kiya capital	40,000	20,000		By Balance b/d	1,50,000	1,80,000	70,000
To Bank			2,79,800	By General Reserve	56,000	28,000	56,000
To Balance c/d	2,28,000	2,19,000		By Joint life Policy	56,000	28,000	56,000
				By Interest on Capital	6,000	3,000	6,000
				By revaluation			60,000
				By Diya & Riya capital			27,600
				By Profit & loss suspense A/c			
	2,68,000	2,39,000	2,79,800		2,68,000	2,39,000	2,79,800

Bank A/c

Particulars	Rs	Particulars	Rs
To Balance B/d	1,14,510	By Kiya's Capital	2,79,800
To Bank	2,00,000	By Balance c/d	34,710
	3,14,510		3,14,510

Balance Sheet as on 30th September, 2022

Liabilities	Rs	Assets	Rs
Capitals :		Land & Building	1,98,000
Diya	2,28,000	Furniture	67,500
Riya	2,19,000	Inventory	80,000
Trade payables	60,000	Trade Receivable	94,990
		Bank	34,710
		Profit and loss Suspense (27,600+4,200)	31,800
	5,07,000		5,07,000

Working Notes:

1- Goodwill valuation	
2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000

2021-22 1,96,000

Total 7,44,000

Average = 7,44,000/4 = 1,86,000

Less: Interest on Capital 3,00,000 X 12% = 36,000

Adjusted Average Profit =1,50,000

Goodwill (1 year's purchase) = 1,50,000

Kiya's share (2/5) = 60,000

2 Journal entry for adjustment of goodwill

Particulars		Rs	Rs
Diya's Capital A/c	Dr-	40,000	
Riya's Capital A/c	Dr-	20,000	
To Kiya's Capital A/c (Share of goodwill adjusted)			60,000

3 Kiya's share of profit till the date of death

Average profit for full year before interest on capital = 1,86,000

6 month's profit = 93,000

Less: interest on capital 4,00,000 X 12% X 6/12 = 24,000

Adjusted profit till the date of death = 69,000

Kiya's share 2/5th = 27,600

4 The Joint life policy in this question is based on the surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner-

Rs2,00,000- Rs60,000 (Balance Sheet value) = Rs1,40,000 (divided in profit sharing ratio between the partners)

QUESTION 7

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500
General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts	60,000
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)
Trade Creditors	30,000	Stock	36,000

Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital Withdrawn: Kumar	32,400
	3,56,400		3,56,400

The following information is given to you:

- (i) Realization expenses amounted to Rs 18,000 out of which Rs 3,000 was borne by Amit.
- (ii) A creditor agreed to takeover furniture of book value Rs 12,000 at Rs 10,800. The rest of the creditors were paid off at a discount of 6.25%.
- (iii) The other assets realized as follows:
 - Furniture - Remaining taken over by Kumar at 90% of book value
 - Stock - Realized 120% of book value
 - Book Debts - Rs 12,000 of debts proved bad, remaining were fully realized
 - Land & Building - Realized Rs 1,65,000
 - Investments - Taken over by Amit at 15% discount
- (iv) For half of his loan, D accepted Plant & Machinery and Rs 7,500 cash. The remaining amount was paid at a discount of 10%.
- (v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Answer

Realization Account

	<i>Particulars</i>	<i>Rs</i>		<i>Particulars</i>	<i>Rs</i>
To	Land and Building	1,35,000	By	Provision for bad debts	6,000
To	Plant and Machinery	45,000	By	Loan from D	1,20,000
To	Furniture	25,500	By	Trade creditors	30,000
To	Investments	15,000	By	Bills payable	12,000
To	Book debts	60,000	By	Outstanding salary	7,500
To	Stock	36,000	By	Kumar - Furniture taken over (13,500 x -9)	12,150
To	Bank	15,000	By	Bank A/c - Stock Realized	43,200
To	(Realization expenses)				

To		3,000		Land & Building	1,65,000		
	Amit- Realization			Debtors	<u>48,000</u>		2,56,200
To	expenses			By Amit (Investment taken over)			12,750
	Bank A/c -	11,940					
	Bill payable	61,500					
	D's Loan	18,000					
	Creditors	7,500					
	Salary						
To	Profit transferred to partners' capital Accounts						
	Amit	9,264					
	Sumit	9,264					
	Kumar	<u>4,632</u>					
			23,160				
			<u>4,56,600</u>				<u>4,56,600</u>

Bank Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	13,500	By	Realization A/c (payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To	Realization A/c (assets realized)	2,56,200	By	Amit	79,314
To	Kumar	12,618	By	Sumit	89,064
		<u>2,82,318</u>			<u>2,82,318</u>

Partners' Capital Accounts

Particulars	Amit	Sumit	Kumar	Particulars	Amit	Sumit	Kumar
	-	-	-		-	-	-
To	Balance b/d		32,400	By	Balance b/d	55,200	55,200
				By	Kumar's Loan		15,000
To	Realization A/c (Investment taken over)	12,750		By	General Reserve	24,600	24,600
To	Realization A/c (Furniture taken over)		12,150	By	Realization A/c (expense)	3,000	
				By	Realization A/c		

To Bank A/c	79,314	89,064		By (profit)	9,264	9,264	4,632
							12,618
	92,064	89,064	44,550	By Bank A/c	92,064	89,064	44,550

Working Notes:

1. Payment for Bills Payable

<i>Particulars</i>	<i>Amount (Rs)</i>
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

1. Payment to D's Loan

<i>Particulars</i>	<i>Amount (Rs)</i>
D's Loan as per Balance Sheet	120,000-00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (- 45,000) and - 7,500 in cash-	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i-e- - 60,000 – - 6,000 = - 54,000-	54,000

2. Payment to Trade Creditors

<i>Particulars</i>	<i>Amount (Rs)</i>
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value - 12,000 accepted at value - 10,800	10,800
	19,200
Less: Discount @ 6-25%	1,200
Amount paid in Cash	18,000

3. Furniture taken over by Kumar

<i>Particulars</i>	<i>Amount (Rs)</i>
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value - 12000 accepted by trade credito-	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

QUESTION 8

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs	Rs	Assets	Rs
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs 5,400 but actual amount spent was Rs 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Answer

Statement showing distribution of cash amongst the partners

	Creditors	B's Loan	A	B	C
2022	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>	<i>Rs</i>
June 30 Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (Rs10,800 – Rs 5,400)	5,400	-	-	-	-
Balances unpaid					
July 5	24,600	10,000	76,000	48,000	36,000

1 st Instalment of - 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realisation A/c	1,000				
August 30	Nil				
2 nd instalment of - 60,000 (W-N- 2)		8,400	32,640	4,640	14,320
Balance unpaid					
September 15		Nil	43,360	43,360	21,680
Amount realised - 80,000					
Add: Balance out of the Provision for Expenses A/c					
					<u>1,400</u>
					<u>81,400</u>
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			32,560	32,560	16,280
			10,800	10,800	5,400

Working Notes:

1. Highest relative capital basis

		A	B	C
		Rs	Rs	Rs
1-	Present Capitals	76,000	48,000	36,000
2-	Profit-sharing ratio	<u>2</u>	<u>2</u>	<u>1</u>
3	Capital per unit of Profit share (1 ÷ 2)	<u>38,000</u>	<u>24,000</u>	<u>36,000</u>
4-	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5-	Excess capital (1-4)	28,000	Nil	12,000
6-	Profit-sharing ratio	<u>2</u>	-	<u>1</u>
7-	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8-	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9-	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-

10-	Balance of Excess capital (5-9)	24,000		12,000
11-	Distribution sequence:			
	Fi-t - 4,000 (2 : 0 : 0)	4,000	-	-
	Next - 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over - 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

		<i>Creditors</i>	<i>A</i>	<i>B</i>	<i>C</i>
Fi-t	- 8,400	8,400	-	-	-
Next	- 4,000 (2 : 0 : 0)		4,000	-	-
Next	- 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance	- <u>11,600</u> (2 : 2 : 1)		4,640	4,640	2,320
	60,000	8,400	32,640	4,640	14,320

Chapter 11: Company Accounts

QUESTION 1

Finopolis Limited is a company with an authorized share capital of Rs 4,00,00,000 in equity shares of Rs 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 2,60,000 shares of Rs 10 each at a price of Rs 12 each, the arrangements for payment being:

- (i) Rs 2 per share payable on application, to be received by 1st July, 2022;
- (ii) Allotment to be made on 10th July, 2022 and a further Rs 5 per share (including the premium) to be payable;
- (iii) The final call for the balance to be made, and the money received by 31st March, 2023.

Applications were received for 8,40,000 shares and were dealt with as follows:

- (1) Applicants for 40,000 shares received allotment in full;
- (2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

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

Answer

Journal of Finopolis Limited

Date 2022	Particulars	Dr- Rs	Cr- Rs
July 1	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 4,20,000 shares @ - 2 per share)	Dr- 16,80,000	16,80,000
July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6)	Dr- 16,80,000	5,20,000 8,00,000 3,60,000

	(Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No...-dated...)			
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c	Dr-	13,00,000	7,80,000 5,20,000
	(Being allotment money due on 2,60,000 shares @ - 5 each including premium at - 2 each as per Board's Resolution No...-dated...-)			
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr-	5,00,000	5,00,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 2,60,000 shares @ - 5 per share as per Board's Resolution No...-dated...-)	Dr-	13,00,000	13,00,000
March 31 st	Bank A/c To Equity Share Final Call A/c (Being final call money on 2,60,000 shares @ - 5 each received)	Dr-	13,00,000	13,00,000

Working Note:

Calculation for Adjustment and Refund

Category	No- of Shares Applied for	No- of Shares Allotted	Amount Received on Application (1x - 2)	Amount Required on Application (2 x - 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	8,40,000	2,60,000	16,80,000	5,20,000	8,00,000	3,60,000	13,00,000	5,00,000

QUESTION 2

A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable Rs 2 on application; Rs 4 on allotment (including premium); Rs 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. (Ignore dates).

Answer

Entry No-	Particulars	L-F-	Debit Amount (Rs)	Credit Amount (Rs)
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 Fi-t Call A/c To Equity Share Capital A/c (Being fi-t call made due on 20,000 shares at - 2 per share)	Dr-	40,000	40,000
6	Bank A/c To Equity Share Fi-t Call A/c To Calls in Advance A/c (Being fi-t call money received along with calls in advance on 2,000 shares at - 3 per share)	Dr-	46,000	40,000 6,000
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	Dr- Dr- Dr-	53,100 6,000 900	60,000

	(Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)		
9	Interest on Calls in Advance A/c To Shareholders A/c	Dr-	240 240
	(Being interest made due on calls in advance of -6,000 at the rate of 12% p-a-)		
10	Shareholders A/c To Bank A/c	Dr-	240 240
	(Being payment of interest made to shareholder)		
11	Shareholders A/c To Interest on Calls in Arrears A/c	Dr-	15 15
	(Being interest on calls in arrears made due at the rate of 10%)		
12	Bank A/c To Calls in Arrears A/c To Shareholders A/c	Dr-	615 600 15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)		
13	Shareholders A/c To Interest on Calls in Arrears A/c	Dr-	10 10
	(Being interest on calls in arrears made due at the rate of 10%)		
14	Bank A/c To Calls in Arrears A/c To Shareholders A/c	Dr-	310 300 10
	(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)		

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

Interest on Calls in Advance = - 6,000 x 12% x 4 / 12 = - 240 Interest on

Calls in Arrears - 600 x 10% x 3 / 12 = - 15

Interest on Calls in Arrears - 300 x 10% x 4 / 12 = - 10

Table F of The Companies Act,2013 prescribes 10% and 12% p-a- as the maximum rates respectively for calls in arrears and calls in advance- Accordingly these rates have been considered while passing the above entries,

Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

QUESTION 3

On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of Rs100 each at a discount of 5%, redeemable on 31st March, 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

- (i) Journal Entries at the time of issue of debentures.
- (ii) Discount on issue of Debenture Account
- (iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

Answer

Journal in the Books of Sheru Ltd.

Date	Particulars	LF	(Rs 00)	(Rs 00)
2022				
Apr 1	Bank A/c To Debenture Application A/c (Being debenture application money received for 1,20,000 debentures)		1,14,000	1,14,000
	Debenture Application A/c	Dr-	1,14,000	
	Discount on Issue of Debenture A/c	Dr-	5,000	
	To 12% Debenture A/c			1,00,000
	To Bank A/c			19,000
	(Being application money transferred to debenture account and excess refunded)			

(iv) Discount on Issue of Debenture A/c

Date	Particulars	Rs'00	Date	Particulars	Rs'00
1-4-22	To 12% Debentures A/c	5,000	31-3-23	By Profit & Loss A/c	1,000
		—	31-3-23	By Balance c/d	<u>4,000</u>
		<u>5,000</u>			<u>5,000</u>
1-4-23	To Balance b/d	4,000	31-3-24	By Profit & Loss A/c	1,000
		—	31-3-24	By Balance c/d	<u>3,000</u>
		<u>4,000</u>			<u>4,000</u>
1-4-24	To Balance b/d	3,000	31-3-25	By Profit & Loss A/c	1,000
		—	31-3-25	By Balance c/d	<u>2,000</u>
		<u>3,000</u>			<u>3,000</u>

1-4-25	To Balance b/d	2,000	31-3-26	By Profit & Loss A/c	1,000
		—	31-3-26	By Balance c/d	<u>1,000</u>
		<u>2,000</u>			<u>2,000</u>
1-4-26	To Balance b/d	<u>1,000</u>	31-3-27	By Profit & Loss A/c	<u>1,000</u>
		1,000			1,000

(v) Interest A/c

Date	Particulars	Rs'00	Date	Particulars	Rs'00
31-3-23	To Debentureholder A/c	<u>12,000</u>	31-3-23	By Profit & Loss A/c	<u>12,000</u>
		<u>12,000</u>			<u>12,000</u>
31-3-24	To Debentureholder A/c	<u>12,000</u>	31-3-24	By Profit & Loss A/c	<u>12,000</u>
		<u>12,000</u>			<u>12,000</u>
31-3-25	To Debentureholder A/c	<u>12,000</u>	31-3-25	By Profit & Loss A/c	<u>12,000</u>
		<u>12,000</u>			<u>12,000</u>
31-3-26	To Debentureholder A/c	<u>12,000</u>	31-3-26	By Profit & Loss A/c	<u>12,000</u>
		<u>12,000</u>			<u>12,000</u>
31-3-27	To Debentureholder A/c	<u>12,000</u>	31-3-27	By Profit & Loss A/c	<u>12,000</u>
		12,000			12,000

Debentureholder A/c

Date	Particulars	Rs'00	Date	Particulars	Rs'00
31-3-23	To Bank A/c	10,800	31-3-23	By Interest A/c	12,000
31-3-23	To TDS A/c	<u>1,200</u>			—
		<u>12,000</u>			<u>12,000</u>
31-3-24	To Bank A/c	10,800	31-3-24	By Interest A/c	12,000
31-3-24	To TDS A/c	<u>1,200</u>			—
		<u>12,000</u>			<u>12,000</u>
31-3-25	To Bank A/c	10,800	31-3-25	By Interest A/c	12,000
31-3-25	To TDS A/c	<u>1,200</u>			—
		<u>12,000</u>			<u>12,000</u>
31-3-26	To Bank A/c	10,800	31-3-26	By Interest A/c	12,000
31-3-26	To TDS A/c	<u>1,200</u>			—
		<u>12,000</u>			<u>12,000</u>
31-3-27	To Bank A/c	10,800	31-3-27	By Interest A/c	12,000
31-3-27	To TDS A/c	<u>1,200</u>			—
		12,000			12,000

QUESTION 4

HDC Ltd. Issues 2,00,000, 12% Debentures of Rs10 each at Rs9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

Answer

Calculation of amount of discount to be written-off

At the Year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
2022	- 20,00,000	5	5/15th of - 1,20,000 = - 40,000
2023	- 16,00,000	4	4/15th of - 1,20,000 = - 32,000
2024	- 12,00,000	3	3/15th of - 1,20,000 = - 24,000
2025	- 8,00,000	2	2/15th of - 1,20,000 = - 16,000
2026	- 4,00,000	<u>1</u>	1/15th of - 1,20,000 = - <u>8,000</u>
	TOTAL	15	- 1,20,000

QUESTION 5

The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of Rs10 each fully paid; 18,000 12% Redeemable Preference Shares of Rs10 each fully paid; 4,000 10% Redeemable Preference Shares of Rs 10 each, Rs 8 paid up (all shares issued on 1st April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs 80,000; General Reserve Rs 1,20,000; Securities Premium Account Rs 15,000 and Capital Reserve Rs 21,000.

For redemption, 3,000 equity shares of Rs10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of Rs2 per share. The whereabouts of the holders of 100 shares of Rs10 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)

In the books of B Limited

Journal Entries

Particulars		Dr- (Rs)	Cr- (Rs)
12% Redeemable Preference Share Capital A/c	Dr-	1,80,000	
Premium on Redemption of Preference Shares A/c	Dr-	36,000	
To Preference Shareholders A/c			2,16,000
(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)			
Preference Shareholders A/c	Dr-	2,14,800	
To Bank A/c			2,14,800
(Being the amount paid on redemption of 17,900 preference shares)			
Bank A/c	Dr-	33,000	
To Equity Shares Capital A/c			30,000
To Securities Premium A/c			3,000
(Being the issue of 3,000 Equity Shares of – 10 each at a premium of 10% as per Board's Resolution No.....- Dated.....)			
General Reserve A/c	Dr-	1,20,000	
Profit & Loss A/c	Dr-	30,000	
To Capital Redemption Reserve A/c			1,50,000
(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act-)			
Capital Redemption Reserve A/c	Dr-	1,20,000	
To Bonus to Shareholders A/c			1,20,000
(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-	1,20,000	
To Equity Share Capital A/c			1,20,000
(Being the utilisation of bonus dividend for issue of 12,000 equity shares of – 10 each fully paid)			
Profit & Loss A/c	Dr-	36,000	

To Premium on Redemption of Preference SharesA/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)		36,000
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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 Rs1,80,000Less:
Proceeds from fresh issue (excluding premium) (Rs30,000)
Rs 1,50,000
- (3) No bonus shares on 3,000 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

QUESTION 6

X Ltd. gives you the following information as at 31st March, 2023:

	Particulars	Rs
	EQUITY AND LIABILITIES	
1.	Shareholders' funds	
	a Share capital	2,90,000
	b Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
	ASSETS	
1.	Property,	3,45,000
2.	Plant and Equipment Non-current	18,500
3.	investments Current Assets	
	Cash and cash equivalents (bank)	31,000

The share capital of the company consists of Rs 50 each equity shares of Rs 2,25,000 and Rs 100 each Preference shares of Rs 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

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

- a) to sell all the investments for Rs 15,000.
- b) to finance part of redemption from company funds, subject to, leaving a bank balance of Rs 12,000.
- c) to issue minimum equity share of Rs 50 each share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

Answer

Journal

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

Profit and Loss A/c	Dr-		
To Premium on Redemption of Preference Shares A/c			
(For writing off premium on redemption out of profits)			

Working Note:

Calculation of Number of Shares:

Amount payable on redemption (- 65,000 + 10% of - 65,000)	71,500	
Less: Sale price of investment	<u>(15,000)</u>	
	56,500	
Less: Available bank balance (31,000 - 12,000)	<u>(19,000)</u>	
Funds from fresh issue	<u>37,500</u>	

∴ No- of shares = 37,500/50=750 shares

QUESTION 7

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

Particulars	Note No	Rs
I. Equity and liabilities		
(1) Shareholder's Funds	1	2,00,000
(a) Share Capital		
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		5,55,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables	5	75,000
(c) Cash and bank balances		2,30,000
Total		5,55,000

Notes to Accounts

			Rs
1.	Share Capital		
	Authorised share capital		
	30,000 shares of Rs 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of Rs 10 each fully paid		2,00,000
2.	Reserve and Surplus		
	Profit & Loss Account		1,20,000
3.	Long term borrowings		
	12% Debentures		1,20,000
4.	Property, Plant and Equipment		
	Freehold property		1,15,000
5.	Cash and bank balances		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

- (a) To give existing shareholders the option to purchase one Rs 10 share at Rs 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Answer

Journal of BEE Co- Ltd-

		<i>Dr- Rs</i>	<i>Cr- Rs</i>
Bank A/c	Dr-	75,000	
To Equity Shareholders A/c			75,000
(Application money received on 5,000 shares @ – 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr-	75,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			25,000

(Share application money on 5,000 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-	25,000	
Profit & Loss A/c	Dr-	25,000	
To Bonus to Shareholders A/c			50,000
(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-	50,000	
To Equity Share Capital A/c			50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated)			
Profit and Loss A/c	Dr-	12,000	
To Debenture Redemption Reserve (for DRR created 10% x 1,20,000)			12,000
Debenture Redemption Reserve Investment A/c	Dr-	18,000	
To Bank A/c (for DRR Investment created 15% x 1,20,000)			18,000
12% Debentures A/c	Dr-	1,20,000	
Premium Payable on Redemption A/c @ 3%	Dr-	3,600	
To Debentureholders- A/c (Amount payable to debentures holders)			1,23,600
Profit and loss A/c	Dr-	3,600	
To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to Profit & Loss A/c)			3,600
Debenture Redemption Reserve A/c	Dr-	12,000	
To General Reserve (for DRR transferred to general reserve)			12,000
Bank A/c	Dr-	18,000	
To Debenture Redemption Reserve Investment (for DRR Investment realised)			18,000
Debenture holders A/c	Dr-	1,23,600	
To Bank A/c (Amount paid to debenture holders on redemption)			1,23,600

QUESTION 8

A company had issued 20,000, 13% debentures of Rs 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs 10) at a price of Rs 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Answer

Calculation of number of equity shares to be allotted

	<i>Number of debentures</i>
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	<u>(2,500)</u>
Debenture holders opted for conversion	<u>17,500</u>
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	– 3,67,500
Equity shares of – 10 each issued on conversion [– 3,67,500/ – 15]	24,500 shares

QUESTION 9

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

- (i) 12 % Debentures Rs 7,50,000
- (ii) Balance of DRR Rs 25,000
- (iii) DRR Investment 1,12,500 represented by 10% Rs 1,125 Secured Bonds of the Government of India of Rs 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was Rs 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

- (1) Debentures Account
- (2) DRR Account
- (3) DRR Investment Account
- (4) Bank Account

(5) Debenture Holders Account.

Answer

1. 12% Debentures Account

Date	Particulars	Rs	Date	Particulars	Rs
31 st March, 2022	To Debenture holders A/c	7,50,000	1 st April, 2021	By Balance b/d	7,50,000
		7,50,000			7,50,000

2. DRR Account

Date	Particulars	Rs	Date	Particulars	Rs
31 st March, 2022	To General reserve A/c (Refer Note)	75,000	1 st April, 2021	By Balance b/d	25,000
		75,000	1 st April, 2021	By Profit and loss A/c (Refer Note)	50,000
					75,000

3. 10% Secured Bonds of Govt- (DRR Investment) A/c

		Rs			RS
1 st April, 2021	To Balance b/d	1,12,500	31 st March, 2022	By Bank A/c	1,12,500
		1,12,500			1,12,500

4. Bank A/c

		-			-
31 st March, 2022	To Balance b/d	7,50,000	31 st March, 2022	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500 x 10%)	11,250			
	To DRR Investment A/c	1,12,500		By Balance c/d	48,750
		8,73,750			8,73,750

5. Debenture holders A/c

		-			-
31 st March, 2022	To Bank A/c	8,25,000	31 st March, 2022	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 X 10%)	75,000
		8,25,000			8,25,000

Note—

Calculation of DRR before redemption = 10% of - 7,50,000 =

75,000 Available balance = - 25,000

DRR required = 75,000 - 25,000 = - 50,000