CHAPTER : 1 THEORETICAL FRAMEWORK

Question 1
Define accounting. What are the sub-fields of accounting?

[SM, PYQ Dec 23]

Answer
Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof.
The various sub-fields of accounting are:

(i) Financial Accounting – It covers the preparation and interpretation of financial statements and communication to the users of accounts. It is historical in nature as it records transactions which had already been occurred. The final step of financial accounting is the preparation of Profit and Loss Account and the Balance Sheet. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.

(ii) Management Accounting – It is concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control, and decision- making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

(iii) Cost Accounting – The process of accounting for cost which begins with the recording of expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.

(iv) Social Responsibility Accounting – The demand for social responsibility accounting stems from increasing social awareness about the undesirable by- products of economic activities., Social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.

(v) Human Resource Accounting – Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

Question 2
Who are the users of accounting information?

[SM]

Answer
Users of accounts can be listed as Investors, Employees, Lenders, Suppliers and Creditors, Customers, Govt. and their agencies, public and Management.

Question 3
Discuss briefly the relationship of accounting with

(i) Economics
(ii) Statistics
(iii) Law

[SM]

Answer

(i) **Accounting and Economics:** Economics is viewed as a science of rational decision making about the use of scarce resources. It is concerned with the analysis of efficient use of scarce resources for satisfying human wants. This may be viewed either from the perspective of a single firm or of the country as a whole. Accounting is viewed as a system, which provides data to the users to permit informed judgement and decisions. Some non-accounting data are also relevant for decision making. Accounting overlaps economics in many respects. It contributed a lot in improving the management decision-making process. But, economic theories influenced the development of the decision-making tools used in accounting. However, there exists a wide gulf between economists' and accountants' concepts of income and capital. Accountants got the ideas of value, income and capital maintenance from economists, but brushed suitably to make them usable in practical circumstances. Accountants developed the valuation, measurement and decision making techniques which may owe to the economic theorems for origin but these are moulded in the work environment and suitably tempered with reference to relevance, verifiability, freedom from bias, timeliness, comparability, reliability and understandability. An example may be given to explain the nexus between accounting and economics. Economists think that value of an asset is the present value of all future earnings which can be derived from such assets. Now think about a plant whose working life is more than one hundred years. How can you estimate future stream of earnings? So accountants developed the workable valuation base – the acquisition cost i.e., the price paid to acquire the assets. At the macro-level, accounting provides the database over which the economic decision models have been developed; micro-level data arranged by the accounting system is summed up to get macro-level database. © The Institute of Chartered Accountants of India THEORETICAL FRAMEWORK 1.17 Non-overlapping zones of accounting are not negligible. Development of the systems of recording, classifying and summarising transactions and events, harmonising the systems by uniform rules and communicating the data is essentially a non-overlapping area of accounting.

(ii) **Accounting and Statistics:** The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But, for decision-making purposes such precision is not necessary and hence, the statistical approximations are sought. In accounts, all values are important individually because they relate to business transactions. As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations. Therefore, wherever a need arises for only broad generalisations or the average of relationships, statistical methods have to be applied in accounting data. Further, in accountancy, the classification of assets and liabilities as well as the heads of income and expenditure has been done as per the needs of financial recording to ascertain financial results of various operations. Other types of classification like the geographical and historical ones and ad hoc classification are done depending on the purpose to make such classification meaningful. Accounting records generally take a short-term view of events and are confined to a year while statistical analysis is more useful if a longer view is taken for the purpose. For example, to fit the trend line a longer period will be required. However, statistical methods do use past accounting records maintained on a consistent basis. The functional relations showing mathematical relations of one variable with one or more other variables are based on statistical work. These relations are used widely in making cost or price estimates for some estimated future values assigned to the given independent variables. For example, given the functional relation of total cost to the price of an input, the effect of changes in future prices on the cost of production can be calculated. In accountancy, a number of financial and other ratios are statistical methods, which help in averaging them over a period of time. Several accounting and financial calculations are based on statistical formulae. Statistical methods are helpful in developing accounting data and in their interpretation. For example, time series and cross-sectional comparison of accounting data is based on statistical techniques. Now- a-days multiple discriminate analysis is popularly used to

(iii) identify symptoms of sickness of a business firm. Therefore, the study and application of statistical methods would add extra edge to the accounting data.

(iv) **Accounting and Law:** An economic entity operates within a legal environment. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc. The entity itself is created and controlled by laws. For example, a company is created by the Companies Act and also controlled by Companies Act. Similarly, every country has a set of economic, fiscal and labour laws. Transactions and events are always guided by laws of the land. Very often the accounting system to be followed has been prescribed by the law. For example, the Companies Act has prescribed the format of financial statements for companies. © The Institute of Chartered Accountants of India THEORETICAL FRAMEWORK 1.19 Banking, insurance and electric supply undertakings may also have to produce financial statements as prescribed by the respective legislations controlling such entities. However, legal prescription about the accounting system is the product of developments in accounting knowledge. That is to say, legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline. In that way accounting influences law and is also influenced by law.

Question 4

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

[SM, RTP June 23, May 19, MTP Mar 18, Oct 19, Oct 20, Mar 21,Nov 22, Dec 23, April 24, PYQ Nov 18]

Answer

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

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

Question 5

What services can a Chartered Accountant provide to the society?

[SM, RTP June 24, PYQ Nov 20, MTP Mar 22, July 24, Dec 24]

Answer

The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

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

Question 6
Differentiate between Book-keeping and Accounting.

[PYQ Sep 24]

Answer
The difference between Book keeping and Accounting are as follows:

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

Question 7
Develop the accounting equation from the following information:-

Particulars	March 31, 2021 (Rs.)	March 31, 2022 (Rs.)
Capital	1,00,000	?
12% Bank Loan	1,00,000	1,00,000
Trade Payables	75,000	70,000
Fixed Assets	1,25,000	1,10,000
Trade Receivables	75,000	80,000
Inventory	70,000	80,000
Cash and Bank	5,000	6,000

Required: Find the profit for the year and the balance sheet as on 31/03/2022.

[SM]

Answer
For the year ended March 31, 2021: Equity = Capital Rs. 1,00,000
Liabilities = Bank Loan + Trade Payables Rs. 1,00,000 + Rs. 75,000 = Rs. 1,75,000
Assets = Fixed Assets + Trade Receivables + Inventory + Cash & Bank
Rs. 1,25,000 + Rs. 75,000 + Rs. 70,000 + Rs. 5,000 = Rs. 2,75,000
Equity + Liabilities = Assets Rs. 1,00,000 + Rs. 1,75,000 = 2,75,000
For the year ended March 31, 2022: Assets = Rs. 1,10,000 + Rs. 80,000 + Rs. 80,000 + Rs. 6,000 = Rs. 2,76,000
Liabilities = Rs. 1,00,000 + Rs. 70,000 = Rs. 1,70,000
Equity = Assets – Liabilities = Rs. 2,76,000 – Rs. 1,70,000 = Rs. 1,06,000
Profits = New Equity – Old Equity = Rs. 1,06,000 – Rs.1,00,000 = Rs. 6,000

Question 8
Write short notes on:

(i) Fundamental accounting assumptions.

[SM, RTP Nov 19, June 24, Nov 23, May 21, Nov 20]

(ii) Periodicity concept

[PYQ May 22]

(iii) Accounting conventions.

[RTP Sep 24, Nov 23, June 23, May 20, Nov 20, 19]

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.

(i) Periodicity concept : This is also called the concept of definite accounting period. As per going concern' concept an indefinite life of the entity is assumed. For a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary course of business. According to this concept accounts should be prepared after every period & not at the end of the life of the entity. Usually, this period is one calendar year. We generally follow from 1st April of a year to 31st March of the immediately following year. Thus, for performance appraisal it is not necessary to look into the revenue and expenses of an unduly long time-frame. This concept makes the accounting system workable and the term 'accrual' meaningful. If one thinks of indefinite time-frame, nothing will accrue. There cannot be unpaid expenses and non- receipt of revenue. Accrued expenses or accrued revenue is only with reference to a finite time-frame which is called accounting period.

Thus, the periodicity concept facilitates in:

(i) Comparing of financial statements of different periods

(ii) Uniform and consistent accounting treatment for ascertaining the profit and assets of the business

Matching periodic revenues with expenses for getting correct results of the business operations

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

Question 9

Distinguish between:

(i) Money measurement concept and matching concept

[SM, RTP Nov 23, 19 and May 18,21, MTP Apr 19, Oct 20, Dec 24]

OR

Explain Money Measurement concept.

[PYQ May 22, Dec 23]

(ii) Going concern and cost concept

[SM, RTP June 23, MTP Mar 18, PYQ May 19]

Answer

(i) Distinction between Money measurement concepts and matching concept

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

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

(ii) **Distinction between Going concern and cost concept**

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.

Question 10

Briefly explain the qualitative characteristics of the financial statements.

[SM]

Answer

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The following are the important qualitative characteristics of the financial statements:

1. Understandability:

An essential quality of the information provided in financial statements is that it must be readily understandable by users. For this purpose, it is assumed that users have a reasonable knowledge of business, economic activities and accounting and study the information with reasonable diligence. Information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the ground that it may be too difficult for certain users to understand

2. Relevance:

To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structured or the outcome of planned operations. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, share price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the statement of profit and loss is enhanced if unusual, abnormal and infrequent items of income and expense are separately disclosed.

3. Reliability:

To be useful, information must also be reliable, Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action against the enterprise are highly uncertain, it may be inappropriate for the enterprise to recognise the amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

4. Comparability:

Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position, performance and cash flows. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises. An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those polices and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same enterprise from period to period and by different enterprises. Compliance with Accounting Standards, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability. The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an enterprise to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an enterprise to leave its accounting policies unchanged when more relevant and reliable alternatives exist. Users wish to compare the financial position, performance and cash flows of an enterprise over time. Hence, it is important that the financial statements show corresponding information for the preceding period(s). The four principal qualitative

Question 11

(ii) Explain the following:

(1) Cash Basis of Accounting

(2) Going Concern concept

[PYQ June 24, RTP Jan 25, Nov 22]

Answer

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

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

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

Question 12

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

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

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

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

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

(5) Amount spent for replacement of worn out part of machine is Capital Expenditure.

(6) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.

(7) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.

(8) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the cinema house was ready, is Capital Expenditure.

[SM]

Answer

(1) **False**: Overhaul expenses are incurred to put second-hand machinery in working condition to derive endurable long-term advantage. So it should be capitalised.

(2) **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(3) **True:** Legal fee paid to acquire any property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure

(4) **False:** Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.

(5) **False:** Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.

(6) **False:** Repairing and white washing expenses for the first time of an old building are incurred to put the building in usable condition. These are the part of the cost of building. Accordingly, these are capital expenditure.

(7) **True:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalised. Such expenses are amortised over a period of time.

(8) **True:** Cost of temporary huts constructed which were necessary for the construction of the cinema house is part of the construction cost of the cinema house. Therefore such costs are to be capitalised.

Question 13

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

(1) Expenses incurred in connection with obtaining a license for starting the factory for Rs. 10,000.

(2) Rs. 1,000 paid for removal of Inventory to a new site.

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

(4) Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) Rs. 8,000 for installing telephone in the office.

(5) A factory shed was constructed at a cost of Rs. 1,00,000. A sum of Rs. 5,000 had been incurred in the construction of temporary huts for storing building material.

[SM]

Answer

(1) Money paid Rs. 10,000 for obtaining license to start a factory is a capital expenditure. This is an item of

expenditure incurred to acquire the right to carry on business.
(2) Rs. 1,000 paid for removal of Inventory to a new site is revenue expenditure. This is neither bringing enduring benefit nor enhancing the value of the asset.
(3) Rs. 5,000 spent in changing Rings and Pistons of an engine to get fuel efficiency is capital expenditure. This is an expenditure on improvement of a fixed asset. It results in increasing profit-earning capacity of the business by cost reduction.
(4) Money deposited with MTNL for installation of telephone in office is not expenditure. This is treated as an asset and the same is adjusted over a period of time against actual telephone bills.
(5) Cost of construction of building including cost of temporary huts is capital expenditure. Building is fixed asset which will generate enduring benefit to the business over more than one accounting period. Construction of temporary huts is incidental to the main construction. Such cost is also capitalised with the cost of building.

Question 14
Best Tech Solutions buys and sells computers as a part of its business. It purchased 20 computers for resale to its customers. Cost of each computer is Rs. 20,000. It also purchased a computer costing Rs. 24,000 for its accountant to be able to maintain the accounting records and printing of invoices. Suggest whether above transactions qualify as capital expenditure or revenue expenditure transactions?

[SM]

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

Question 15
State with reasons whether the below items relating to the business of AB td are capital or revenue receipts?
(a) A machine with a book value of Rs. 10 lakh is sold for Rs. 12 lakh.
(b) Premium amounting to Rs. 1 Lakh received on issue of shares
(c) An amount of Rs. 20,000 received from goods sold in cash.
(d) An amount of Rs. 5 lac received on the maturity of fixed deposit from bank. Also, an interest of Rs. 40,000 was received in addition to the maturity amount of the fixed deposits.

[SM]

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

Question 16
Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2022.
(1) Second-hand furniture worth Rs. 9,000 was purchased; repainting of the furniture costs Rs. 1,000. The furniture was installed by own workmen, wages for this being Rs. 200.

(2) Expenses in connection with obtaining a license for running the cinema worth Rs. 20,000. During the course of the year the cinema company was fined Rs. 1,000, for contravening rules. Renewal fee Rs. 2,000 for next year also paid.

(3) Fire insurance, Rs. 1,000 was paid on 1st October, 2021 for one year. © The Institute of Chartered Accountants of India ACCOUNTING 1.68 1.68

(4) Temporary huts were constructed costing Rs. 1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready. Point out how you would classify the above items.

[SM]

Answer

(1) The total cost of the furniture should be treated as Rs. 10,200 i.e., all the amounts mentioned should be capitalised since without such expenditure the furniture would not be available for use. If Rs. 1,000 and Rs. 200 have been respectively debited to the Repairs Account and the Wages Account, these accounts will be credited to the Furniture Account.

(2) License for running the cinema house is necessary, hence its cost should be capitalised. But the fine of Rs. 1,000 is revenue expenditure. The renewal fee for the next year is also revenue expenditure but pertains to the next year; hence, it is a prepaid expense.

(3) Half of the insurance premium pertains to the year beginning on 1st April, 2021. Hence such amount should be treated as prepaid expense. The remaining amount is revenue expense for the current year.

(4) Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Question 17

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

(1) Overhauling expenses of Rs. 25,000 for the engine of a motor car to get better fuel efficiency.

(2) Inauguration expenses of Rs. 25 lacs incurred on the opening of a new manufacturing unit in an existing business.

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

[SM]

Answer

(1) Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long-term advantage. So this expenditure should be capitalized

. (2) Inauguration expenses incurred on the opening of a new unit may help to explore more customers This expenditure is in the nature of revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.

(3)The amount paid to workers on voluntary retirement is in the nature of revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to defer it over future years.

Question 18

Classify the following expenditures and receipts as capital or revenue:

(i) Rs. 10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.

ii) Amount received from Trade receivables during the year.

(ii) Amount spent on demolition of building to construct a bigger building on the same site.

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

[SM]

Answer

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

Question 19

Are the following expenditures capital in nature?

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

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

(iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent Rs. 40,000 for transportation of such machinery. The year ending is 31st Dec, 2022.

[SM]

Answer

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

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

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

Question 20

What are the basic considerations in distinguishing between capital and revenue expenditures?

(SM, MTP Apr 19, PYQ July 21, MTP Oct 21, May 24, April 25)

Answer

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

(a)	**Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.
(b)	**Recurring nature of expenditure**: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.
(c)	**Purpose of expenses**: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
(d)	**Effect on revenue generating capacity of business**: The expenses which help to generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.
(e)	**Materiality of the amount involved**: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Question 21
Define revenue receipts and give examples. How are these receipts treated?. Explain
[SM, RTP Nov 22, 19 and May 18]

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

Question 22
Classify the following expenditures as capital or revenue expenditure/receipt:
(i) An extension of railway tracks in the factory area.
(ii) Amount spent on painting the factory.
(iii) Payment of wages for building a new office extension
(iv) Premium received on issue of shares
(v) Rings and Pistons of an engine were changed to get full efficiency.
(vi) Legal fees paid to acquire a property
[RTP Jan 25, May 22]

Answer
(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.
(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.
(iv) Premium received on issue of shares is an example of capital receipt.
(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
(vi) Legal fees paid to acquire a property is a part of the cost of that property. Hence, it is taken as capital expenditure.

Question 23
(b) Classify the following expenditures as capital or revenue receipt or capital or revenue expenditure:
(i) Traveling expenses of the chief executive officer for trips abroad for purchase of capital assets.
(ii) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
(iii) Insurance claim received on account of inventory damaged by fire.
(iv) Amount paid for removal of stock to a new site.
(v) Cost of repairs on second-hand car purchased to bring it into working condition.
[RTP Sep 24, Nov 23, 20, 19, May 18]

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

Question 24

Classify the following expenditures as capital or revenue expenditure:

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

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

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

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

[RTP June 23]

Answer

(i) Revenue expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

Question 25

Classify the following expenditures as capital or revenue expenditure:

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

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

(iii) Expenses incurred for advertisement in newspaper.

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

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

[RTP Nov 22]

Answer

(i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

Question 26

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

-- Legal fees on the acquisition of land.

-- Complete repaint of existing building.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Carriage costs on a replacement part for a piece of machinery.

[RTP Nov 21]

Answer

-- Legal fees on acquisition of land: capital

-- Complete repaint: revenue

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Carriage costs on replacement part: revenue.

Question 27

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

-- Inauguration expenses of a new manufacturing unit in an existing Business.

-- Installation of a new central heating system.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.
-- Legal fees on the acquisition of land.
-- Carriage costs on a replacement part for a piece of machinery.

[RTP May 21]

Answer

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

Question 28

Classify the following expenditures as capital or revenue expenditure:

(i) Money spent to reduce working expenses.
(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.
(iii) Rings and Pistons of an engine were changed at a cost of ` 5,000 to get fuel efficiency.
(iv) Compensation of ` 2.5 crores paid to workers, who opted for voluntary retirement.

[RTP May 20]

Answer

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

Question 29

Differentiate between:

(i) Provision and Contingent Liability.
(ii) Liability and Contingent liability.

(SM, MTP Nov 21)

Answer

1. Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation. On the other hand, a Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
2. A liability is defined as the present financial obligation of an enterprise, which arises from past events. On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

Question 30

Write short notes on the following: Contingent Asset and Contingent Liability.

[RTP Sep 24]

Answer

Contingent Asset

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-

occurrence of one or more uncertain future events.
Contingent Liability
An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non- occurrence of one or more uncertain future events.

Question 31
Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

[SM, RTP May 19]

OR

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

[PYQ June 24]

Answer
Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.
Different accounting policies are frequently encountered in the areas like valuation of inventory and investments etc.
Conditions under which change takes place:
A change in accounting policies shall be made in the following conditions:
(a) It is required by some statute or for compliance with an Accounting Standard
(b) Change would result in more appropriate presentation of financial statement

Question 32
Define Measurement in brief. Explain the significant elements of measurement

Answer
Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Three elements of measurement are:
(1) Identification of objects and events to be measured;
(2) Selection of standard or scale to be used;
(3) Evaluation of dimension of measurement standard or scale

Question 33
Describe in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

Answer
Alternative measurement bases are:

(i) Historical Cost; (ii) Current cost (iii) Realisable (Settlement) Value and (iv) Present Value. Refer para 6.6 for details.

Question 34
Explain the objective of "Accounting Standards" in brief.

(SM, MTP May 20, May 22, April 23, Dec 24,May 25, RTP Jan 25)

Answer

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

Question 35

State the advantages of setting Accounting Standards.

[SM, RTP June 24, Nov 18, 21 and May 20, MTP Mar 19, May 22, Dec 24]

Answer

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

(a) Reduction in variations;
(b) Disclosures beyond that required by law and
(c) Facilitates comparison.

Question 36

Distinguish between fundamental accounting assumption and accounting policies.

[RTP Jan 25, May 22]

Answer

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

Question 37

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

[SM, RTP Jan 25, May 21, May18, MTP Oct 18, April 21, Nov 22, May 23, May 24]

Answer

Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting

policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.
The examples in this regard may be given as follows:
Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

Question 38
Explain Cash and Mercantile system of accounting.
[RTP Sep 24, Nov 20,21,22,18, MTP Mar 19, May 22, Nov 23, Aug 24]

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

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

Mercantile system of accounting is generally accepted accounting system by business entities.

Question 39
Differentiate between provision and contingent liability.
[RTP May 20, Nov 23, PYQ May 18, Nov 19, 22, MTP June 24]

Answer

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

Question 40
(c) Explain the followings:
(i) Accrual Basis of Accounting

(ii) Amortisation
(iii) Contingent Assets
(iv) Contingent Liabilities

[PYQ Dec 21]

Answer

1. Accrual Basis of Accounting

The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

2. Amortisation

The gradual and systematic writing off of an asset or an account over an appropriate period.

3. Contingent Asset

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

4. Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Question 41

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
(iii) Amount spent to reduce working expenses.
(iv) Amount paid for removal of stock to a new site.
(v) Cost of repairs on second-hand car purchased to bring it into working condition.

(MTP May 20, Nov 22, Dec 23, Aug 24, RTP June 24)

Answer

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

Question 42

Define the following terms:

(i) Capital Commitment
(ii) Expired Cost
(iii) Floating Charge
(iv) Obsolescence

[PYQ Jan 21]

Answer

(i) Capital commitment: Future liability for capital expenditure in respect of which contracts have been made.
(ii) Expired cost: The portion of the expenditure from which no further benefit is expected. Also termed as expense.
(iii) Floating charge: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.
(iv) Obsolescence: Diminution in the value of an asset by reason of its becoming out-of-date or less useful

due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

Question 43
Briefly explain the following terms:
(i) Materiality
(ii) Conservatism
(iii) Extraordinary item
(iv) Floating Charge

[PYQ June 23]

Answer
(b) (i) Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.
(ii) Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.
(iii) Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
(iv) Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

Question 44
Briefly explain the following terms.
(i) Conversion Cost
(ii) Diminishing Balance Method
(iii) Money Measurement Concept
(iv) Realisation Concept

[PYQ Dec 23]

Answer
(i) Conversion Cost: Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the direct cost or absorption costing method.
(ii) Diminishing Balance Method: It is a method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.
(iii) Money measurement concept: As per this concept, only those transactions, which can be measured in terms of money are recorded. Transactions, even if, they affect the results of the business materially, are not recorded if they are not convertible in monetary terms.
(iv) Realisation concept: It closely follows the cost concept. Any change in value of an asset is to be recorded only when the business realises it.

Question 45
Write short notes on Measurement.

[RTP May 20]

Answer

Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale.

Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.

Three important elements of measurement are:

(1) Identification of objects and events to be measured;

(2) Selection of standard or scale to be used;

(3) Evaluation of dimension of measurement standard or scale.

(iv) Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages :

(i) Division of work

(ii) Specialisation and efficiency

(iii) Saving of the time

(iv) Availability of information's

(v) Facility in checking

Question 46

Write short notes on the following:

Tangible Assets vs. Intangible Assets.

[RTP June 24]

Answer

Distinction between Tangible and Intangible Assets

Tangible Assets	Intangible Assets
Tangible Assets are assets that have a physical substance i.e., they can be seen and touched, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	Intangible Assets are identifiable assets that do NOT have a physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Tangible Assets have a finite life based on expected usage.	Intangible Assets have a finite life based on contractual terms. In some cases, intangible assets could also have an indefinite life e.g. purchased goodwill.
Useful life is based on expected usage, with no presumption laid down for the same.	Useful life of Intangible Assets is presumed not to exceed 10 years unless evidence exists to the contrary.
Tangible Assets are depreciated over the useful life. In other words, writing off the value of tangible assets on an annual basis is known as depreciation.	Intangible Assets are amortised over the useful life. In other words, writing off the value of intangible assets on an annual basis is known as amortisation.
Examples include Property, Machinery, Vehicles etc.	Examples include software, streaming rights, landing rights, trademarks, patents etc.

Question 47

Explain four main functions of accounting

[PYQ Jan 25]

Answer

The main functions of accounting are as follows:

(a) Measurement: Accounting measures past performance of the business entity and depicts its current financial position.
(b) Forecasting: Accounting helps in forecasting future performance and financial position of the enterprise using past data and analyzing trends.
(c) Decision-making: Accounting provides relevant information to the users of accounts to aid rational decision-making.
(d) Comparison & Evaluation: Accounting assesses performance achieved in relation to targets and discloses information regarding accounting policies and contingent liabilities which play an important role in predicting, comparing and evaluating the financial results.
(e) Control: Accounting also identifies weaknesses of the operational system and provides feedback regarding effectiveness of measures adopted to check such weaknesses.
(f) Government Regulation and Taxation: Accounting provides necessary information to the government to exercise control on the entity as well as in collection of tax revenues.

Question 48

What are the advantages of Double Entry System.

[PYQ Jan 25]

Answer

According to double entry system, every transaction has two-fold aspects, debit and credit and both the aspects are to be recorded in the book of accounts.

The advantages of double entry system are as follows:

(i) By the use of this system the accuracy of the accounting work can be established, through the device of the trial balance.
(ii) The profit earned or loss incurred during a period can be ascertained together with details.
(iii) The financial position of the entity or the institution concerned can be ascertained at the end of each period, through preparation of the financial statements.
(iv) The system permits accounts to be kept in as much details as necessary and, therefore provides significant information for the purpose of control and reporting.
(v) Result of one year may be compared with those of previous years and reasons for the change may be ascertained.

Chapter 2: Accounting Process

Question 1

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

2022 April		(Rs. in 000)
1.	R started business with	5,000
2.	He purchased furniture for	1,200
3.	Paid salary to his clerk	1,100
4.	Paid rent	1,150
5.	Received interest	2,000

[SM]

Answer

2022 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (Rs. in 000)	Credit (Rs. in 000)
1.	Rs. 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	5,000
2.	Purchased furniture for Rs. 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	1,200
3.	Paid Rs. 1,100 to employee for salary	Salary & Bank	Expense Asset	Increased Decreased	1,100	1,100
4.	Paid Rent Rs. 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	1,150
5.	Received interest Rs. 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	2,000

Question 2

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

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

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

	Rs.
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720

Inventory	22,900
Trade receivables	17,500
Cash at Bank	15,600

Reset the equation and find out profit. Prepare Balance Sheet at the end of the accounting period.

[SM]

Answer

(All the figures in solution are in '000)

Accounting equation is given by Equity + Liabilities = Assets

Let us use E0, L0 and A0 to mean equity, liabilities and assets respectively at the beginning of the accounting period.

E0 = Rs. 51,000

L0 = Loan + Trade payables = Rs. 11,500 + Rs. 5,700 = Rs. 17,200

A0 = Fixed Assets + Inventories + Trade receivables + Cash at Bank
= Rs. 12,800 + Rs. 22,600 + Rs. 17,500 + Rs. 15,300 = Rs. 68,200

So, at the beginning of accounting period E0 + L0 = A0
i.e., Rs. 51,000 + Rs. 17,200 = Rs. 68,200

Let us use E1, L1, A1 to mean equity, liabilities and assets respectively at the end of the accounting period.

L1 = Loan + Trade payables Rs. 11,500 + Rs. 5,800 = Rs. 17,300

A1 = Fixed Assets + Inventories + Trade receivables + Cash at Bank
= Rs. 12,720 + Rs. 22,900 + Rs. 17,500 + Rs. 15,600 = Rs. 68,720

E1 = A1 - L1 = Rs. 68,720 - Rs. 17,300 = Rs. 51,420

Profit = E1 - E0 = Rs. 51,420 - Rs. 51,000 = Rs. 420

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Fixed Assets	12,720
Balance	51,000		Inventories	22,900
Add: Profit	420	51,420	Trade receivables	17,500
Loan		11,500	Cash at Bank	15,600
Trade payables		5,800		
		68,720		68,720

Question 3

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

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

[SM]

Answer

Computing opening capital: (All figure in Rs.' 000) Closing capital - profits earned during the year

(35,000 - 5,000) = 30,000

We also know:
Assets = liabilities + capital
Therefore, opening assets (A) (12,000 + 30,000) = 42,000
Computation of liabilities at the end of the year:
Total liabilities including capital - closing capital (C) (50,000 – 35,000) = 15,000
Also assets at the end of the year (B) = closing capital + liabilities at the end of the year
= 35,000 + 15,000 = 50,000

Question 4

Analyse transactions of M/s Sahil & Co. for the month of March, 2022 on the basis of double entry system by adopting the following approaches:

(a) Accounting Equation Approach.
(b) Traditional Approach.

Transactions for the month of March, 2022 were as follows (figures are in '000):

- Sahil introduced capital through bank of Rs. 4,000.
- Cash withdrawn from the City Bank Rs. 200.
- Loan of Rs. 500 taken from Mr. Y.
- Salaries paid for the month of March, 2022, Rs. 300 and Rs. 100 is still payable for the month of March, 2022.
- Furniture purchased Rs. 500.

Required: What conclusions one can draw from the above analysis?

[SM]

Answer

Analysis of Business Transaction: Accounting Equation Approach The accounting equation is
Assets = Liabilities + Capital

(Rs. in '000)

ASSETS						=	CAPITAL	+	LIABILITIES
	CASH	+	BANK	+	FURNITURE	=	CAPITAL	+	LIABILITIES
(a)	-	+	4,000	+	-	=	4,000	+	-
(b)	+200	+	-200	+	-	=	-	+	-
(c)	-	+	500	+	-	=	-	+	500
(d)	-	+	-300	+	-	=	-400	+	100
(e)	-	+	-500	+	500	=	-	+	-
Balance	200	+	3,500	+	500	=	3,600	+	600
			4,200				4,200		

Analysis of Business Transactions: Traditional Approach

Transaction	Analysis	Account Affected and Nature of Account	Rule	Entry
Introduction of Rs. 4,000 through bank by the proprietor	Bank has received the money; Owner has given Bank balance	Bank-Personal Capital- Personal	Debit the receiver Credit the giver	Debit Bank Credit Capital
Cash Withdrawn	Cash comes into	Cash-Real Bank-	Debit what comes	Debit Cash

from Bank Rs. 200	business; Bank gives out cash	Personal	in Credit the giver	Credit Bank
Loan from Y Rs. 500	Bank receives the amount : Y pays through bank	Bank-Personal Y's Loan- Personal	Debit the receiver Credit the giver	Debit Bank Credit Y's Loan
Salary paid Rs. 300 and still payable Rs. 100	Cost of services used Rs. 400; Bank gives out Rs.300; Still payable or outstanding for services received Rs. 100	Salary Nominal Bank-Personal Salary Outstanding-Personal	Debit all expenses Credit the giver Credit the giver	Debit Salary (Rs. 400) Credit Bank (Rs. 300) Credit Salary outstanding (Rs. 100)
Furniture purchased Rs. 500	Furniture is purchased; Bank gives out money	Furniture Real Bank-Personal	Debit what comes in Credit the giver	Debit Furniture Credit Bank

Conclusion:
It is evident from above analysis that procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries entered/passed remains the same under both approaches. Thus, the recording of transactions in affected accounts on the basis of double entry system is independent of the method of analysis followed by a business enterprise. In other words, accounts to be debited and credited to record the dual aspect remains the same under both the approaches.

Question 5
Journalise the following transactions. Also state the nature of each account involved in the Journal entry.
Following figures are given in ('00)
December 1, 2022, Ajit started business with capital Rs. 4,00,000
December 3, he withdrew cash for business from the Bank Rs. 2,000.
December 5, he purchased goods by making payment through bank Rs. 15,000.
December 8, he sold goods for Rs. 16,000 and received payment through bank.
December 10, he purchased furniture and paid by cheque Rs. 2,500.
December 12, he sold goods to Arvind Rs. 2,400.
December 14, he purchased goods from Amrit Rs. 10,000.
December 15, he returned goods to Amrit Rs. 500.
December 16, he received from Arvind Rs. 2,300 in full settlement.
December 18, he withdrew goods for personal use Rs. 1,000.
December 20, he withdrew cash from business for personal use Rs. 2,000.
December 24, he paid telephone charges Rs. 110.
December 26, amount paid to Amrit in full settlement Rs. 9,450.
December 31, paid for stationery Rs. 200, rent Rs.5,000 and salaries to staff Rs. 2,000 from bank.
December 31, goods distributed by way of free samples Rs. 2,000.

[SM]

Answer

JOURNAL (Rs. in '00)

Dr. Cr.

Sl. No	Date	Particulars		Nature of Account	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Dec. 1	Bank Account	Dr.	Personal A/c		4,00,000	
		To Capital Account		Personal A/c			4,00,000
		(Being commencement of business with capital)					
2.	Dec. 3	Cash Account	Dr.	Real A/c		2,000	
		To Bank Account		Personal A/c			2,000
		(Being cash withdrawn from the Bank)					
3.	Dec. 5	Purchases Account	Dr.	Nominal A/c		15,000	
		To Bank Account		Personal A/c			15,000
		(Beingpurchase of goods for cash)					
4.	Dec. 8	Bank Account	Dr.	Personal A/c		16,000	
		To Sales Account		Nominal A/c			16,000
		(Being goods sold for cash)					
5.	Dec. 10	Furniture Account	Dr.	Real A/c		2,500	
		To Bank Account		Personal A/c			2,500
		(Being purchase of furniture, paid by cheque)					
6.	Dec. 12	Arvind	Dr.	Personal A/c		2,400	
		To Sales Account		Nominal A/c			2,400
		(Being sale of goods on credit)					
7.	Dec. 14	Purchases Account	Dr.	Nominal A/c		10,000	
		To Amrit		Personal A/c			10,000
		(Beingpurchase of goods from Amrit)					
8.	Dec. 15	Amrit	Dr.	Personal A/c		500	
		To Purchases Returns Account		Nominal A/c			500
		(Being goods returned to Amrit)					
9.	Dec. 16	Bank Account	Dr.	Personal A/c		2,300	
		Discount Account	Dr.	Nominal A/c		100	
		To Arvind		Personal A/c			2,400
		(Beingamount received from Arvind in full settlement and allowed him Rs. 100 as discount)					
10.	Dec. 18	Drawings Account	Dr.	Personal A/c		1,000	
		To Purchases Account		Nominal A/c			1,000
		(Being withdrawal of goods for personal use)					
11.	Dec. 20	Drawings Account	Dr.	Personal A/c		2,000	

		To Cash Account		Real A/c			2,000
		(Being cash withdrawal from the business for personal use)					
12.	Dec. 24	Telephone Expenses Account	Dr.	Nominal A/c		110	
		To Bank Account		Personal A/c			110
		(Beingtelephone expenses paid)					
13.	Dec 26	Amrit	Dr.	Personal A/c		9,500	
		To Bank Account		Personal A/c			9,450
		To Discount Account		Nominal A/c			50
		(Being cash paid to Amrit and he allowed Rs. 50 as discount)					
14.	Dec. 31	Stationery Expenses	Dr.	Nominal A/c		200	
		Rent Account	Dr.	Nominal A/c		5,000	
		Salaries Account	Dr.	Nominal A/c		2,000	
		To Bank Account		Personal A/c			7,200
		(Being expenses paid)					
15.	Dec. 31	Advertisement Expenses Account	Dr.	Nominal A/c		2,000	
		To Purchases Account		Real A/c			2,000
		(Being distribution of goods by way of free samples)					

Balance Sheet

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Fixed Assets	12,720
Balance	51,000		Inventories	22,900
Add: Profit	420	51,420	Trade receivables	17,500
Loan		11,500	Cash at Bank	15,600
Trade payables		5,800		
		68,720		68,720

Question 6

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

[SM]

Answer

Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
(a)	Building	Real	Asset
(b)	Purchases	Nominal	Expense
(c)	Sales	Nominal	Revenue
(d)	Bank Fixed Deposit	Personal	Asset
(e)	Rent	Nominal	Expense
(f)	Rent Outstanding	Personal	Liability
(g)	Cash	Real	Asset
(h)	Adjusted Purchases	Nominal	Expense
(i)	Closing Inventory	Real	Asset
(j)	Investment	Real	Asset
(k)	Trade receivables	Personal	Asset
(l)	Sales Tax Payable	Personal	Liability
(m)	Discount Allowed	Nominal	Expense
(n)	Bad Debts	Nominal	Expense
(o)	Capital	Personal	Capital
(p)	Drawings	Personal	Capital - Drawings
(q)	Interest receivable	Personal	Asset
(r)	Rent received in advance	Personal	Liability
(s)	Prepaid salary	Personal	Asset
(t)	Bad debts recovered	Nominal	Gain
(u)	Depreciation	Nominal	Expense
(v)	Personal Income Tax	Personal (Drawing)	Capital - Drawings

Question 7

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

2022			Rs.
April	1	Ramesh started business with	10,00,000
"	3	Bought goods for cash	50,000
"	5	Drew cash from bank	10,000
"	13	Sold to Krishna- goods on credit	1,50,000
"	20	Bought from Shyam goods on credit	2,25,000
"	24	Received from Krishna	1,45,000
"		Allowed him discount	5,000
"	28	Paid Shyam cash	2,15,000
"		Discount allowed	10,000
"	30	Cash sales for the month	8,00,000
		Paid Rent	50,000
		Paid Salary	1,00,000

[SM]

Answer

JOURNAL

Date 2022	Particulars		L.F.*	Amount (Dr.)	Amount (Cr.)
April 1	Bank Account	Dr.	1	10,00,000	
	To Capital Account		4		10,00,000
	(Being the amount invested by Ramesh in the business as capital)				
" 3	Purchases Account	Dr.	7	50,000	
	To Bank Account		1		50,000
	(Being goods purchased for cash)				
" 5	Cash Account	Dr.	5	10,000	
	To Bank Account		1		10,000
	(Being cash withdrawn from bank)				
" 13	Krishna	Dr.	9	1,50,000	
	To Sales Account		11		1,50,000
	(Being goods sold to Krishna on credit)				
" 20	Purchases Account	Dr.	7	2,25,000	
	To Shyam		10		2,25,000
	(Being goods bought from Shyam on credit)				
" 24	Bank Account	Dr.	1	1,45,000	
	Discount Account	Dr.	12	5,000	
	To Krishna		9		1,50,000
	(Being cash received from Krishna and discount allowed to him)				
28	Shyam	Dr.	10	2,25,000	
	To Bank Account		1		2,15,000
	To Discount Account		12		10,000
	(Being cash paid to Shyam and discount allowed by him)				
" 30	Bank Account	Dr.	1	8,00,000	
	To Sales Account		11		8,00,000
	(Being sales for the month of April 2022)				
" 30	Rent Account	Dr.	15	50,000	
	Salaries Account	Dr.	14	1,00,000	
	To Bank Account		1		1,50,000
	(Being the amount paid for rent and salary)				
	Total			27,60,000	27,60,000

Question 8

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

(a) Purchased goods from Sahil for Rs. 50,000 plus CGST and SGST @ 9% each.

(b) Purchased goods from Sam for Rs. 40,000 at a trade discount of 10% plus CGST and SGST @ 9% each. Rs. 20,000 was paid immediately and balance payable after 3 months.

(c) Goods costing Rs. 20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.

(d) Paid rent to Gagandeep for Rs. 30,000 plus CGST and SGST @ 6% each.

(e) Goods costing Rs. 5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.

(f) Purchased furniture for Rs. 44,800 including IGST @ 12%.

(g) Purchased machinery from M/s Symphony industries for Rs. 1,40,000 plus CGST and SGST @ 9% each. Paid Rs. 1,00,000 immediately and balance to be paid after two months.

[SM, PYQ June 24]

Answer

In the books of Mr. Rohit

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Purchases A/c Dr. Input CGST A/c (50,000 x 9%) Dr. Input SGST A/c (50,000 x 9%) Dr. To Sahil's A/c (Being goods purchased from Sahil, CGST and SGST paid @ 9% each)		50,000 4,500 4,500	 59,000
(ii)	Purchases A/c (40,000 x 90%) Dr. Input CGST A/c (36,000 x 9%) Dr. Input SGST A/c (36,000 x 9%) Dr. To Sam's A/c To Bank A/c (Being goods purchased from Sam, CGST and SGST payable @ 9% each)		36,000 3,240 3,240	 22,480 20,000
(iii)	Drawings A/c* Dr. To Purchase A/c To Input CGST A/c (20,000 x 9%) To Input SGST A/c (20,000 x 9%) (Being goods withdrawn for personal use and input GST and input SGST debited at the time of purchase reversed)		23,600	 20,000 1,800 1,800
(iv)	Rent A/c Dr. Input CGST A/c (30,000 x 6%) Dr. Input SGST A/c (30,000 x 6%) Dr. To Gagandeep A/c (Being rent paid to Gagandeep)		30,000 1,800 1,800	 33,600
(v)	Sam's A/c Dr. To Purchases Return A/c ** (5,000 – 10% trade Discount) To Input CGST A/c (4,500 x 9%) To Input SGST A/c (4,500 x 9%) (Being goods returned to Sam and input IGST debited at the time of purchases reversed)		5,310	 4,500 405 405
(vi)	Furniture A/c (WN 1) Dr. Input IGST A/c Dr. To Bank A/c (Being furniture purchased paid IGST @ 12%)		40,000 4,800	 44,800
(vii)	Machinery A/c Dr. Input CGST A/c (1,40,000 x 9%) Dr. Input SGST A/c (1,40,000 x 9%) Dr. To Bank A/c To Symphony Industries (Beingmachinery purchased and paid		1,40,000 12,600 12,600	 1,00,000 65,200

	Rs. 1,00,000 immediately, CGST and SGST @ 9% each)			

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

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

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

Question 9

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

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

[SM]

Answer

In the Books of Ms. Nidhi Journal

Date July, 2022	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
3	Bank A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold for cash, charged CGST and SGST @ 6% each)		56,000	 50,000 3,000 3,000
4	Surjeet's A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Surjeet, charged CGST and SGST @ 6% each)(refer W.N.)		28,000	 25,000 1,500 1,500
5	Bank A/c Dr. Discount Allowed A/c Dr. To Surjeet A/c (Being amount received from Surjeet in full settlement of Rs. 28,000 after allowing him discount of Rs. 2,800)		25,200 2,800	 28,000
6	Bank A/c Dr.		12,000	

	Kapil's A/c Dr. To Sales A/c To Output IGST A/c (Being goods sold to Kapil, charged IGST @ 12% and received Rs. 12,000 in cash and balance receivable after one month)		21,600	 30,000 3,600
10	Rebate A/c *Dr. Output IGST A/c Dr. To Kapil's A/c (Being rebate allowed on goods sold to Kapil, Output IGST charged at the time of sales, now reversed)		5,000 600	 5,600
12	Manpreet's A/c Dr. To Sales A/c (1,00,000 x 80%) To Output IGST A/c (80,000 x 12%) (Being goods sold to Manpreet at trade discount of 20% and charged IGST @ 12%)		89,600	 80,000 9,600
13	Sales Return A/c Dr. Output IGST A/c Dr. To Manpreet A/c (Being goods returned by Manpreet and Output IGST charged at the time of sales now reversed)		16,000 1,920	 17,920
17	Cash A/c Dr. To Commission A/c To Output CGST A/c (15,000 x 6%) To Output SGST A/c (15,000 x 6%) (Being commission received charged CGST and SGST @ 6% each)		16,800	 15,000 900 900

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

Working Note:

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

Question 10

Record the following transactions in a Journal, assuming CGST and SGST@ 6% each.

(a) Sold goods to Mukesh at the list price of Rs. 50,000 less 20% trade discount.

(b) Sold goods to Mukesh at the list price of Rs. 1,00,000 less 20% trade discount and 5% cash discount.

(c) Sold goods to Mukesh at the list price of Rs. 1,50,000 less 20% trade discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

[SM]

Answer

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Mukesh A/c Dr.		44,800	

	To Sales A/c			40,000
	To Output CGST A/c			2,400
	To Output SGST A/c			2,400
	(Being goods sold to Mukesh at a trade discount of 20% charged CGST and SGST @ 6% each)			
(ii)	Discount Allowed A/c Dr.		4,000	
	Bank A/c		85,600	
	To Sales A/c			80,000
	To Output SGST A/c			4,800
	To Output SGST A/c			4,800
	(Being goods sold to Mukesh at a trade discount of 20% and 5% cash discount, charged CGST and SGST @ 6% each)*			
(iii)	Bank A/c Dr.		60,480	
	Cash A/c Dr.		20,160	
	Mukesh's A/c (refer W. N.) Dr.		53,760	
	To Sales A/c (1,50,000 x 80%)			1,20,000
	To Output CGST A/c (1,20,000 x 6%)			7,200
	To Output SGST A/c (1,20,000 x 6%)			7,200
	(Being goods sold to Mukesh at a trade discount of 20% and received 60%, charged CGST and SGST @ 6% each)			

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

Working Note: After allowing trade discount of Rs. 30,000 on Rs. 1,50,000 = Rs. 1,20,000, 60% of the balance amount i.e. Rs. 1,34,400 (Rs. 1,20,000 + 12% GST Rs. 14,400) is paid in cash and by cheque.

Hence, the amount paid in cash and cheque = Rs. 1,34,400 × 60% = Rs. 80,640. Amount paid by cheque = Rs. 80,640 × 3/4 = Rs. 60,480

Amount paid in cash = Rs. 80,640 x $\frac{1}{4}$ = Rs. 20,160

Mukesh's A/c = (Rs. 1,20,000 + Rs. 14,400 – Rs. 60,480 – Rs. 20,160) = Rs. 53,760

Question 11
Write short note on classification of accounts.

[SM]

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

(i) Assets: These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.

(ii) Liabilities: These are financial obligations of an enterprise other than owner's equity namely long term loans, creditors, outstanding expenses etc.

(iii) Capital: It generally refer to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.

a. Expenses: These represents those accounts which show the amount spent or even lost in carrying on operations.
b. Incomes: These represent those accounts which show the revenue amounts earned by the enterprise.

However, traditionally accounts are classified as follows:

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

Question 12

Distinguish between Real account and nominal account.

[SM]

Answer

A real account is an account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, incomes and gains. Examples are: wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

Question 13

Write short notes on the following: "Journal".

[RTP June 23, Nov 21]

Answer

Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

Question 14

What are the importance of Journal?

[PYQ June 23]

Answer

IMPORTANCE OF JOURNAL:

1. Chronological Order: As transactions are recorded on chronological order, one can get complete information about the business transactions on time basis.
2. Narration: Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know the correctness of the entry through these narrations.
3. Basis of Posting: Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

Question 15
Show the classification of the following Accounts under traditional and accounting equation approach:

a	Rent outstanding	g	Capital
b	Closing Inventory	h	Sales Tax Payable
c	Sales	i	Trade receivables
d	Bank Fixed Deposit	j	Depreciation
e	Cash	k	Drawings
f	Bad Debts		

[SM]

Answer
Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
a	Rent Outstanding	Personal	Liability
b	Closing Inventory	Real	Asset
c	Sales	Nominal	Revenue
d	Bank Fixed Deposit	Personal	Asset
e	Cash	Real	Asset
f	Bad Debts	Nominal	Expense
g	Capital	Personal	Capital
h	Sales Tax Payable	Personal	Liability
i	Trade receivables	Personal	Asset
j	Depreciation	Nominal	Expense
k	Drawings	Personal	Capital -Drawings

Question 16
Pass Journal Entries for the following transactions in the books of Gamma Bros.

(a) Employees had taken inventory worth Rs. 1,00,000 (Cost price Rs. 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
(b) Wages paid for erection of Machinery Rs. 18,000.
(c) Income tax liability of proprietor Rs. 17000 was paid out of petty cash.
(d) Purchase of goods from Naveen of the list price of Rs. 2,00,000. He allowed 10% trade discount, Rs. 5,000 cash discount was also allowed for quick payment.

[SM, RTP May 18, Oct 20, MTP Nov 23]

Answer
Journal Entries in the books of Gamma Bros.

	Particulars		Dr. Amount Rs.	Cr. Amount Rs.
(i)	Salaries A/c To Purchase A/c (Beingentry made for inventory taken by employees)	Dr.	75,000	 75,000
(ii)	Machinery A/c To Bank A/c (Being wages paid for erection of machinery)	Dr.	18,000	 18,000

(iii)	Drawings A/c To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	Dr.	17,000	 17,000
(iv)	Purchase A/c To Naveen A/c (Being goods purchased from Naveen)	Dr.	1,80,000	 1,80,000
	Naveen A/c To Bank To Discount Received A/c (Being amount paid for the goods purchased from Naveen for Rs. 2,00,000. 10% trade discount and cash discount of Rs. 5,000 allowed by him)	Dr.	1,80,000	 1,75,000 5,000

Note: Here wages paid on erection of machinery have been capitalised therefore machinery account has been debited directly instead of wages being recorded as an expenditure.

The students may also note that trade discount is allowed on the list price of goods. It is deducted to compute the invoice amount of the goods to be recorded in the books. Cash discount is a discount allowed in case of early payments to the seller. The entry is made in the books of accounts for cash discount.

Question 17

Calculate the missing amount for the following.

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

[SM]

Answer

(a) 12,50,000
(b) 2,25,000
(c) 75,000
(d) 59,80,000

These have been solved using the Accounting Equation: Assets = Capital + Liabilities

Question 18

Calculate the missing amount for the following.

	Assets	Liabilities	Capital
a.	30,00,000	5,00,000	?
b.	?	3,00,000	1,50,000
c.	29,00,000	?	27,50,000
d.	1,14,00,000	(5,60,000)	?

(MTP Nov 18, March 22, Aug 24)

Answer

Using the Accounting Equation: Assets = Capital + Liabilities

(a) 25,00,000

(b) 4,50,000
(c) 1,50,000
(d) 1,19,60,000

Question 19
Show the effect of increase = (+), decrease = (-) and no change=(0) on the assets of the following transactions:

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

Also give reasons for your answers.

[SM]

Answer

S. No.	Increase (+) / Decrease (-) / No Change (0) in Assets	Reasons
(a)	+	Furniture has been purchased making it an increase in assets and also it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.
(b)	+	Cash has flowed in for services provided making it an increase in assets.
(c)	+	For goods sold, it is a decrease in inventory (assets) but correspondingly there is an increase in debtors. However, there will be a net increase in assets because goods sold on profit. Though if goods are sold at cost; it will result in no change whereas if sold at below cost; it will result in decrease in assets.
(d)	-	Here cash has been withdrawn from business resulting in decrease in assets and capital.
(e)	0	Only hiring of employee has been done resulting in no change in assets.
(f)	-	Outflow of goods has resulted in decrease in assets while money owed to creditors reduce on the liability side.
(g)	-	Both assets and liabilities reduced by same amounts meaning a decrease in assets.
(h)	0	Only a purchase agreement has been entered into with no transaction taking place yet.

Question 20
Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2022. Find the unknowns, showing computation to support your answer:

Particulars	Rs.	Particulars	Rs.
Machinery	12,00,000	Trade Receivables	B

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

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

[SM]

Answer

Trade Receivable Balance (B) = Sales - Amount received during the year
= Rs. (15,55,000 – 15,00,000) = Rs. 55,000.

Since, we know Assets = Capital + Liabilities Therefore, balance of assets is also Rs. 14,15,000 So, total assets:

Particulars	Rs.
Total Assets	14,15,000
Less: Machinery	(12,00,000)
Less: Inventory	(60,000)
Less: Bank	(80,000)
Less: Receivables	(55,000)
Cash (A)	20,000

Computation of Closing Capital (D):

Particulars	Rs.
Opening Capital	10,00,000
Add: Introduced during the year	1,00,000
Less: Loss incurred during the year	(35,000)
Closing Capital	10,65,000

So, Loan amount (C) = Total Liabilities and capital - Closing Capital - Trade Payables
= Rs. (14,15,000 - 10,65,000 - 1,00,000)= Rs. 2,50,000

Question 21

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

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

[RTP Sep 24]

Answer

In the books of Kewal Journal entries

	Particulars	Dr.	Cr.
		Amount Rs.	Amount Rs.
(i)	Bank A/c Dr.	9,000	

	Discount allowed A/c Dr. To Hari Krishan A/c (Being amount received from Hari Krishan after allowing discount of 1,000).	1,000	10,000
(ii)	Drawings Dr. To Purchases A/c To Cash A/c (Being goods and cash withdrawn for personal use).	7,000	6,000 1,000
(iii)	Free Samples/Sales promotion A/c Dr. To Purchases A/c (Being the goods distributes as free samples).	3,000	3,000
(iv)	Bank A/c Dr. To Commission A/c (Being commission received).	10,000	10,000
	Commission A/c Dr. To Commission received in Advance A/c/ Prepaid Commission A/c (Being commission received in advance adjusted).	5,000	5,000
	Machinery A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c To Jawahar Industries A/c (Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each)	3,00,000 18,000 18,000	1,00,000 2,36,000

Question 22

Journalise the following transactions in the books of Gopal Traders:

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

[RTP June 24]

Answer

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2023 April,5	Bank A/c Dr. Discounting Charges A/c (20,000X2%) Dr. To Bills Receivable A/c (Beingbill discounted from bank at 2%)		19,600 400	20,000

April,8	Malik's A/c Dr.		25,200	
	To Sales To Output CGST A/c To Output SGST A/c (Being goods sold at a profit of 25% and trade discount of 10% CGST and SGST at 6% each)			22,500 1,350 1,350
April,10	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Trends Industries (Being goods purchased and CGST and SGST payable at 6% each)		8,000 480 480	8,960
April,16	Cash A/c Dr. Discount Allowed A/c Dr. To Amar Singh (Being cash received form Amar Singh after allowing him discount of Rs. 200)		5,800 200	6,000
April,19	Charity A/c Dr. To Purchases A/c To Input CGST A/c To Input SGST A/c (Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)		896	800 48 48
April,23	Cash A/c Dr. Discount allowed A/c To Ganesh's A/c (Being cash received form Ganesh on account)		510 60	600
April,25	Interest on Loan A/cDr. To interest on Loan Outstanding A/c (Being interest on loan due but not paid)		1,000	1,000

Question 23

Prepare the Stationery Account of a firm for the month of Jan. 2022 duly balanced off, from the following details:

2022		Rs.
Jan. 1	Inventory of stationery	480
Jan. 5	Purchase of stationery by cheque	800
Jan. 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

[SM]

Answer

Dr. Stationery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.2022	To Balance b/d	480	31.1.2022	By Balance c/d	2,560
5.1.2022	To Bank A/c	800			
15.1.2022	To Five Star Stationery				

		Mart A/c	1,280			
			2,560			2,560
1.2.2022	To	Balance b/d	2,560			

Question 24

Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 2022:

Cash in Hand Rs. 8,000, Cash at Bank Rs. 25,000, inventory of Goods Rs. 20,000, Building Rs. 10,000. Trade receivables: Vijay Rs. 2,000 and Madhu Rs. 2,000.

Credit Balances on January 1, 2022:

Trade payables: Anand Rs. 5,000 and Kapil Rs.7,000, Capital Rs. 55,000

Following were further transactions in the month of January, 2022:

Jan. 1 Purchased goods worth Rs. 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.

Jan. 4 Received Rs. 1,980 from Vijay and allowed him Rs. 20 as discount.

Jan. 8 Purchased plant from Mukesh for Rs.5,000 and paid Rs.100 as cartage for bringing the plant to the factory and another Rs.200 as installation charges.

Jan. 12 Sold goods to Rahim on credit Rs.600.

Jan. 15 Rahim became insolvent and could pay only 50 paise in a rupee.

Jan. 18 Sold goods to Ram for cash Rs.1,000.

[SM]

Answer

Dr. Cash Account Cr.

Date 2022	Particulars	J.F.	Rs.	Date 2022	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		8,000	Jan. 1	By Purchases A/c		3,800
Jan. 4	To Vijay		1,980	Jan. 8	By Plant A/c		300
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280
Feb. 1	To Balance b/d		7,180				

Dr. Bank Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		25,000	Jan. 31	By Balance c/d		25,000
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Dr. Inventory Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		20,000	Jan. 31	By Balance c/d		20,000
			20,000				20,000
Feb. 1	To Balance b/d		20,000				

Dr. Building Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		10,000	Jan. 31	By Balance c/d		10,000
			10,000				10,000
Feb. 1	To Balance b/d		10,000				

Dr. Vijay Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		2,000	Jan. 4	By Cash A/c		1,980
					By Discount A/c		20
			2,000				2,000

Dr. Madhu Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Balance b/d		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Dr. Anand Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 31	To Balance c/d		5,000	Jan. 1	By Balance b/d		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. Kapil Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 31	To Balance c/d		7,000	Jan. 1	By Balance b/d		7,000
			7,000				7,000
				Feb. 1	By Balance b/d		7,000

Dr. Capital Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 31	To Balance c/d		55,000	Jan. 1	By Balance b/d		55,000
			55,000				55,000
				Feb. 1	By Balance b/d		55,000

Dr. Purchases Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 1	To Cash		3,800				
Jan. 1	To Cash Discount		200	Jan. 31	By Balance c/d		4,000
			4,000				4,000
Feb. 1	To Balance b/d		4,000				

Dr. Discount Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.

Jan. 4	To Vijay		20	Jan. 1	By Purchases A/c		200
Jan.31	To Balance c/d		180				
			200				200
				Feb. 1	By Balance b/d		180

Dr. Plant Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 8	To Mukesh		5,000	Jan. 31	By Balance c/d		5,300
Jan. 8	To Cash A/c		300				
			5,300				5,300
Feb. 1	To Balance b/d		5,300				

Dr. Mukesh Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 31	To Balance c/d		5,000	Jan. 8	By Plant A/c		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. Sales Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 31	To Balance c/d		1,600	Jan. 12	By Rahim		600
				Jan. 18	By Cash A/c		1,000
			1,600				1,600
				Feb. 1	By Balance b/d		1,600

Dr. Rahim Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
				Jan. 15	By Bad Debts A/c		300
			600				600

Dr. Bad Debts Account Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

Question 25

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2022.

1 Mr. S owes Mr. R Rs. 15,000; Mr. H owes Mr. S Rs. 20,000.
4 Mr. R sold goods worth Rs. 60,000 @ 10% trade discount to Mr. S.
5 Mr. S sold to Mr. H goods prices at Rs. 30,000.
17 Record a purchase of Rs. 25,000 net from R, which were sold to H at a profit of Rs.15,000.
18 Mr. S rejected 10% of Mr. R's goods of 4th April.

19 Mr. S issued a cash memo for Rs.10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.

22 Mr. H cleared half his total dues to Mr. S, enjoying a $\frac{1}{2}$% cash discount (of the payment received, Rs. 20,000 was by cheque).

26 R's total dues (less Rs.10,000 held back) were cleared by cheque, enjoying a cash discount of Rs.1,000 on the payment made.

Close H's Account to record the fact that all but Rs. 5,000 was cleared by him, by a cheque, because he was declared bankrupt.

Balance R's Account.

[SM]

Answer

In the books of Mr. S

Dr. Mr. H Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2022	To Balance b/d	20,000	22.4.2022	By Bank A/c	20,000
5.4.2022	To Sales A/c	30,000	22.4.2022	By Cash A/c (Note 2)	24,775
17.4.2022	To Sales A/c	40,000	29.4.2022	By Discount Allowed A/c	225
			29.4.2022	By Bank A/c	40,000
			29.4.2022	By Bad Debts A/c	5,000
		90,000			90,000

Dr. Mr. R Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
18.4.2022	To Purchase Returns A/c	5,400	1.4.2022	By Balance b/d	15,000
			4.4.2022	By Purchases A/c	54,000
26.4.2022	To Bank A/c	77,600	17.4.2022	By Purchases A/c	25,000
26.4.2022	To Discount Received A/c	1,000			
30.4.2022	To Balance c/d	10,000			
		94,000			94,000
			1.5.2022	By Balance b/d	10,000

Working Notes:

Sale of Rs. 10,000 on 19th April is a cash sales, therefore, it will not be recorded in the Personal Account of Mr. H; and

On 22nd April, Mr. H owes Mr. S Rs. 90,000, amount paid by Mr. H $\frac{1}{2}$ of Rs. 90,000 less $\frac{1}{2}$% discount i.e., Rs. 45,000– Rs. 225 = Rs. 44,775. Out of this amount, Rs. 20,000 paid by cheque and the balance of Rs. 24,775 in cash.

Question 26

What do you mean by principal books of accounts?

[SM, PYQ Dec 21]

Answer

Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).

Question 27

What are the rules of posting of journal entries into the Ledger?

[SM, MTP Nov 18, Oct 21, April 23, May 25, RTP Sep 24, Nov 23, 19]

Answer

Rules regarding posting of entries in the ledger:

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

Question 28

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

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

[SM]

Answer

1. Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
Cash A/c To Capital A/c (Being commencement of business)	Dr.		20,000	 20,000
Purchase A/c To Y (Being purchase of goods on credit)	Dr.		4,000	 4,000
Y To Cash (Being amount paid to Y)	Dr.		2,000	 2,000
Z To Sales A/c (Being goods sold to Z)	Dr.		4,000	 4,000
Bank A/c To Z (Being amount received from Z)	Dr.		6,000	 6,000
Purchase A/c To Y (Being purchase of goods on credit from Y)	Dr.		4,000	 4,000
Y To Cash A/c (Being amount paid to Y)	Dr.		2,000	 2,000

Z	Dr.		4,000	
To Sales A/c (Being goods sold to Z)				4,000
Cash A/c	Dr.		2,000	
To Z (Being cash received from Z)				2,000
TOTAL			48,000	48,000

Dr. Cash Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2000		By Balance c/d	24,000
		28,000			28,000
Feb. 1	To Balance b/d	24,000			

Dr. Capital Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	20,000		By Cash A/c	20,000
		20,000			20,000
			Feb. 1	By Balance b/d	20,000

Dr. Purchase Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8,000			8,000
Feb.1	To Balance b/d	8,000			

Dr. Y's Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash	2,000		By Purchases	4,000
	To Cash	2,000		By Purchases	4,000
Jan. 31	To Balance c/d	4,000			
		8,000			8,000
				By Balance b/d	4,000

Dr. Z's Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			8,000

Dr. Sales Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	8,000		By Z	4,000

				By Z	4,000
		8,000			8,000
			Feb. 1	By Balance b/d	8,000

Question 29

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

Dr. Cash Account Cr.

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

Dr. Furniture Account Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/c	3,000	By Balance c/d	3,000
	3,000		3,000

Dr. Salaries Account Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/c	2,500	By Balance c/d	2,500
	2,500		2,500

Dr. Shyam's Account Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/c	21,000	By Purchases A/c	25,000
To Purchase Returns A/c	500	(Credit Purchase)	
To Balance c/d	3,500		-
	25,000		25,000

Dr. Purchases Account Cr.

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

Dr. Purchases Returns Account Cr.

Particulars	Rs.	Particulars	Rs.
To Balance c/d	500	By Sundries as per Purchases Return Book	500
	500		500

Dr. Ram's Account Cr.

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

Dr. Sales Account Cr.

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

Dr. Sales Returns Account Cr.

Particulars	Rs.	Particulars	Rs.
To Sundries as per Sales Returns Book	100	By Balance c/d	100
	100		100

Dr. Capital Account Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/c To Balance c/d	500 9,500	By Cash A/c	10,000
	10,000		10,000

Also prepare the Trial Balance by Balance Method.

[SM]

Answer

Trial Balance of X and Co. as at 31.03.2022

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

By Balance Method

Trial Balance of X and Co. as at 31.03.2022

Sl. No.	Name of Account	Debit Balance Rs.	Credit Balance Rs.

1.	Cash A/c	7,500	
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c		3,500
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	4,900	
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c		9,500
		44,000	44,000

Question 30

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2022:

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

[SM]

Answer

Trial Balance of Anuradha Traders as on 31.03.2022

Particulars	Dr. balance Rs.	Particulars	Cr. balance Rs.
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

Question 31

From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2021:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1st April 2020	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in Hand	100
Cash at bank	10,100	Motor Cycle	34,600
Stock on 31st March, 2021	20,500		

[PYQ Dec 21, MTP April 24]

Answer

Trial Balance of Shri. M as on 31st March, 2021

Particulars	Dr. Amount Rs.	Cr. Amount Rs.
Capital		1,40,000
Purchases	36,000	
Discount Allowed	1,200	
Carriage Inward Carriage Outwards	8,700	
	2,300	
Sales		60,000
Return Inward	300	
Return Outwards		700
Rent and taxes	1,200	
Plant and Machinery	80,700	
Stock on 1st April,2020	15,500	
Sundry Debtors	20,200	
Sundry Creditors		12,000
Investments	3,600	
Commission Received		1,800
Cash in Hand	100	
Cash at Bank	10,100	
Motor Cycle	34,600	
	2,14,500	2,14,500

Note : Stock as on 31st March,2021 will not appear in trail balance.

Question 32

One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2022. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance (Rs.)	Cr. Balance (Rs.)
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Dues from customers		530
Purchases	1,259	

Purchases return	264	
Loan from bank		256
Trade payables	528	
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2021)		264
Rent and rates	463	
Sales return		98
	5,454	5,454

The closing inventory on 31st March, 2022 was valued at Rs. 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

[SM, PYQ May 22, MTP July 24]

Answer

Corrected Trial Balance of Mr. Singhania as on 31st March, 2022

Particulars	Dr. Amount Rs.	Cr. Amount Rs.
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Dues from customers (refer note 1 below)	530	
Purchases	1,259	
Purchases returns (refer note 2 below)		264
Loan from Bank		256
Trade payables (refer note 3 below)		528
Trade expenses	700	
Cash at Bank	226	
Bills payable (refer note 4 below)		100
Salaries and Wages	600	
Inventory (1.4.2021) (refer note 5 below)	264	
Rent and rates	463	
Sales return (refer note 6 below)	98	
	5,454	5,454

Notes:

1. Dues from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets go out.
3. Balance in Trade payables 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.

Question 33

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

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

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

[SM]

Answer

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

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

Output CGST A/c		-	5,400
Output SGST A/c		-	5,400
		2,56,600	2,56,600

Question 34
What is the trial balance? And how it is prepared?

[SM]

Answer
Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance.

Trial balance contains various ledger balances on a particular date. It forms the basis for preparing the financial statements i.e. profit and loss account and balance sheet. If is tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected. Therefore, it is very important to carefully journalise and post the entries, following are rules of accounting.

Question 35
Explain in brief objectives of preparing Trial Balance.

(SM, MTP Nov 18, Oct 21, April 23, May 25, RTP Sep 24, June 24, Nov 19,20,22)

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

Question 36
Even if the trial balance agrees, some errors may remain. Do you agree? Explain.

[SM]

Answer
In spite of the agreement of the trial balance some errors may remain. These may be of the following types:
(i) Transaction has not been entered at all in the journal.
(ii) A wrong amount has been written in both columns of the journal.
(iii) A wrong account has been mentioned in the journal.
(iv) An entry has not at all been posted in the ledger.
(v) Entry is posted twice in the ledger.

Question 37

An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2022.

	Debit (Rs.)	Credit (Rs.)
Provision for Doubtful Debts	200	-
Bank Overdraft	1,654	-
Capital	-	4,591
Trade payables	-	1,637
Trade receivables	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-
Office Furniture	2,155	-
General Expenses	-	829
Purchases	10,923	-
Returns Inward	-	330
Rent & Rates	314	-
Salaries	2,520	-
Sales	-	16,882
Inventory	2,418	-
Provision for Depreciation on Furniture	364	-
Total	24,983	25,002

Required:

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

[SM, PYQ Nov 19]

Answer

Trial Balance as on 30th June, 2022

Heads of Accounts	Debit Rs.	Credit Rs.
Provision for Doubtful Debts	-	200
Bank overdraft	-	1,654
Capital	-	4,591
Trade payables	-	1,637
Trade receivables	2,983	-
Discount Received	-	252
Discount allowed	733	-
Drawings	1,200	-
Office furniture	2,155	-
General Expenses	829	-
Purchases	10,923	-
Returns Inward	330	-
Rent & Rates	314	-
Salaries	2,520	-
Sales	-	16,882
Inventory	2,418	-
Provision for Depreciation on Furniture	-	364
Suspense Account (Balancing figure)	1,175	-
Total	25,580	25,580

Question 38
The Rough Book of M/s. Narain & Co. contains the following :
2022
Feb. 1. Purchased from Brown & Co. on credit :
5 gross pencils @ Rs.100 per gross,
1 gross register @ Rs. 240 per doz.
Less : Trade Discount @ 10%
2 Purchased for cash from the Stationery Mart;
10 gross exercise books @ Rs. 300 per doz.
3 Purchased computer for office use from M/s. office Goods Co. on credit for Rs. 30,000.
4 Purchased on credit from The Paper Co.
5 reams of white paper @ Rs.100 per ream.
10 reams of ruled paper @ Rs.150 per ream.
Less : Trade Discount @ 10%
5 Purchased one dozen gel pens @ Rs.15 each from M/s. Verma Bros. on credit.
Make out the Purchase Book of M/s. Narain & Co.

[SM]

Answer

Purchases Book

Date	Particulars	Details	Amount
2022		Rs.	Rs.
Feb. 1	M/s. Brown & Co.		
	5 gross pencils @ Rs. 100 per gross	500.00	
	1 gross register @ Rs. 240 per doz.	2880.00	
		3380.00	
	Less : 10% trade discount	(338)	3,042
"4	The Paper Co.		
	5 reams white paper @ Rs. 100 per ream	500.00	
	10 reams ruled paper @ Rs. 150 per ream	1500.00	
		2,000.00	
	Less : 10% trade discount	(200.00)	1,800
5	M/s. Verma Bros.		
	1 doz. gel pens @ Rs. 15 each	180	180
		Total	5022

Note : Purchases of cash and purchase of computer are not recorded in the Purchase Book.

Question 39
Enter the following transactions in Purchase Book and post them into ledger.
2022
April 4 Purchased from Ajay Enterprises, Delhi
100 Doz. Rexona Hawai Chappal @ Rs. 120 per doz.
200 Doz. Palki Leather Chappal @ Rs. 300 per Doz.
Less : Trade discount @ 10%

Freight charged Rs. 150.
April 15 Purchased from Balaji Traders, Delhi
50 doz. Max Shoes @ Rs. 400 per doz.
100 pair Sports Shoes @ Rs. 140 per pair.
Less : Trade discount @ 10%.
Freight charged Rs. 200.
April 28 Purchased from Tripti Industries, Bahadurgarh
40 pair leather shoes @ Rs. 400 per pair
100 doz. Rosy Hawai Chappal @ Rs. 180 per doz.
Less : Trade discount @ 10%.
Freight charged Rs. 100.

[SM]

Answer

Purchase Book

Date 2022	Particulars	Details	Gross Amount	Trade Discount	Net Price	Freight	Total Amount
April 4	Ajay Enterprises						
	100 doz Rexona Hawai chappal @ Rs. 120 per doz - Rs. 12,000	12,000					
	200 doz Palki Leather Chappal @ Rs. 300 per doz - Rs. 60,000	60,000					
	Less: trade discount @ 10%		72,000	7,200	64,800	150	64,950
April 15	Balaji Traders, Delhi						
	50 doz max Shoes @ Rs. 400 per doz - Rs. 20,000	20,000					
	100 pair Sports shoes @ Rs. 140 per pair - Rs. 14,000	14,000					
	Less: Trade discount @ 10%		34,000	3,400	30,600	200	30,800
April 28	Tripti Industries, Bahadurgarh						
	40 pair Leather shoes @ Rs. 400 per pair - Rs. 16,000	16,000					
	100 doz Rosy Hawai Chappal: @ Rs. 180 per doz - Rs. 18,000	18,000					
	Less: Trade discount @ 10%		34,000	3,400	30,600	100	30,700
			1,40,000	14,000	1,26,000	450	1,26,450

Ledgers

Dr. Purchases A/c Cr.

2022		Rs.	2022		Rs.
April 30	To amount as per purchase book	1,26,000			

Dr. Freight A/c Cr.

2022		Rs.	2022		Rs.
April 30	To amount as per purchase book	450			

Dr. Ajay Enterprises Cr.

2022		Rs.	2022		Rs.
			April 4	By Purchase A/c (From Purchase Book) By Freight A/c (From Purchase Book)	64,800 150

Dr. Balaji Traders Cr.

2022		Rs.	2022		Rs.
			April 15	By Purchase A/c (From Purchase Book) By Freight A/c (From Purchase Book)	30,600 200

Dr. Tripati Industries Cr.

2022		Rs.	2022		Rs.
			April 28	By Purchase A/c (From Purchase Book) By Freight A/c (From Purchase Book)	30,600 100

Question 40

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

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

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

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

[PYQ July 21, MTP May 25]

Answer

PURCHASES BOOK

Date	Particulars	L.F.	Amount Rs.
(i)	Red & Co.		
	10 pair of black shoes @ Rs. 800		8,000
	5 pair of Brown shoes @ Rs. 900		4,500
			12,500
	Less: 10% trade discount		(1,250)
			11,250

Note:

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

Question 41

The following are some of the transaction of M/s Kishore & Sons of the year 2022 as per their Waste Book. Make out their Sales Book.

1. Sold to M/s. Gupta & Verma on credit: 30 shirts @ Rs. 800 per shirt.
   20 trousers @ Rs.1,000 per trouser.
   Less : Trade Discount @ 10%
2. Sold furniture to M/s. Sehgal & Co. on credit Rs.8,000.
3. Sold 50 shirts to M/s. Jain & Sons @ Rs.800 per shirt.
4. Sold 13 shirts to Cheap Stores @ Rs.750 each for cash.
5. Sold on credit to M/s. Mathur & Jain. 100 shirts @ Rs.750 per shirt
   10 overcoats @ Rs.5,000 per overcoat.
   Less: Trade Discount @ 10%

[SM, RTP June 24, Jan 25 Similar, PYQ Nov 20]

Answer

Sales Book

Date	Particulars	Details Rs.	Amount Rs.
2022	M/s. Gupta & Verma		
	30 shirts @ Rs.800	24,000	
	20 Trousers @ Rs.1,000	20,000	
		44,000	
	Less : 10%	(4,400)	
	Sales as per invoice no. dated		39,600
	M/s. Jain & Sons 50 shirts @ Rs.800		
	Sale as per invoice no. dated		40,000
	M/s Mathur & Jain		
	100 shirts @ Rs.750	75,000	
	10 overcoats @ Rs.5,000	50,000	
		1,25,000	
	Less : 10%	(12,500)	
	Sales as per invoice no. dated......		1,12,500
		Total	1,92,100

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

Question 42

Post the following into the ledger

Returns Outward Book

Date 2022	Particulars	Details Rs.	Amount Rs.
Nov. 20	Rajindra Prakash & Sons One 36" Usha Ceiling Fan Less : Trade Discount @ 10% Modern Electric Company	 200.00 (20.00) 	 180.00 100.00

" 30	Total		280.00

[SM]

Answer

Ledger

Dr. Rajindra Parkash & Sons Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 20	To Returns Outward A/c (From Returns Outward Book)		180.00				

Dr. Modern Electric Co. Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 30	To Returns Outward A/c (From Returns Outward Book)		100.00				

Dr. Returns Outward Account Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				Nov. 30	By Sundries as per Returns Outward Book		280.00

Question 43

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

Date	Debit Note No.	Particulars
04.01.2022	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ Rs. 1,000.
09.01.2022		Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ Rs. 400.
16.01.2022	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ Rs. 2,600.
30.01.2022		Returned one computer (being defective) @ Rs. 35,000 to B & Co.

[SM, RTP Nov 22, 20, May 19, MTP May 20, April 23]

Answer

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2022				
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		13,000
Jan. 31		Purchases Returns Account (Cr.)		18,000

Question 44

Which subsidiary books are normally used in a business?

[SM, MTP March 21, Nov 22, MTP Oct 18, Oct 19, July 24]

Answer

Following subsidiary books are used in a business:

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

Question 45

What are the advantages of subsidiary books?

[SM, RTP May 20, PYQ July 21, MTP Jan 25]

Answer

Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

(i) Division of work: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
(ii) Specialization and efficiency: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
(iii) Saving of the time: Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
(iv) Availability of information: Since a separate register or book is kept for each class of transactions, the information relating to each class of transaction be available at one place.
(v) Facility in checking: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

Question 46

Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi. 2022

Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ Rs.6,000/- each less Trade discount @ 10%.

Jan 8 Sold to M/s. Electronics Plaza, 10 pieces of Tablets @ Rs. 8,000/- each less trade discount 5%.

Jan 15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ Rs.3,500/- each less trade discount @ 10%.

Also Post into the ledger, the entries of Sales Book prepared.

[SM, PYQ June 23]

Answer

Sales Book

Date	Particulars	Gross Amount (Rs.)	Trade Discount (Rs.)	Net Price (Rs.)
2022				
Jan. 2	M/s. Ajanta Electricals 5 pieces of Ovens @ Rs. 6,000 each Less: 10% discount M/s. Electronics Plaza	30,000	3,000	27,000
8	10 pieces of Tablets @ Rs. 8,000 each, less 5% trade discount	80,000	4,000	76,000

15	M/s. Haryana Traders 5 pieces of Juicers @ Rs. 3,500 each, less 10% trade discount	17,500	1,750	15,750
		1,27,500	8,750	1,18,750

Ledger

M/s. Ajanta Electricals

Date 2022	Particulars	L.F.	Amount (Rs.)	Date 2022	Particulars	L.F.	Amount (Rs.)
Jan. 2	To Sales A/c (From Sales Book)		27,000				

M/s. Electronics Plaza

Date 2022	Particulars	L.F.	Amount (Rs.)	Date 2022	Particulars	L.F.	Amount (Rs.)
Jan. 8	To Sales A/c (From Sales Book)		76,000				

M/s. Haryana Traders

Date 2022	Particulars	L.F.	Amount (Rs.)	Date 2022	Particulars	L.F.	Amount (Rs.)
Jan. 15	To Sales A/c (From Sales Book)		15,750				

Sales Account

Date 2022	Particulars	L.F.	Amount (Rs.)	Date 2022	Particulars	L.F.	Amount (Rs.)
				Jan. 31	By Sundries (As per Sales Book)		1,18,750

Question 47

Enter the following transactions in a Simple Cash Book:

2022		Rs.
Jan.1	Cash in hand	1,200
"5	Received from Ram	300
"7	Paid Rent	30
"8	Sold goods for cash	300
"10	Paid to Shyam	700
"27	Purchased Furniture	200
"31	Paid Salaries	100
"31	Rent due, not yet paid, for January	30

[SM]

Answer

Dr. Cash Book Cr.

Date 2022	Receipts	L.F.	Amount	Date 2022	Payments	L.F.	Amount

Jan. 1	To Balance b/d		1,200	Jan. 07	By Rent A/c		30
" 5	To Ram A/c		300	" 10	By Shyam A/c		700
" 8	To Sales A/c		300	" 27	By Furniture A/c		200
				" 31	By Salaries A/c		100
				" 31	By Balance c/d		770
2022			1,800				1,800
Feb. 1	To Balance b/d		770				

Question 48

Ganesh commenced business on 1st April, 2022 with Rs. 2,000 as capital. He had the following cash transactions in the month of April 2022:

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

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2022.

[SM]

Answer

Cash Book

Dr. Date 2022	Receipts	L.F.	Discount Rs.	Amount Rs.	Date 2022	Payments	L.F.	Discount Rs.	Cr. Amount Rs.
April 1	To Capital A/c			2,000	April 1	By Furniture A/c			250
" 4	To Sales A/c			950	" 2	By Purchases A/c			500
" 6	To Krishna			600					
	A/c		20		" 5	By Ram Mohan			560
					" 7	By Petty		10	
						Expenses A/c			15
					" 8	By Purchases A/c			150
					" 13	By wages A/c			1,000
					" 13	By Ali & Sons			400
					" 30	By Balance c/d		8	675
			20	3,550				18	3,550
May 1	To Balance b/d			675					

To summarise:

(i) the discount columns in the cash book are totalled;
(ii) they are not balanced; and
(iii) their totals are entered in the discount received/paid account in the ledger.

Question 49

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

2022		Rs.
Jan.1	Chandrika commences business with Cash	20,000
" 3	He paid into Current A/c	19,000
" 4	He received cheque from Kirti & Co. on account	600
" 7	He pays in bank Kirti & Co.'s cheque	600
" 10	He pays Rattan & Co. by cheque and is allowed discount Rs. 20	330
" 12	Tripathi & Co. pays into his Bank A/c	475
" 15	He receives cheque from Warshi and allows him discount Rs. 35	450
" 20	He receives cash Rs. 75 and cheque Rs. 100 for cash sale	
" 25	He pays into Bank, including cheques received on 15th and 20th	1,000
" 27	He pays for cash purchase	275
" 30	He pays sundry expenses in cash	50

[SM]

Answer

Dr. Cash Book Cr.

Date	Receipts	L.F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Payments	L.F.	Discount Rs.	Cash Rs.	Bank Rs.
2022						2022					
Jan. 1	To Capital A/c			20,000		Jan. 3	By Bank A/c	C		19,000	
3	To Cash	C			19,000	7	By Bank A/c	C		600	
4	To Kirti & Co.			600		10	By Ratan & Co.		20		330
7	To Cash	C			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By Purchases A/c			275	
15	To Warshi		35	450		30	By S. Exp. A/c			50	
20	To Sales A/c			175							
25	To Cash	C			1,000						
						31	By Balance c/d			300	20,745
			35	21,225	21,075				20	21,225	21,075
Feb. 1	To Balance b/d			300	20,745						

Question 50

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

2022			Rs.
Jan.	1	Received Rs.100 for petty cash	
"	2	Paid bus fare	.50
"	2	Paid cartage	2.50
"	3	Paid for Postage	5.00
"	3	Paid wages for casual labourers	6.00

"	4	Paid for stationery	4.00
"	4	Paid Bus charges	2.00
"	5	Paid for the repairs to chairs	15.00
"	5	Bus fare	1.00
"	5	Cartage	4.00
"	6	Postage	7.00
"	6	Bus charges	3.00
"	6	Cartage	3.00
"	6	Stationery	2.00
"	6	Refreshments to customers	5.00

[SM, RTP May 22, Nov 21, MTP Mar 18 , Apr 19 (different figures, same concept)]

Answer

Petty Cash Book

Receipts Rs.	Date 2022	V. No.*	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Statio-nery Rs.	Postage Rs.	Wages Rs.	Sundries Rs.
100	Jan.1		To Cash							
	2	1	By Conveyance	.50	.50					
		2	By Cartage	2.50		2.50				
	3	3	By Postage	5.00				5.00		
		4	By Wages	6.00						
	4	5	By Stationery	4.00			4.00			
		6	By Conveyance	2.00	2.00				6.00	
	5	7	By Repairs to Furniture	15.00						15.00
		8	By Conveyance	1.00	1.00					
		9	By Cartage	4.00		4.00				
	6	10	By Postage	7.00				7.00		
	"	11	By Conveyance	3.00	3.00					
	"	12	By Cartage	3.00		3.00				
	"	13	By Stationery	2.00			2.00			
	"	14	By General Expenses	5.00						5.00
				60.00	6.50	9.50	6.00	12.00	6.00	20.00
			By Balance c/d	40.00						
100				100.00						
40.00			To Balance b/d							
60.00	8		To Cash							

* Voucher Numbers

The journal entry and relevant accounts are as follows:

2022		Dr. Rs	Cr. Rs.
Jan. 6	Conveyance Account	6.50	

	Cartage Account	9.50	
	Stationery Account	6.00	
	Postage Account	12.00	
	Wages Account	6.00	
	Repairs Account	15.00	
	General Expenses Account	5.00	
	To Petty Cash Account		
	(Being the analysis of the Petty Cash Book for the week ending Jan. 6)		60.00
	Entry for cash handed over to the Petty Cashier Petty Cash Account To Cash Account (Being Cash received)	60	60

Petty Cash Account

Date 2022	Particulars	Folio	Amount Rs.	Date 2022	Particulars	Folio	Amount Rs.
Jan.1	To Cash		100.00	Jan. 6	By Sundries:		
"6	To Cash		60.00		Conveyance		6.50
					Cartage		9.50
					Stationery		6.00
					Postage		12.00
					Wages		6.00
					Repairs		15.00
					General Expenses		5.00

Question 51

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

2022		Rs.
March 1	Cash in Hand	15,000
	Overdraft in Bank	500
2	Cash Sales	3,000
3	Paid to Sushil Bros. by cheque	3,400
	Discount received	100
5	Sales through credit card	2,800
6	Received cheque from Srijan	6,200
7	Endorsed Srijan's cheque in favour of Adit	
9	Deposit into Bank	6,800
10	Received cheque from Aviral and deposited the same into Bank by allowing discount of Rs. 50	3,600
12	Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque	
15	Sales through Debit Card	3,200
24	Withdrawn from Bank	1,800

28	Paid to Sanchit by cheque	3,000
30	Bank charged 1% commission on sales through Debit/Credit Cards	

[SM]

Answer

Dr. Cash Book Cr.

Date	Particulars	L.F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Particulars	L.F.	Discount Rs.	Cash Rs.	Bank Rs.
2022						2022					
March 1	To Balance b/d			15,000		March 1	By Balance b/d				500
2	To Sales			3,000		3	By Sushil Bros.		100		3,400
5	To Sales				2,800	7	By Adit			6,200	
6	To Srijan			6,200		9	By Bank	C		6,800	
9	To Cash A/c	C			6,800	12	By Adit				6,200
10	To Aviral		50		3,600	24	By Cash A/c	C			1,800
12	To Srijan			6,200		28	By Sanchit				3,000
15	To Sales A/c				3,200	30	By Commission				60
24	To Bank A/c	C		1,800		31	By Balance c/d			19,200	1,440
			50	32,200	16.400				100	32,200	16,400

Note: If the received cheque is endorsed to the other party on the same day, then no entry is required. However, in the above case posting has been done through cash column as the endorsement is done on next day.

Question 52

What is petty cash book? Write it's any two advantages.

[PYQ May 22]

Answer

- In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.
- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

(i) Saving of time of the chief cashier
(ii) Saving in labour in writing up the cash book and posting into the ledger
(iii) Control over small payments

Question 53
Is cash book a subsidiary book or a principal book? Explain.

[SM]

Answer
Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account, if bank column is also included; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it is also treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

Question 54
What are the various kinds of cash book?

[SM]

Answer
The main Cash Book may be of the three types:
(i) Simple Cash Book;
(ii) Two-column Cash Book;
(iii) Three-column Cash Book.
In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

Question 55
What are the advantages of a three column cash book?

[SM]

Answer
The advantages of three column Cash Book are that -
(a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. The chances of error are also reduced.
(b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Cash and Bank Account.

Question 56
Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount is Rs. 500. From the following information, show how his Petty Cash Book would appear for the week ended 12th September, 2022:

7-9-2022	Balance in hand	134.90
	Received Cash reimbursement to make up the imprest	365.10
	Stationery	49.80
8-9-2022	Miscellaneous Expenses	20.90
9-9-2022	Repairs	156.70
10-9-2022	Travelling	68.50
11-9-2022	Stationery	71.40
12-9-2022	Miscellaneous Expenses	6.30
13-9-2022	Repairs	48.30

[SM]

Answer

Petty Cash Book

Date 2022	Receipts	Amount Rs.	Date 2022	Payments	Total Amount Rs.	Stationery Rs,	Travelling Rs,	Misc Exps. Rs.	Repairs Rs.
Sept.	To Balance b/d	134.90	7	By Stationery	49.80	49.80			
7	To Reimbursement	365.10	8	By Misc. Expenses	20.90		68.50	20.90	
			9	By Repairs	156.70				156.70
			10	By Travelling	68.50				
			11	By Stationery	71.40	71.40			
			12	By Misc. Expenses	6.30			6.30	
			13	By Repairs	48.30				48.30
					421.90	121.20	68.50	27.20	205.00
				By Balance c/d	78.10				
		500.00			500.00				
	To Balance b/d	78.10							

Question 57

How would you rectify the following errors in the book of Rama & Co.?

1. The total to the Purchases Book has been undercast by Rs. 100.
2. The Returns Inward Book has been undercast by Rs. 50.
3. A sum of Rs. 250 written off as depreciation on Machinery has not been debited to Depreciation Account.
4. A payment of Rs. 75 for salaries (to Mohan) has been posted twice to Salaries Account.
5. The total of Bills Receivable Book Rs. 1,500 has been posted to the credit of Bills Receivable Account.
6. An amount of Rs.151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as Rs. 115.
7. Discount allowed to Satish Rs. 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.

[SM]

Answer

1. The Purchases Account should receive another debit of Rs.100 since it was debited short previously: "To Undercasting of Purchases Book for the month of --- Rs.100."
2. Due to this error the Returns Inward Account has been posted short by Rs. 50 : the correct entry will be:
   "To Undercasting of Returns Inward Book for the month of --- Rs.50."
3. The omission of the debit to the Depreciation Account will be rectified by the entry: "To Omission of posting on Rs. 250".
4. The excess debit will be removed by a credit in the Salaries Account by the entry: "By double posting on Rs. 75".
5. Rs.1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by Rs. 3,000 by the entry:
   "To Wrong posting of B/R received on Rs. 3,000"
6. Hari's personal A/c is debited Rs. 36 short. The rectification entry will be: "To Wrong posting Rs. 36".

7. Due to this error, the discount account has been debited short by Rs. 25. The required entry is : "To Omission of discount allowed to Satish on Rs. 25."

Question 58

The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

i. Rs. 500 paid for furniture purchased has been charged to ordinary Purchases Account.
ii. Repairs made were debited to Building Account for Rs. 50.
iii. An amount of Rs.100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
iv. Rs.100 paid for rent debited to Landlord's Account.
v. Salary Rs. 125 paid to a clerk due to him has been debited to his personal account.
vi. Rs. 100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
vii. Rs. 700 paid in cash for a typewriter was charged to Office Expenses Account.

[SM]

Answer

Journal

Sr. No.	Particulars	Dr. Rs.	Cr. Rs.
(1)	Furniture A/c To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)	500	500
(2)	Repairs A/c To Building A/c (Correction of wrong debit to building A/c for repairs made)	50	50
(3)	Drawings A/c. To Trade Expenses A/c (Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)	100	100
(4)	Rent A/c To Landlord's Personal A/c (Correction of wrong debit to landlord's A/c for rent paid)	100	100
(5)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	125	125
(6)	Shaw & Co. To Shah & Co. (Correction of wrong credit to Shaw & Co. Instead of Shah & Co.)	100	100
(7)	Typewriter A/c To Office Expenses A/c (Correction of wrong debit to Office Expenses A/c for purchase of typewriter)	700	700

Question 59

Give journal entries to rectify the following:

i. A purchase of goods from Ram amounting to Rs.150 has been wrongly entered through the Sales Book.
ii. A Credit sale of goods amounting Rs.120 to Ramesh has been wrongly passed through the Purchase Book.
iii. On 31st December, 2022 goods of the value of Rs. 300 were returned by Hari Saran and were taken into inventory on the same date but no entry was passed in the books.
iv. An amount of Rs. 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.
v. A Cheque for Rs. 100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

[SM]

Answer

Journal

Sr.No.	Particulars	Dr.(Rs.)	Cr.(Rs.)
(1)	Purchases A/c Sales A/c To Ram (Correction of wrong entry in the sales Book for a purchases of goods from Ram)	150 150	 300
(2)	Ramesh To Purchases A/c To Sales A/c (Correction of wrong entry in the Purchases Book of a credit sale of goods to Ram)	240	 120 120
(3)	Returns Inwards A/c To Hari Saran (Entry of goods returned by him and taken in inventory omitted from records)	300	 300
(4)	Mahesh Chand To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)	200	 200
(5)	Man Mohan To Sales Return A/c (Correction of wrong debit to Sales Returns A/c for dishonour of cheque received from Man Mohan)	100	 100

Question 60

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

(a) The Sales Book has been totalled Rs.100 short.
(b) Goods worth Rs. 150 returned by Green & Co. have not been recorded anywhere.
(c) Goods purchased Rs.250 have been posted to the debit of the supplier Gupta & Co.
(d) Furniture purchased from Gulab & Bros, Rs.1,000 has been entered in Purchases Day Book.
(e) Discount received from Red & Black Rs.15 has not been entered in the Discount Column of the Cash Book.
(f) Discount allowed to G. Mohan & Co. Rs.18 has not been entered in the Discount Column of the Cash Book.

The account of G. Mohan & Co. has, however, been correctly posted.

[SM, PYQ Nov 19]

Answer

If a Suspense Account is not opened.

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

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

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

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

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

Furniture Account To Purchases Account (Correction of the mistake by which of the Furniture Account)	Dr.	Rs.1,000	 Rs.1,000

(e) The discount of Rs.15 received from Red & Black should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Red & Black would have been debited. This entry should not be made:

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

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

If a Suspense Account is opened :

	Particulars	Dr.(Rs.)	Cr.(Rs.)
(a)	Suspense Account To Sales Account (Being the correction arising from under- casting of Sales Day Book)	100	 100
(b)	Return Inward Account To Green & Co (Being the recording of unrecorded returns)	150	 150
(c)	Suspense Account To Gupta & Co. (Being the correction of the error by which Gupta & Co. was debited instead of being credited by Rs. 250).	500	 500
(d)	Furniture Account To Purchases Account (Being the correction of recording furniture as purchase of ordinary	1,000	 1,000

	purchases)		
(e)	Red & black To Discount Account (Being the recording of discount omitted to be recorded)	15	 15
(f)	Discount Account To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).	18	 18

Dr. Suspense Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Sales A/c To Gupta & Co.	100 500		By Difference in Trial Balance By Discount A/c	582 18
		600			600

Notes:

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

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

Question 61

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by Rs. 493 excess credit. The difference thus has been posted to a Suspense Account.

a. An amount of Rs. 100 was received from D. Das on 31st December, 2022 but has been omitted to enter in the Cash Book.
b. The total of Returns Inward Book for December has been casted short by Rs. 100.
c. The purchase of an office table costing Rs. 300 has been passed through the Purchases Day Book.
d. Rs. 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
e. A purchase of Rs. 67 had been posted to the trade payables' account as Rs. 60.
f. A cheque for Rs. 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
g. Rs. 1,000 paid for the purchase of a motor cycle for Mr. Dutt for his personal use had been charged to "Miscellaneous Expenses Account".
h. Goods amounting to Rs. 100 had been returned by customer and were taken into inventory, but no entry in respect thereof, was made into the books.
i. A sale of Rs. 200 to Singh & Co. was wrongly credited to their account. Entry was correctly made in sales book.

[SM]

Answer

(a) Journal Entries

Particulars		L.F.	Rs.	Rs.
(a)	Cash Account ……….. Dr. To D. Das (Being the amount received)		100	 100
(b)	Returns Inward Account ………… Dr.		100	

	To Suspense Account (Being the mistake in totalling the Returns Inward Book corrected)			100
(c)	Furniture Account Dr. To Purchases Account		300	 300
	(Being the rectification of mistake by which purchase of furniture was entered in Purchases book and hence now corrected by crediting the Purchases Account)			
(d)	Furniture Account Dr. To Wages Account		375	 375
	(Being the wages paid to workmen for making show-cases which should have been capitalised and not to be charged to Wages Account)			
(e)	Suspense Account Dr. To Creditors (personal) Account		7	 7
	(Being the mistake in crediting the Trade payables Account less by Rs. 7, now corrected)			
(f)	P.C. Joshi Dr. To Allowances Account		200	 200
	(Being the cheque of P.C. Joshi dishonoured, previously debited to Allowances Account)			
(g)	Drawings Account Dr. To Miscellaneous Expenses		1,000	 1,000
	(Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)			
(h)	Returns Inward Account Dr. To Debtors (Personal) Account		100	 100
	(Correction of the omission to record return of goods by customers)			
(i)	Singh & Co. Dr. To Suspense Account		400	 400
	(Being the correction of mistake by which the account of Singh & Co. was credited by Rs. 200 instead of being debited)			

Suspense Account

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
2022 Dec.31 " "	 To Difference in Trial Balance To Trade Payables A/c	Rs. 493 7 500	2022 Dec. 31 " "	 By Returns Inwards A/c By Singh & Co.	Rs. 100 400 500

Question 62

The following errors, affecting the account for the year 2022 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture Rs. 150 treated as sale of goods.

(2) Receipt of Rs. 500 from Ram Mohan credited to Shyam Sunder.

(3) Goods worth Rs. 100 brought from Mohan Narain have remained unrecorded so far.

(4) A return of Rs. 120 from Mukesh posted to his debit.
(5) A return of Rs. 90 to Shyam Sunder posted as Rs. 9 in his account.
(6) Rent of proprietor's residence, Rs. 600 debited to rent A/c.
(7) A payment of Rs. 215 to Mohammad Sadiq posted to his credit as Rs.125.
(8) Sales Book casted short by Rs. 900 .
(9) The total of Bills Receivable Book Rs. 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

[SM]

Answer

Journal

	Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
(1)	Sales Account Dr.		150	
	To Furniture Account			150
	(Rectification of sales of furniture treated as sales of goods)			
(2)	Shyam Sunder Dr.		500	
	To Rama Mohan			500
	(Rectification of a receipt from Ram Mohan credited to Shyam Sunder)			
(3)	Purchases Account Dr.		100	
	To Mohan Narain			100
	(Purchases of goods from Mohan Narain unrecorded, now corrected)			
(6)	Drawing Account Dr.		600	
	To Rent Account			600
	(Rectification of Payment of rent of proprietor's residence treated as payment of office rent)			

N.B. : For 4, 5, 7, 8, 9 no journal entry can be passed as they affect a single account. The correction will be as under:

(4) Credit Mukesh's Account with Rs. 240.
(5) Debit the account of Shyam Sunder by Rs. 81.
(7) Debit the account of Mohammad Sadiq by Rs. 340.
(8) Credit Sales Account by Rs. 900.
(9) Debit Bills Receivable Account with Rs. 1,500.

Effect of the Errors on Trial Balance

1. No effect
2. No effect
3. No effect
4. Trial Balance credit total short by Rs. 240.
5. Trial Balance debit total short by Rs. 81.
6. No effect
7. Trial Balance debit total short by Rs. 340.
8. Trial Balance credit total short by Rs. 900.

9. Trial Balance debit total short by Rs. 1,500.

Question 63

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

(i) The total of Sales Returns Book for January 2024 has been casted short by Rs. 1,000.

(ii) Freight paid for installation of a Machine Rs. 6,500 was posted to the Freight Account as Rs. 5,600.

(iii) Goods of the value of Rs. 2,500 returned by a customer were entered in the Sales day Book and posted therefrom to the credit of his account.

(iv) Rs. 18,000 paid for purchase of old Motorcycle for personal use of Mr. Sarvesh Kumar was debited to conveyance account.

(v) A purchase of Rs. 6,700 had been posted to creditor's account as Rs. 6,000.

(vi) Receipt of cash Rs. 5,000 from Mr. Avinash was posted to the debit of his account.

(vii) A cheque for Rs. 2,500 received form Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.

(viii) Sale of Rs. 8,500 to Mr. Deepak was recorded in the sales book correctly but while posting in ledger credited to his account.

(ix) The total of "Discount Allowed" column in the cash for the month of December 2023 amounting to Rs. 3,800 was not posted.

(x) Sale of old office table for Rs. 2,200 treated as sale of goods.

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

[PYQ June 24]

Answer

(a) Journal Entries in the Books of Mr. Sarvesh Kumar

Particulars		L.F.	Amount Dr. (Rs.)	Amount Cr. (Rs.)
(i)	Returns Inward/ Sales Return A/c Dr. To Suspense A/c (Being the mistake in totalling the Returns Inward Book corrected)		1,000	 1,000
(ii)	Machinery A/c Dr. To Freight A/c To Suspense A/c (Being the freight paid for installation of machinery should have been capitalised and not to be charged to freight Account)		6,500	 5,600 900
(iii)	Returns Inward/Sales Return A/c Dr. Sales A/c Dr. To Suspense A/c (Being value of goods returned by a customer wrongly posted to sales and omission of debit to sales returns account, now rectified)		2,500 2,500	 5,000
(iv)	Drawings A/cDr. To Conveyance A/c (Being the motorcycle purchased for Mr. Suresh Kumar debited to his Drawings Account instead of Conveyance Account as previously done by mistake)		18,000	 18,000
(v)	Suspense A/c Dr. To Creditors (personal) A/c		700	 700

	(Being the mistake in crediting the creditors account less by Rs. 700, now corrected)			
(vi)	Suspense A/c Dr. To Mr. Avinash's A/c (Being cash received for Rs 5,000 wrongly posted to the debit of his account now corrected)		10,000	10,000
(vii)	Mr. Alok's A/c Dr. To Ashok's A/c (Being the cheque of Mr. Alok dishonoured, previously debited to Mr. Ashok)		2,500	2,500
(viii)	Deepak A/c Dr. To Suspense A/c (Being the correction of mistake by which the account of Deepak A/c was credited instead of being debited)		17,000	17,000
(ix)	Discount A/c Dr. To Suspense A/c (Being the total of discount allowed during December not posted; error now rectified)		3,800	3,800
(x)	Sales A/c Dr. To Furniture A/c (Being the rectification of mistake by which sales of furniture was entered in sales book and hence now corrected by debiting the sales A/c)		2,200	2,200

Question 64

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

1. Goods of the value of Rs. 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2. An amount of Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
3. A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs. 20; and
4. The total of "Discount Allowed" column in the Cash Book for the month of September, 2022 amounting to Rs. 250 was not posted.

[SM, RTP Nov 23, May 21, 19, PYQ Sep 24]

Answer

Journal

	Particulars		L.F.	Dr. Rs.	Cr. Rs.
(1)	Sales Account Sales Returns Account To Suspense Account (The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)	Dr. Dr.		100 100	 200
(2)	Suspense Account To Mr. Philip (Wrong debit to Mr. Philip for goods returned by him, now	Dr.		300	 300

	rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam				20
	To Suspense Account				180
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of Rs. 200, now rectified)				
(4)	Discount Account	Dr.		250	
	To Suspense Account				250
	(The total of Discount allowed during September, 2022 not posted from the Cash Book; error now rectified)				

Question 65

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

(1) Purchase of a scooter was debited to conveyance account Rs.3,000.
(2) Purchase account was over-cast by Rs.10,000.
(3) A credit purchase of goods from Mr. P for Rs. 2,000 was entered as a sale.
(4) Receipt of cash from Mr. A was posted to the account of Mr. B Rs. 1,000.
(5) Receipt of cash from Mr. C was posted to the debit of his account, Rs. 500.
(6) Rs. 500 due by Mr. Q was omitted to be taken to the trial balance.
(7) Sale of goods to Mr. R for Rs. 2,000 was omitted to be recorded.
(8) Amount of Rs. 2,395 of purchase was wrongly posted as Rs. 2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

[SM, PYQ July 21, MTP July 24, May 25]

Answer

Journal Entries in the books of Mr. Roy

Sr. No.	Particulars	Dr.(Rs.)	Cr.(Rs.)
(1)	Motor Vehicles Account	2,700	
	To Profit and Loss Adjustment A/c		2,700
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalisation of Rs. 2,700, i.e.,Rs. 3,000 less 10% depreciation)		
(2)	Suspense Account	10,000	
	To Profit & Loss Adjustment A/c		10,000
	(Purchase Account overcast in the previous year; error now rectified).		
(3)	Profit & Loss Adjustment A/c	4,000	
	To P's Account		4,000
	(Credit purchase from P Rs. 2,000, entered as sales last year; now rectified)		
(4)	B's Account	1,000	
	To A's Account		1,000
	(Amount received from A wrongly posted to the account of B; now rectified)		
(5)	Suspense Account	1,000	
	To C's Account		1,000
	(Rs. 500 received from C wrongly debited to his account; now rectified)		

(6)	Trade receivables To Suspense Account (Rs. 500 due by Q not taken into trial balance; now rectified)	500	 500
(7)	R's Account To Profit & Loss Adjustment A/c (Sales to R omitted last year; now recorded)	2,000	 2,000
(8)	Suspense Account To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, Rs. 2,593, instead of Rs. 2,395, now adjusted)	198	 198
(9)	Profit & Loss Adjustment A/c To Roy's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	10,898	 10,898
(10)	Roy's Capital Account To Suspense Account (Balance of Suspense Account transferred to the Capital Account)	10,698	 10,698

Note : Entries No. (2) and (8) may even be omitted; but this is not advocated.

Profit and Loss Adjustment Account
(Prior Period Items)

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

Suspense Account

	Rs.		Rs.
To Profit & Loss Adjustment A/c	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital A/c (Transfer)	10,698
To Profit & Loss Adjustment A/c	198		
	11,198		11,198

Question 66

How does errors of omission differ from errors of commission?

[SM]

Answer

1. Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.
2. Errors of Commission: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

Question 67

What is error of principle and how does it affect Trial Balance?

[SM]

Answer

Errors of principle: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a typewriter, the office expenses account is debited; the trial balance will still agree.

Question 68

When and how is Suspense account used to rectify errors?

[SM]

Answer

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree inspite of errors by opening a suspense account and putting the difference in the trial balance to the account - the suspense account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column; it will be credited in the other case. Each and every error detected after preparation of trial balance can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Question 69

The trial balance of Mr. W & H failed to agree and the difference Rs.20,570 was put into suspense account pending the investigation which disclosed that:

(i) Purchase returns day book had been correctly entered and totalled at Rs.6,160, but had not been posted to the ledger.
(ii) Discounts received Rs.1,320 had been debited to discounts allowed.
(iii) The Sales account had been under added by Rs.10,000.
(iv) A credit sale of Rs.1,470 had been debited to a customer account at Rs.1,740.
(v) A vehicle bought originally for Rs.7,000 four years ago and depreciated to Rs.1,200 had been sold for Rs.1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.
(vi) An accrual of Rs.560 for telephone charges had been completely omitted.
(vii) A bad debt of Rs.1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at Rs.23,390 with a credit provision for bad debts at Rs.2,320.
(viii) Tools bought for Rs.1,200 had been inadvertently debited to purchases.
(ix) The proprietor had withdrawn, for personal use, goods worth Rs.1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

[SM]

Answer

	Particulars	Dr.	Cr.
(i)	Suspense Account	6,160	
	To Return Outward A/c		6,160
(ii)	Suspense Account	2,640	
	To Discount Allowed Account		1,320
	To Discount Received Account		1,320

(iii)	Suspense Account To Sales Account	10,000	 10,000
(iv)	Suspense Account To Customer Account	270	 270
(v)	Suspense Account To Vehicle Account To Profit on Sale of Vehicle Account	1,500	 1,200 300
(vi)	Telephone Charges Account To Outstanding Expenses Account	560	 560
(vii)	Bad Debts Account (refer W.N 1) To Trade receivables Account	1,560	 1,560
	Provision for Doubtful Debts Account (refer W.N. 2) To Profit and Loss Account	164	 164
(viii)	Loose Tools Account To Purchases Account	1,200	 1,200
(ix)	Drawings Account To Purchases Account	1,960	 1,960

Notes:

1. Bad debts will be debited in the profit and loss account.
2. Provision @ 10% of Rs. 21,560 i.e. 2,156; Excess provision Rs. 164 (2320 - 2156 = 164).

Working Notes :

(i)	Trade receivables as per books		23,390
	Deduction vide item (iv) 270	270	
	Bad Debts	1,560	1,830
			21,560

(ii) Suspense Account

	Rs.		Rs.
To Return outward Account	6,160	By balance b/d	20,570
To Discount allowed Account	1,320		
To Discount Received Account	1,320		
To Sales Account	10,000		
To Customers Account	270		
To Vehicles Account	1,200		
To Profit on Sale of Vehicle	300		
	20,570		20,570

Question 70

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.

[PYQ Nov 22, MTP Dec 24]

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/cDr. 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/cDr. To Meet Kumar A/c (Correction of wrong credit to Pinki Rani. instead of Meet Kumar.)		4,500	4,500
(vii)	Returns Inwards / Sales Return A/c Dr. To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records)		6,200	6,200
(viii)	Furniture A/cDr. To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)		1,500	1,500
(ix)	Salaries A/c Dr. To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)		12,000	12,000
(x)	Purchases A/c Dr. Sales A/c Dr. To Raghav A/c (Correction of wrong entry in the sales Book for purchases of goods		20,000 20,000	40,000

	from Raghav)			

Question 71

On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by Rs.150. This was credited to "Suspense Account". On a close scrutiny of the books, the following mistakes were noticed:

(1) The totals of debit side of "Expenses Account" have been casted in excess by Rs. 50.

(2) The "Sales Account" has been totalled in short by Rs.100.

(3) Supplier account has been overcasted by 225.

(4) The sale return of Rs.100 from a party has not been posted to that account though the Party's account has been credited.

(5) A cheque of Rs.500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.

(6) A credit sale of Rs.50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

(i) Pass necessary journal entries for correcting the above;

(ii) Show how they affect the Profits; and

(iii) Prepare the "Suspense Account" as it would appear in the ledger.

[SM]

Answer

Journal Entries

Particulars		L.F.	Dr. Rs.	Cr. Rs.
Suspense Account To Expenses Account (Being the mistake in totalling of Expenses Account, rectified)	Dr.		50	50
Suspense Account To Sales Account (Being the mistake in totalling of Sales Accounts rectified)	Dr.		100	100
Supplier To Suspense Account (Being the mistake in posting from Day Book to Ledger rectified)	Dr.		225	225
Sales Returns Account To Suspense Account (Being the sales return from a party not posted to "Sales Returns" now rectified)	Dr.		100	100
Trade payables Account To Purchases Account (Being the payments made to supplier wrongly posted to purchases now rectified)	Dr.		500	500
Trade receivables Account To Suspense Account (Being the sales wrongly credited to Customer's Account now rectified)	Dr.		100	100

Suspense Account

	Dr. Rs.		Cr. Rs.
To Expenses Account	50	By Difference in Trial Balance	150
To Sales Account	100	By Trade payables	225
To Balance c/d	425	By Sales Returns Account	100
		By Trade receivables	100
	575		575
		By Balance b/d	425

Since the Suspense Account does not balance, it is clear that all the errors have not been traced. As a result of the above corrections the Net Profit will be:

	Increased by Rs.	Decreased by Rs.
Mistake in totalling in "Expenses"	50	
Mistake in totalling in "Sales"	100	
Mistake in posting from day book to Ledger under "Purchases"	500	
Omission in posting under "Sales Returns"		100
	650	100
Net Increase	550	

As a result of these adjustments, the Profits will be increased by Rs. 550.

Question 72

Mr. A closed his books of account on September 30, 2021 in spite of a difference in the trial balance. The difference was Rs.830 the credits being short; it was carried forward in a Suspense Account. In 2022 following errors were located:

(i) A sale of Rs.2,300 to Mr. Lala was posted to the credit of Mrs. Mala.

(ii) The total of the Returns Inward Book for July, 2021 Rs.1,240 was not posted in the ledger.

(iii) Freight paid on a machine Rs.5,600 was posted to the Freight Account as Rs.6,500. 10% Depreciation is charge on this machines.

(iv) While carrying forward the total in the Purchases Account to the next page, Rs.65,590 was written instead of Rs. 56,950.

(v) A sale of machine on credit to Mr. Mehta for Rs.9,000 on 30th sept. 2021 was not entered in the books at all. The book value of the machine was Rs.6,750.

Pass journal entries to rectify the errors. Have you any comments to make?

[SM]

Answer

Journal of Mr. A

Date	Particulars	Dr.	Cr.
		Rs.	Rs.
2022 (i)	Mrs. Mala	2,300	
	Mr. Lala	2,300	
	To Suspense A/c		4,600
	(Correction of error by which a sale of Rs. 2,300 to Mr. Lala was posted to the Credit of Mrs. Mala)		
(ii)	Profit and Loss Adjustment A/c	1,240	
	To Suspense A/c		1,240

	(Rectification of omission to post the total of Returns Inward Book for July, 2021)		
(iii)	(a) Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c (Correction of error by which freight paid for a machine Rs. 5,600 was posted to Freight Account at Rs. 6,500 instead of capitalising it)	5,600 900	 6,500
	(b) Profit & Loss Adjustment A/c To Plant and Machinery A/c (Depreciation @ 10% charged on freight paid on a machine capitalised)	560	 560
(iv)	Suspense A/c To Profit & Loss Adjustment A/c (Correction of wrong carry forward of total in the purchase Account to the next page Rs. 65,590 instead of Rs. 56,950)	8,640	 8,640
(v)	Mr. Mehta To Plant & Machinery A/c To Profit & Loss Adjustment A/c (Correction of omission of a sale of machine on credit to Mr. Mehta for Rs. 9,000)	9,000	 6,750 2,250

Comments : The Suspense Account will now appear as shown below:

Suspense Account

Date	Particulars	Dr. Amount Rs.	Date	Particulars	Cr. Amount Rs.
2022	To Profit and Loss Adjustment A/c	900	2022	By Balance b/d	830
	To Profit and Loss Adjustment A/c	8,640	Oct. 1	By Sundries	
				Mrs. Mala	2,300
				Mr. Lala	2,300
				By Profit and Loss Adjustment A/c	1,240
				By balance c/d	2,870
		9,540			9,540

Since the Suspense Account still shows a balance, it is obvious that there are still some errors left in the books.

Profit & Loss Adjustment A/c (For Prior Period Items)

Date 2022	Particulars	Dr. Amount Rs.	Date 2022	Particulars	Cr. Amount Rs.
	To Suspense A/c	1,240		By Machinery A/c	5,600
	To Plant and Machinery A/c	560		By Suspense A/c	900
	To Balance c/d	15,590		By Suspense A/c	8,640
				By Mr. Mehta	2,250
		17,390			17,390

Question 73

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

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

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

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

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

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

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

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

(viii) Sale of goods to Mr. R for Rs. 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

[SM, PYQ Jan 21, MTP April 24]

Answer

Journal Entries

	Particulars		L.F.	Dr. Rs.	Cr. Rs.
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year- Rs.5,615 carried forward instead of Rs.6,551)				
(ii)	Profit & Loss Adjustment A/c	Dr.		540	
	Customer's Account	Dr.		1,102	
	To Suspense Account				1,642
	(Correction of the entry by which (a) Sales A/c was over credited by Rs. 540 (b) customer was credited by Rs.821 instead of being debited by Rs.281)				
(iii)	Suspense Account	Dr.		590	
	To Profit & Loss Adjustment A/c				590
	(Correction of error by which Returns Inward Account was debited by Rs.295 instead of Returns Outwards Account being credited by Rs.295)				
(iv)	Suspense Account	Dr.		1,790	
	To Senu				895
	To Sethu				895
	(Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				
(v)	Customer's Account	Dr.		1,400	
	To Profit & Loss Adjustment A/c				1,400
	(Rectification of the error arising from non-preparation of invoice for goods delivered)				
(vi)	Profit & Loss Adjustment A/c	Dr.		1600	

	To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)				1,600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	1280
(viii)	Trade receivable/ Q's Account To Suspense Account (Rs.600 due by Q not taken into trial balance, now rectified)	Dr.		600	600
(ix)	R's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3,000	3,000
(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		5,066	5,066

Question 74

A merchant's trial balance as on June 30, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, Rs.4,539 was carried forward to the next page as Rs.4,593.

(ii) A sale of Rs.573 was entered in the Sales Book as Rs.753 and posted to the credit of the customer.

(iii) A return to a creditor, Rs.510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from C. Dass, Rs.620 was posted to the debit of G. Dass.

(v) Goods worth Rs.840 were despatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth Rs.1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

[SM]

Answer

Journal Entries

	Particulars		Dr. Rs.	Cr. Rs.
(i)	Suspense Account	Dr.	54	
	To Profit and Loss Adjustment A/c			54
	(Correction of error by which Purchase Account was over debited last year- Rs.4,593 carried forward instead of Rs.4,539)			
(ii)	Profit & Loss Adjustment A/c	Dr.	180	
	Customer's Account	Dr.	1,326	
	To Suspense Account			1,506
	(Correction of the entry by which (a) Sales A/c was over credited			

	by Rs.180 (b) customer was credited by Rs.753 instead of being debited by Rs.573)			
(iii)	Suspense Account	Dr.	1,020	
	To Profit & Loss Adjustment A/c			1,020
	(Correction of error by which Returns Inward Account was debited by Rs.510 instead of Returns Outwards Account being credited by Rs. 510)			
(iv)	Suspense Account	Dr.	1,240	
	To C. Dass			620
	To G. Dass			620
	(Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).			
(v)	Customer's Account	Dr.	840	
	To Profit & Loss Adjustment A/c			840
	(Rectification of the error arising from non- preparation of invoice for goods delivered)			
(vi)	Profit & Loss Adjustment A/c	Dr.	200	
	Inventory Account	Dr.	800	
	To Customer's Account			1,000
	(The Customer's A/c credited with Rs. 1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment Account)			
(vii)	Profit & Loss Adjustment A/c	Dr.	1,534	
	To Capital Account			1,534
	(Transfer of Profit & Loss Adjustment A/c balance to the Capital Account)			

Question 75

Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

(i) Wages paid for construction of office building debited to wages account Rs. 20,000.

(ii) A credit sale of goods Rs. 1,200 to Ramesh has been wrongly passed through the Purchase Book.

(iii) An amount of Rs. 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

(iv) Goods (Cost being Rs. 15,000 and Sales price being Rs. 16,000) distributed as free samples amount prospective customers were not recorded anywhere.

(v) Goods worth Rs. 1,500 returned by Ritu have not been recorded anywhere.

[RTP Sep 24, PYQ Dec 21]

Answer

Journal

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(1)	Building A/c To Wages A/c (Being correction of wrong debit in the wages A/c of the construction of office building)	Dr.	20,000	 20,000
(2)	Ramesh To Purchases A/c	Dr.	2,400	 1,200

	To Sales A/c (Being correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			1,200
(3)	Mahesh Chand To Bad Debts Recovered A/c (Being correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)	Dr.	2,000	2,000
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c To Purchases A/c (Being entry of the goods distributed as free samples omitted from records)	Dr.	15,000	15,000
(5)	Returns Inwards /Sales Return A/c To Green (Being entry of goods returned by Ritu omitted from records)	Dr.	1,500	1,500

Question 76

Pass a journal entry in each of the following cases:

(i) A running business was purchased by Mohan with following assets and liabilities:
Cash Rs. 20,000, Land Rs. 40,000, Furniture Rs. 10,000, Stock Rs. 20,000,
Creditors Rs. 10,000, Bank Overdraft Rs. 20,000.

(ii) Sold goods to Gagandeep for Rs. 1,00,000 at trade discount of 20% and charged IGST @12%

(iii) Goods distributed by way of free samples, Rs. 10,000.

(iv) goods of list price Rs. 40,000 returned by Gagandeep.

(v) Kuldeep became an insolvent and could pay only 50 paise in a rupee. Amount due from him Rs. 6,000.

[RTP Jan 25, Nov 18,19,20]

Answer

		Rs.	Rs.
(i) Cash A/c Land A/c Furniture A/c Stock A/c To Creditors To Bank overdraft To Capital A/c (Being commencement of business by Mohan by taking over a running business).	Dr. Dr. Dr. Dr.	20,000 40,000 10,000 20,000	 10,000 20,000 60,000
(ii) Gagandeep's A/c To Sales A/c To Output GST A/c (being goods sold to Gagandeep at trade discount of 20% and charged IGST @12%)	Dr.	89,600	 80,000 9,600
(iii) Advertisement Expenses A/c To Purchases A/c (Beinggoods distributed as free sample)	Dr.	10,000	 10,000
(iv) Sales Return A/c Output IGST A/c To Gagandeep A/c (Being goods returned by Gagandeep and output IGST charged at the time of sales now reversed)	Dr. Dr.	32,000 3,840	 35,840

(v) Cash A/c Bad Debts A/c To Kuldeep (Being Kuldeep become insolvent)	Dr. Dr.	3,000 3,000	 6,000

Question 77

Pass a journal entries in the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:
Cash Rs. 12,000, Land Rs. 24,000, Furniture Rs. 6,000, Stock Rs. 12,000,
Creditors Rs. 6,000, Bank Overdraft Rs. 12,000.

(ii) Goods distributed by way of free samples, Rs. 6,000.

(iii) Purchase of goods from Naveen of the list price of Rs. 12,000. He allowed 10% trade discount, Rs. 300 cash discount was also allowed for quick payment.

(iv) Income tax liability of proprietor Rs. 10,200 was paid out of petty cash.

(v) Sumit became an insolvent and could pay only 50 paise in a rupee. Amount due from him Rs. 3,600.

[RTP June 23]

Answer

S. No.	Particulars	Amount (Dr)	Amount (Cr)
(i)	Cash A/c Dr. Land A/c Dr. Furniture A/c Dr. Stock A/c Dr. To Creditors To Bank overdraft To Capital A/c (Being commencement of business by mohan by taking over a running business.)	12,000 24,000 6,000 12,000	 6,000 12,000 36,000
(ii)	Advertisement Expenses A/c Dr. To Purchases A/c (Being goods distributed as free samples)	6,000	 6,000
(iii)	Purchase A/c Dr. To Cash A/c To Discount Received A/c (Being the goods purchased from Naveen for Rs. 12,000 @ 10% trade discount and cash discount of Rs. 300)	10,800	 10,500 300
(iv)	Drawings A/c Dr. To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	10,200	 10,200
(v)	Cash A/c Dr. Bad Debts A/c Dr. To Sumit (Being Sumit became insolvent 50 paise in a rupee could be recovered)	1,800 1,800	 3,600

Question 78

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

(i) Purchase of a scooter was debited to conveyance account Rs. 30,000. Mr. Ratan charges 10% depreciation on scooter.

(ii) The total of return inward book for July, 2024 Rs. 12,400 was not posted to the ledger.

(iii) A credit purchase of goods from Mr. X for Rs. 20,000 was entered as sale.

(iv) Receipt of cash from Mr. Preetish was posted to the account of Mr. Ravish Rs. 10,000.

(v) Receipt of cash from Mr. Chandu was posted to the debit of his account, Rs. 5,000.

(vi) While carrying forward the total in the Purchases Account to the next Page Rs. 65,950 was written instead of Rs. 55,950.

(vii) Sale of goods to Mr. Rohan for Rs. 20,000 was omitted to be recorded.

(viii) Freight paid on a machine Rs. 5,600 was posted to the freight Account as Rs. 6,500.

Pass the necessary rectification entries.

[RTP Jan 25, June 23]

Answer

Date	Particulars		Dr. Rs.	Cr. Rs.
(1)	Scooter A/c	Dr.	27,000	
	To Profit and Loss Adjustment A/c			27,000
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of Rs. 27,000, i.e., Rs.30,000 less 10% depreciation)			
(2)	Profit & Loss adjustment A/c	Dr.	12,400	
	To suspense A/c			12,400
	(Total of return inward book for July, 2024 omitted to be recorded now rectified).			
(3)	Profit & Loss Adjustment A/c	Dr.	40,000	
	To X's A/c			40,000
	(Credit purchase from X Rs.20,000, entered as sales last year, now rectified)			
(4)	Ravish's A/c	Dr.	10,000	
	To Preetish's A/c			10,000
	(Amount received from Mr. Preetish wrongly posted to the account of Mr. Ravish; now rectified)			
(5)	Suspense A/c	Dr.	10,000	
	To Chandu's A/c			10,000
	(Rs. 5,000 received from Chandu wrongly debited to his account; now rectified)			
(6)	Suspense A/c	Dr.	10,000	
	To Profit & Loss Adjustment A/c			10,000
	(Carry forward of total of purchase a/c to next page 65,950 instead of 55,950 now rectified)			
(7)	Rohan's A/c	Dr.	20,000	
	To Profit & Loss Adjustment A/c			20,000
	(Sales to Rohan omitted last year; now adjusted)			
(8)	Machinery A/c	Dr.	5,600	
	Suspense A/c	Dr.	900	
	To Profit & Loss Adjustment A/c			6,500
	(Freight paid for machine 5,600 was posted to			

	freight A/c at 6,500 now rectified)		
(9)	Profit & Loss Adjustment A/c Dr. To Satvik's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	11,100	11,100
(10)	Satvik's Capital A/c Dr. To Suspense A/c (Balance of Suspense Account transferred to Capital Account)	8,500	8,500

Question 79

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

2024			Rs.
March	1	Cash in hand	30,000
	1	Cash at bank	1,20,000
	2	Paid into bank	10,000
	5	Bought furniture and issued cheque	15,000
	8	Purchased goods for cash	5,000
	12	Received cash from Mohan	9,800
		Discount allowed to him	200
	14	Cash sales	50,000
	16	Paid to Lata by cheque	14,500
		Discount received	500
	19	Paid into Bank	5,000
	23	Withdrawn from Bank for Private expenses	6,000
	24	Received cheque from Gupta	14,300
		Allowed him discount	200
	26	Deposited Gupta'scheque into Bank	
	28	Withdrew cash from Bank for Office use	20,000
	30	Paid rent by cheque	8,000

[RTP Sep 24, Nov 23, 18, June 23, May 18,20,21, 22, PYQ Nov 22]

Answer

M/s Ram Agencies
Cash Book

Date	Particulars	L.F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Particulars	L.F.	Discount Rs.	Cash Rs.	Bank Rs.
2024 Mar 1	To Balance b/d			30,000	1,20,000	2024 Mar 2	By Bank	C		10,000	
Mar 2	To Cash	C			10,000	Mar 5	By Furniture				15,000
Mar 12	To Mohan		200	9,800		Mar 8	By Goods / Purchase			5,000	
Mar 14	To Sales			50,000		Mar 16	By Lata		500		14,500
Mar	To Cash	C			5,000	Mar 19	By Bank	C		5,000	

19											
Mar 24	To Gupta		200	14,300		Mar 23	By Drawings				6,000
Mar 26	To Cash	C			14,300	Mar 26	By Bank	C		14,300	
Mar 28	To Bank	C		20,000		Mar 28	By Cash	C			20,000
						Mar 30	By Rent				8,000
						Mar 31	By Balance c/d			89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

Question 80

Prepare a Triple Cash Book form the following transactions of G. Enterprises for the month of Jan 2023.

Date	Particulars	Amount Rs.
01.01.2023	Cash in hand	14,500
	Cash in Bank	1,95,000
03.01.2023	Received from K	
	- Cash	7,300
	- Cheque	15,000
	Discount allowed to him	400
06.01.2023	Goods sold for cash	9,100
07.01.2013	Withdrew from bank by self cheque	3,000
12.01.2023	Issued a cheque to B	10,590
	Discount received	410
14.01.2023	Received a cheque form R (in full settlement of her account Rs. 6,500) by cheque	6,350
17.01.2023	Withdrew form bank for personal use	15,000
18.01.2023	Paid electricity bill by cheque	5,000
20.01.2023	Cash purchases of stationary	1,200
31.01.2023	Deposit the entire cash in bank in excess of Rs. 10,000	

[PYQ Dec 23]

Answer

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Dis-count	Cash	Bank	Date		Particulars	Dis-count	Cash	Bank
2023			Rs.	Rs.	Rs.	2023			Rs.	Rs.	Rs.
Jan 1	To	Balance b/d		14,500	1,95,000	Jan 7	By	Cash (C)			3,000
Jan 3	To	K	400	7,300	15,000	Jan 12	By	B A/c	410		10,590
Jan 6	To	Sales A/c		9,100		Jan 17	By	Drawings A/c			15,000
Jan 7	To	Bank (C)		3,000		Jan 18	By	Electricity charges			5,000
Jan 14	To	R	150		6,350	Jan 20	By	Stationary		1,200	
Jan 31	To	Bank (C)			22,700	Jan 31	By	Bank (C)		22,700	
						Jan 31	By	Balance c/d		10,000	2,05,460

			550	33,900	2,39,050				410	33,900	2,39,050
Feb 1	To	Balance b/d		10,000	2,05,460						

Note: Discount allowed and discount received Rs. 550 and Rs. 410 respectively should be posted in respective Accounts in the ledger.

Question 81

M/s. Beta Chemicals labs were unable to agree the Trial Balance as on 31st March, 2023 and have raised a suspense account for the difference. Next year the following errors were discovered:

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

(ii) The addition of the 'Freight' column in the purchase journal was short by Rs. 15,000.

(iii) Goods to the value of Rs. 4,500 returned by a customer, Shiv & Co., had been posted to the debit of Shiv & Co. and also to sales returns.

(iv) Sundry items of furniture sold for Rs. 30,000 had been entered in the sales book, the total of which had been posted to sales account.

(v) A bill of exchange (received from Ms. Sapna) for Rs. 75,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

[RTP June 24, PYQ Nov 20, MTP May 24, Jan 25, April 25]

Answer

(b) Rectification entries in the books of M/s Beta Chemicals labs

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting Rs. 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		15,000	15,000
3.	Suspense A/c Dr. To Shiv & Co. (Goods returned by Shiv & Co. had been posted wrongly to the debit of her account, now rectified)		9,000	9,000
4.	Profit and Loss Adjustment A/c Dr. To Furniture A/C (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000
5.	Ms. Sapna. Dr. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		75,000	75,000

Question 82

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

(i) A purchase of Rs. 5,600 from M/s Ajeet & Co. was recorded in the accounts of M/s Amit & Co. as Rs. 6,500. Day Book entry has also been passed incorrectly.
(ii) A sale of Rs. 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as Rs. 8,900. Day Book entry has also been incorrectly passed.
(iii) Discount allowed Rs. 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be Rs. 650, because discount allowed of Rs. 90 to M/s Sapna Bros. has been omitted.
(iv) A cheque of Rs. 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.
Should the Trial Balance tally without rectification of errors?

[RTP Nov 23, 21]

Answer

Journal Proper of Puneet & Co.
Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		Rs.	Rs.
(i)	M/s Amit & Co. A/c	6,500	
	To M/s Ajeet & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for Rs. 5,600 dated....as Rs. 6,500 in M/s Amit & Co.'s Account in place of M/s Ajeet & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for Rs. 9,800 dated ....as Rs. 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Sapna Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

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

Question 83

Prepare Journal Entries for the following transactions in the books of Honey Singh
(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Gurupuarb and the same was deducted from their salaries in the subsequent month.
(ii) Income tax liability of proprietor Rs. 8,500 was paid out of petty cash.
(iii) Goods costing Rs.10,000 distributed as free samples (Sale Price Rs. 1,2000)
(iv) Purchase of goods from Sunny of the list price of Rs. 15,000. He allowed 10% trade discount, Rs. 200 cash

discount was also allowed for quick payment.

[RTP May 18, 21, Nov 22, MTP Mar 19]

Answer

Journal Entries in the books of Honey Singh

	Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Beingentry made for stock taken by employees)		
(ii)	Drawings A/c	8,500	
	To Petty Cash A/c		8,500
	(Being the income tax of proprietor paid out of business money)		
(iii)	Sales Promotion A/c	10,000	
	To Purchases A/c		10,000
	(Being the goods costing Rs. 10,000 distributed as free Samples)		
(iv)	Purchase A/c	13,500	
	To Bank A/c		13,300
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for Rs. 15,000 @ 10% trade discount and cash discount of Rs. 200)		

Question 84

Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:

(i) Rs. 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.

(ii) Goods returned by customer for Rs. 5,000. The same have been taken into stock but no entry passed in the books of accounts.

(iii) An amount of Rs. 4,500 received on account of Interest was credited to Commission account.

(iv) A sale of Rs. 2,760 was posted from Sales Book to the Debit of M/s Sobha Traders at Rs. 2,670

[RTP Nov 22, PYQ May 19, MTP June 24]

Answer

S. No.		Debit (Rs.)	Credit (Rs.)
(i)	Drawings A/c Dr.	35,000	
	To Machinery A/c		35,000
	(Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)		
(ii)	Return Inward A/c Dr.	5,000	
	To Debtors (Personal) A/c		5,000
	(Correction of omission to record return of goods by customers)		
(iii)	Commission A/c Dr.	4,500	
	To Interest Received		4,500
	(Correcting wrong entry of interest received into commission account)		
(iv)	M/s Sobha Traders A/c Dr.	90	
	To Suspense A/c		90

	(Being credit sale of Rs. 2,760 posted as Rs. 2,670 i.e. debiting M/s Sobha Traders A/c less by 90, now rectified)		

Question 85

The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(i) Return outward book was under cast by Rs. 100.

(ii) Rs. 1,500 being the total of discount column on the credit side of the cash book was not posted.

(iii) Rs. 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(iv) A credit sale of Rs. 760 was wrongly posted as Rs. 670 to the customers' A/c. in the sales ledger.

(v) The Sales of Rs. 10,000 was omitted to be recorded. Pass rectification entries in the next year

[RTP May 22]

Answer

In the Books of Dime Ltd.

	Particulars	Dr.	Cr.
		Amount	Amount
2021		Rs.	Rs.
(i)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Returns outward book was under cast now rectified).	100	 100
(ii)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount received was not recorded, now rectified)	1,500	 1,500
(iii)	Office Furniture A/c Dr. To Profit & Loss Adjustment A/c (Office furniture purchased wrongly debited to Purchase A/c. now rectified.)	6000	 6000
(iv)	Debtors A/c Dr. To Suspense A/c (Debtors account was posted Rs. 670 in place of 760 now rectified.)	90	 90
(v)	Debtors A/c Dr. To Profit & Loss Adjustment A/c (Sales of Rs.10,000 omitted to be recorded, now rectified)	10,000	 10,000

Question 86

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

(i) Sale of furniture credited to Sales Account.

(ii) Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted.

(iii) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

(iv) Purchase worth Rs. 4,500 from Mr. X not recorded in subsidiary books.

(v) Credit sale wrongly passed through the Purchase Book.

[RTP Nov 21, MTP Oct 18, Oct 19, Nov 23, Nov 22, Oct 21]

Answer

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.
(iv) Error of Omission.
(v) Error of Commission

Question 87

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

(i) Credit sale of Rs. 400 to Trivedi & Co. was posted to the credit of their account.
(ii) Purchase of Rs. 420 from Mantri & Co. passed through Sales Day Book as Rs. 240 How would you rectify the errors assuming that :
(a) they were detected before preparation of Trial Balance.
(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.
(c) they were detected after preparing Final Accounts.

[RTP Nov 20, May 18, MTP Mar 21]

Answer

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

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

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

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

Rectification Entry

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

Question 88

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

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

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

[RTP May 20, PYQ Nov 18]

Answer

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

Suspense A/c

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

Question 89

Give journal entries (narrations not required) to rectify the following:

(i) Purchase of Furniture on credit from Nigam for Rs. 3,000 posted to Subham account as Rs. 300.

(ii) A Sales Return of Rs. 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.

(iii) Investments were sold for Rs. 75,000 at a profit of Rs. 15,000 and passed through Sales account.

(iv) An amount of Rs. 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

[RTP May 20, PYQ May 18, MTP May 22]

Answer

Journal Entries

	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

Question 90

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

(a) 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.

(b) 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.

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

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

(MTP Oct 19, PYQ June 23)

Answer

Books of K. Katrak
Journal Entries

			Dr.	Cr.
			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 Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			

	(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 Rs. 2,000. Allowed him a discount of Rs. 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

Question 91

Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by Rs. 8,000.
(ii) Sale of goods to Mr. Rahim for Rs. 2,500 was omitted to be recorded.
(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu Rs. 1,200.
(iv) Amount of Rs. 4,167 of sales was wrongly posted as Rs. 4,617.
(v) Repairs to Machinery was debited to Machinery Account Rs. 1,800.
(vi) A credit purchase of goods from Mr. Paul for Rs. 3,000 entered as sale.

Suggest the necessary rectification entries.

[PYQ May 18]

Answer

Journal Entries in the books of Miss Daisy

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense*A/c			8,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted to the account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, Rs. 4,617, instead of Rs. 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited to machinery			

	account, now rectified)			
(vi)	Profit & Loss Adjustment A/c To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified)	Dr.	6,000	 6,000
(vii)	Daisy's Capital A/c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)	Dr.	13,750	 13,750
(viii)	Suspense A/c To Daisy's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)	Dr.	8,450	 8,450

*Considering that the difference was posted to Suspense account.

Working Notes

1. Profit and Loss Adjustment Account

	Rs.		Rs.
To Suspense A/c To Suspense A/c To Machinery A/c To Mr. Paul's A/c	8,000 450 1,800 6,000	By Rahim's A/c By Daisy's Capital A/c (Bal. Transfer)	2,500 13,750
	16,250		16,250

2. Suspense Account

	Rs.		Rs.
To Daisy's Capital A/c (Balance Transfer)	8,450	By P & L Adj. A/c By P & L Adj. A/c	8,000 450
	8,450		8,450

Question 92

Following information is provided for M/s. Kumar Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

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

[MTP May 20, April 21, Dec 23, April 24]

Answer

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

Date 2019	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	72,000	 72,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	1,00,000	 1,00,000
.	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	 10,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)	Dr.	7,80,000	 1,00,000 6,00,000 50,000 30,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	 2,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	4,20,000	 4,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	4,20,000	 4,20,000

Question 93

Following information is provided for M/s. Diana fiber for the year ended 31st March, 2022:

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000
Factory Rent	70,000

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

[MTP Nov 22]

Answer

Journal Proper in the Books of M/s. Diana Fiber

Date 2022	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	8,50,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	To Factory Rent			70,000
	(Being the transfer of balances of opening inventory, purchases, wages, Carriage Inward and factory rent accounts)			
	Closing Inventory A/c	Dr.	2,00,000	
	To Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	3,50,000	
	To Gross Profit			3,50,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	3,50,000	
	To Profit and Loss A/c			3,50,000
	(Being the transfer of gross profit to Profit and Loss Account)			

Question 94

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

(a) Sales Day Book was overcast by Rs. 5,000.
(b) A sale of Rs. 25,000 to Ram was wrongly debited to the Account of Shyam.
(c) General expenses Rs. 360 was posted in the General Ledger as Rs. 630.
(d) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Hari.
(e) Legal Expenses Rs. 2,910 paid to Mrs. Neetu was debited to her personal account.
(f) Cash received from Aman was debited to Vimal Rs. 3,200.
(g) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,235 was written as Rs. 1,325.

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

(MTP Nov 21, Dec 23, May 23, Nov 22, April 21)

Answer

	Particulars		Dr. Rs.	Cr. Rs.
(i)	P & L Adjustment A/c	Dr.	5,000	
	To Suspense A/c			5,000
	(Correction of error by which sales account was overcast last year)			
(ii)	Ram A/c	Dr.	25,000	
	To Shyam A/c			25,000
	(Correction of error by which sale of Rs. 25,000 to Ram was wrongly debited to Shyam's account)			
(iii)	Suspense A/c	Dr.	270	
	To P & L Adjustment A/c			270
	(Correct of error by which general expenses of Rs. 360 was wrongly posted as Rs. 630)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Hari			3,100
	(Correction of error by which bill receivable of Rs. 1,550 was wrongly passed through Bills Payable book)			
(v)	P & L Adjustment A/c	Dr.	2,910	
	To Mrs. Neetu			2,910
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	6,400	
	To Aman A/c			3,200
	To Vimal A/c			3,200
	(Removal of wrong debit to Vimal and giving credit to Aman from whom cash was received)			
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by Rs.90/-, i.e.: Rs.1,325 – Rs.1,235)	Dr.	90	90

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Ram A/c To Shyam A/c	3,200 3,200	By Difference in Trial Balance (Balancing figure)	1,760
To P&L Adjustment A/c	90		
	6,760		6,760

Question 95

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

Date	Particular
06/12/2024	Return received from Aar Store 30 Shirts @ ` 300/- and 15 trousers @ ` 500/- each Less: Trade discount @8%

12/12/2024	Modern tailors returned 10 frocks (which were sold for cash) @ ` 200/- each.
16/12/2024	Return received from Tulip Store -12 T-shirts @ ` 100 each. Less: Trade discount @10%

[PYQ Jan 25]

Answer

In the books of Kay and Co.
Returns Inward Book

Date 2024	Particulars	Details	Amount (Rs.)
Dec 6	Aar Store		
	30 Shirts @ 300 each 9500		
	15 trousers @500 each 7500	16,500	
	Less: Trade Discount @ 8%	(1,320)	15,180
Dec 16	Tulip Store		
	12 Tshirts @ 100 each	1,200	
	Less: Trade discount @ 10%	120	1,080
	Total		16,260

Note: Returns of Goods sold from modern tailors will not be included in return inward book as the sales were made in cash.

CHAPTER 3: BANK RECONCILIATION STATEMENT

Question 1

Write short note on Bank reconciliation statement.

[SM]

Answer

Bank reconciliation statement is prepared as on a particular date to reconcile and explain the causes of difference between the bank balance as per cash book and the same as per savings bank pass book or current account statement. At the end of each month, the bank balance as per cash book and that as per pass book /bank statement should be compared and, if there is disagreement, these balances should be reconciled stating exact reasons of disagreement. The reconciliation is made in a statement called the bank reconciliation statement.

Question 2

State the causes of difference between the balance shown by the pass book and the cash book.

[SM, MTP March 21, Nov 22, MTP Oct 18, Oct 19, July 24]

Answer

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

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

Question 3

Write short notes on "Importance of bank reconciliation to an industrial unit".

[RTP Jan 25, Nov 23, Nov 21, Nov 19, MTP April 21, May 23]

Answer

Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

Question 4

Messer's Tall & Short, Faiz Bazar, New Delhi-110002
in account with Punjab National Bank, Daryaganj, New Delhi-110002

PASS-BOOK

Date		Particulars	Withdrawals Rs.	Deposits Rs.	Dr. or Cr.	Balance Rs.
2022						
Jan.	2	By Cash		4,00,000	Cr.	4,00,000
"	4	To Furniture Dealers Ltd.	60,000		Cr.	3,40,000
"	4	To Das & Co.	1,25,000		Cr.	2,15,000
"	10	By J. Johnson & Co.'s cheque		35,000	Cr.	2,50,000
"	12	To Roy & James	1,00,000		Cr.	1,50,000
"	15	By B. Babu & Co's cheque		76,000	Cr.	2,26,000
"	16	By Cash		30,000	Cr.	2,56,000
"	20	To Cash	50,000		Cr.	2,06,000
"	26	By J. Rai & Bros cheque		43,000	Cr.	2,49,000
"	31	To Premium paid as per standing instructions	25,000		Cr.	2,24,000
	31	To Bank Charges	1,000		Cr.	2,23,000
	31	By Interest collected on Government Securities		20,000	Cr.	2,43,000

CASH-BOOK (Bank column only)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2022			2022		
Jan. 1	To Cash	4,00,000	Jan. 2	By Furniture	
Jan. 2	To J. Johnson & Co.	35,000		Dealers Ltd.	60,000
Jan. 8	To B. Babu& Co.	76,000	Jan. 2	By Roy & James	1,00,000
Jan. 10	To Cash	30,000	Jan. 2	By Das & Co.	1,25,000
Jan. 16	To J. Rai & Bros.	43,000	Jan. 4	By K. Nagpal & Co.	73,000
Jan. 20	To M. Mohan & Co.	1,05,000	Jan. 17	By Cash	50,000
Jan. 22	To N. Nandy & Sons	34,000	Jan. 20	By B. Babu & Co.	78,000
			Jan. 31	By Balance c/d	2,37,000
		7,23,000			7,23,000
Feb. 1	To Balance b/d	2,37,000			

It will be seen that whereas the pass book shows a credit balance of Rs. 2,43,000, the cash-book shows a debit balance of Rs. 2,37,000. We shall compare the two to establish the reasons for the difference. The reconciliation of the two statements can be done in two ways:-

1. Arrive at pass book balance from cash book.
2. Arrive at cash book balance from pass book.

[SM]

Answer

Let us start with the pass book balance and arrive at the balance as per cash book.

Step: 1. Compare the debit side of cash book with the deposits column of pass book:-

We find that the following cheques are recorded in the cash book but not in the pass book. Therefore if we enter these two cheques in the deposit side of the pass book the balance becomes:-

Existing balance	2,43,000
Add:- M Mohan & Co.	1,05,000
N. Nandy & Sons	34,000
Total	3,82,000

Step: 2 Compare the credit side of the cash book with the withdrawal column of the pass book

We find that the following cheques are not recorded. Therefore, if we enter these two cheques on the withdrawal side of the pass book the balance becomes: -

Existing balance	3,82,000
Less:- K Nagpal & Co.	(73,000)
B Babu & Co.	(78,000)
Total	**2,31,000**

There is an item 'Interest on Government Securities' which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance	2,31,000
Less:- Interest on govt. securities	(20,000)
Total	**2,11,000**

Further, there are two items which appear on the withdrawal side of the pass book i.e. they have been deducted from the bank balance but not on the credit side of the cash book, so these items should be added in order to reconcile the balance:-

Existing balance:-	2,11,000
Add: Insurance premium	25,000
Add: Bank charges	1,000
Total	**2,37,000**

Therefore, we have arrived at the balance as per the cash book from the pass book.

Question 5

From the following particulars, prepare a Bank Reconciliation Statement for Jindal offset Ltd.

(1) Balance as per cash book is Rs. 2,40,000

(2) Cheques issued but not presented in the bank amounts to Rs. 1,36,000.

(3) Cheques deposited in bank but not yet cleared amounts to Rs. 90,000.

(4) Bank charges amounts to Rs. 300.

(5) Interest credited by bank amounts to Rs. 1,250.

(6) The balance as per pass book is Rs. 2,86,950.

(SM, MTP Mar 19, Nov 21, May 22, May 23)

Answer

Bank Reconciliation Statement

Particulars	Amount Rs.
Balance as per Cash Book	2,40,000
Add: Cheque issued but not presented	1,36,000

Interest credited by bank	1,250
	3,77,250
Less : Cheque deposited but not yet cleared	(90,000)
Bank charges debited by bank	(300)
Balance as per Pass Book	2,86,950

Question 6

On 31st March 2022, the Bank Pass Book of Namrata showed a balance of Rs. 1,50,000 to her credit while balance as per cash book was Rs. 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

i) She has issued cheques amounting to Rs. 80,000 out of which only Rs. 32,000 were presented for payment.

ii) She received a cheque of Rs. 5,000 which she recorded in her cash book but forgot to deposit in the bank.

iii) A cheque of Rs. 22,000 deposited by her has not been cleared yet.

iv) Mr. Gupta deposited an amount of Rs. 15,700 in her bank which has not been recorded by her in Cash Book yet.

v) Bank has credited an interest of Rs. 1,500 while charging Rs. 250 as bank charges. Prepare a bank reconciliation statement.

[SM, MTP July 24]

Answer

Bank Reconciliation Statement as on 31st March, 2022

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

Question 7

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2022.

(1) The bank overdraft as per Cash Book on 31st December, 2022 Rs. 6,340.

(2) Interest on overdraft for 6 months ending 31st December, 2022 Rs. 160 is entered in Pass Book.

(3) Bank charges of Rs. 400 are debited in the Pass Book only.

(4) Cheques issued but not cashed prior to 31st December, 2022, amounted to Rs. 11,68,000.

(5) Cheques paid into bank but not cleared before 31st December, 2022 were for Rs. 22,17,000.

(6) Interest on investments collected by the bank and credited in the Pass Book Rs. 12,00,000.

[SM]

Answer

Bank Reconciliation Statement As on 31st December, 2022

Particulars	Amount Rs.
Overdraft as per Cash Book	6,340
Add: Interest debited in the Pass Book but not yet entered in the Cash Book	160
Add: Bank charges debited in the Pass Book but not entered in the Cash Book	400
Add : Cheques deposited but not yet credited in the Pass Book	22,17,000
	22,23,900
Less: Cheques issued but not yet presented	(11,68,000)
Less: Interest collected and credited by bank but not yet entered in Cash Book	(12,00,000)
Balance as per Pass Book (Credit/Favourable balance)	(1,44,100)

The above illustration can also be presented with the column for "Plus" and "Minus."

Particulars	Plus Amount Rs.	Minus Amount Rs.
Overdraft as per Cash Book		6,340
Interest debited in Pass Book but not yet in Cash Book		160
Cheque issued but not yet presented	11,68,000	
Cheques paid in but not yet credited by the Bank		22,17,000
Bank charges		400
Interest collected and credited by the Bank in the Pass Book but not yet entered in Cash Book	12,00,000	
Balance as per Pass Book		1,44,100
Total	23,68,000	23,68,000

Question 8

On 30th September, 2022, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 4,062. On the same date the bank statement showed a credit balance of Rs. 20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

(a) A cheque for Rs. 13,14,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022.
(b) A payment by cheque for Rs. 16,000 has been entered twice in the Cash Book.
(c) On 29th September, 2022, the bank credited an amount of Rs. 1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2022.
(d) Bank charges amounting to Rs. 580 had not been entered in the Cash Book.
(e) On 6th September, 2022, the bank credited Rs. 20,000 to X in error.
(f) A bill of exchange for Rs. 1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of X.
(g) Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled Rs. 13,26,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on

30th September, 2022 and

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

[SM, Nov 19, 23, MTP Aug 18, April 25 (same Concept, different Figures),MTP Oct 19, Oct 20, April 21, May 24, PYQ Nov 19]

Answer

(a) Cash Book (Bank Column)

Date 2022	Particulars	Amount Rs.	Date 2022	Particulars	Amount Rs.
Sept. 30	To Party A/c To Customer A/c (Direct deposit) To Balance c/d	16,000 1,17,400 11,242	Sept. 30	By Balance b/d By Bank charges By Customer A/c (B/R dishonoured)	4,062 580 1,40,000
		1,44,642			1,44,642

(b) Bank Reconciliation Statement as on 30th September, 2022

Particulars	Amount Rs.
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 30th September, 2022	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 30th September, 2022	(13,26,000)
Credit by Bank erroneously on 6th September	(20,000)
Credit balance as per bank statement	20,758

Note: Bank has credited X by 20,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 13,26,000 resulting in credit balance of Rs. 758 as per pass-book.

Question 9

On 30th December, 2022 the bank column of A. Philip's cash book showed a debit balance of Rs. 4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to Rs. 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2022 were not presented for payment until that date.
2. Cheques amounting to Rs. 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2022, but were entered in the bank statement on1st January, 2023.
3. A cheque received for Rs. 73,000 had been dishonoured prior to 30th December, 2022, but no record of this fact appeared in the cash book.
4. A dividend of Rs. 3,80,000, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to Rs. 4,200 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of Rs. 10,000 paid vide banker's order in November, 2022.
7. A cheque for Rs. 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2022.

You are required:

(a) to make appropriate adjustments in the cash book bringing down the correct balance, and

(b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

[SM]

Answer

(a) A. Philip

Dr. Cash Book (Bank column) Cr.

Date 2022	Particulars	Amount Rs.	Date 2022	Particulars	Amount Rs.
Dec. 30	To Balance b/d	4,610	Dec. 30	By Trade receivables- Cheque dishonoured	73,000
	To Dividend received	3,80,000		By Bank interest and charges	4,200
				By Trade Subscription	10,000
			Dec. 31	By Balance c/d	2,97,410
		3,84,610			3,84,610
2023 Jan. 1	To Balance b/d	2,97,410			

Bank Reconciliation Statement as at 30th December, 2022

Particulars	Amount Rs.
Balance per cash book	2,97,410
Add: Cheques not yet presented	6,30,000
	9,27,410
Less: Lodgement not yet recorded by bank	(2,50,000)
	6,77,410
Less: Cheque wrongly charged	(27,000)
Balance as per the bank statement	6,50,410

Question 10

From the following information, prepare a Bank reconciliation statement as at 31st December, 2022 for Messrs New Steel Limited :

(1)	Bank overdraft as per Cash Book on 31st December, 2022	22,45,900
(2)	Interest debited by Bank on 26th December, 2022 but no advice received	2,78,700
(3)	Cheque issued before 31st December, 2022 but not yet presented to Bank	6,60,000
(4)	Transport subsidy received from the State Government directly by the Bank but not advised to the company	14,25,000
(5)	Draft deposited in the Bank, but not credited till 31st December, 2022	13,50,000
(6)	Bills for collection credited by the Bank till 31st December, 2022 but no advice received by the company	8,36,000
(7)	Amount wrongly debited to company account by the Bank, for which no details are available	7,40,000

[SM]

Answer

M/s. New Steel Ltd.

Bank Reconciliation Statement as on 31st Dec, 2022

Particulars	Details Rs.	Amount Rs.
Overdraft as per Cash Book		22,45,900
Add : Interest charged by the bank	2,78,700	
Draft deposited in bank but not yet credited	13,50,000	
Wrong debit by the bank, under verification	7,40,000	23,68,700
		46,14,600
Less: Cheque issued but not yet presented	(6,60,000)	
Transport subsidy not yet recorded in the Cash Book	(14,25,000)	
Bills for collection credited in the bank not yet entered in the cash book	(8,36,000)	(29,21,000)
Overdraft as per bank statement		16,93,600

Question 11

The Cash Book of Mr. Gadbadwala shows Rs. 8,36,400 as the balance at Bank as on 31st December, 2022, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(a) On 15th December, 2022 the payment side of the Cash Book was undercast by Rs. 10,000.
(b) A cheque for Rs. 1,31,000 issued on 25th December, 2022 was not taken in the bank column.
(c) One deposit of Rs. 1,50,000 was recorded in the Cash Book as if there is no bank column therein.
(d) On 18th December, 2022 the debit balance of Rs. 15,260 as on the previous day, was brought forward as credit balance in the Cash book.
(e) Of the total cheques amounting to Rs. 11,514 drawn in the last week of December, 2022, cheques aggregating Rs. 7,815 were encashed in December.
(f) Dividends of Rs. 25,000 collected by the Bank and subscription of Rs. 1,000 paid by it were not recorded in the Cash Book.
(g) One out-going Cheque of Rs. 3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

[SM]

Answer

(If the books are not closed on 31st December, 2022)
Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2022

Particulars		Details Rs.	Amount Rs.
Balance as per the Cash Book			8,36,400
Add : Mistake in bringing forward Rs. 15,260 debit balance as credit balance on 18th Dec., 2022		30,520	
Cheques issued but not presented : Issued	11,514		
Cashed	7,815	3,699	
Dividends directly collected by bank but not yet entered in the Cash Book		25,000	
		3,50,000	
Cheque recorded twice in the Cash Book Deposit not recorded in the Bank column		1,50,000	5,59,219
			13,95,619
		10,000	
Less : Wrong casting in the Cash Book on 15th Dec.			
Cheques issued but not entered in the Bank column		1,31,000	
Subscription paid by the bank directly not yet recorded in the Cash Book		1,000	(1,42,000)

Balance as per the Pass Book			12,53,619

If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:

Cash Book (Bank Column)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	8,36,400	By wrong casting	10,000
To error for wrong posting	30,520	By cheques not entered	1,31,000
To dividends collected by bank	25,000	By subscription	1,000
To cheques recorded twice	3,50,000	By balance c/d	12,49,920
To deposit not recorded	1,50,000		
	13,91,920		13,91,920

Bank Reconciliation Statement

Particulars	Rs.
Balance as per the Cash Book (corrected)	12,49,920
Add: Cheques issued but not yet presented	3,699
Balance as per the Pass Book	12,53,619

Question 12

The following are the Cash Book (bank column) and Pass Book of Jain for the months of March, 2022 and April, 2022:

Cash Book (Bank Column only)

Date	Particulars	Amount Dr. Rs.	Date	Particulars	Amount Cr. Rs.
01/3/2022	To Balance b/d	60,000	03/3/2022	By Cash A/c	2,00,000
06/3/2022	To Sales A/c	3,00,000	07/3/2022	By Modi	60,000
10/3/2022	To Ram	65,000	12/3/2022	By Patil	30,000
18/3/2022	To Singhal	2,70,000	18/3/2022	By Suresh	40,000
25/3/2022	To Goyal	33,000	24/3/2022	By Ramesh	1,50,000
31/3/2022	To Patel	65,000	30/3/2022	By Balance c/d	3,13,000
		7,93,000			7,93,000

Pass Book

Date	Particulars	Amount Dr. Rs.	Amount Cr. Rs.	Dr. or Cr.	Balance Rs.
1/4/2022	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/2022	By Goyal		33,000	Cr.	3,98,000
5/4/2022	By Patel		65,000	Cr.	4,63,000
7/4/2022	To Naresh	2,80,000		Cr.	1,83,000
12/4/2022	To Ramesh	1,50,000		Cr.	33,000
15/4/2022	To Bank Charges	200		Cr.	32,800

20/4/2022	By Usha		17,000	Cr.	49,800
25/4/2022	By Kalpana		38,000	Cr.	87,800
30/4/2022	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2022.

[SM]

Answer

1) On scrutiny of the debit side of the Cash Book of March 2022 and receipt side of the Pass Book of April, 2022 reveals that two cheques deposited in Bank (Goyal Rs. 33,000 and Patel Rs. 65,000) in March were not credited by the Bank till 31/3/2022.
2) On scrutiny of the credit side of the cash book and payment side of the Pass Book reveals that a cheque issued to Ramesh for Rs. 1,50,000 in March 2022, had not been presented for payment in Bank till 31/3/2022. Therefore the Bank Reconciliation statement on 31/3/2022 will appear as follows :

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Amount (Rs.)
Balance as per the Cash Book	3,13,000
Add : Cheque issued but not presented for payment	1,50,000
	4,63,000
Less : Cheque deposited but not credited by Bank	(98,000)
Balance as per the Pass Book	3,65,000

Question 13

When Nikki & Co. received a Bank Statement showing a favourable balance of Rs. 10,39,200 for the period ended on 30th June, 2022, this did not agree with the balance in the cash book.

An examination of the Cash Book and Bank Statement disclosed the following :

1. A deposit of Rs. 3,09,200 paid on 29th June, 2022 had not been credited by the Bank until 1st July, 2022.
2. On 30th March, 2022 the company had entered into hire purchase agreement to pay by bank order a sum of Rs. 3,00,000 on the 10th of each month, commencing from April, 2022. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of Rs. 4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to Rs. 3,000 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank Rs. 4,00,000, but no entry had been made in the Cash Book.
6. Rs. 11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of Rs. 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2022.

Prepare Bank Reconciliation Statement on 30 June, 2022.

[SM]

Answer

Bank Reconciliation Statement on 30th June, 2022

Particulars	Details (Rs.)	Amount (Rs.)
Balance as per the Pass Book		10,39,200

Add: Deposited with bank but not credited	3,09,200	
Payment of Hire Purchase installments not entered in the Cash Book (Rs. 3,00,000 x 3)	9,00,000	
Discount allowed wrongly entered in bank column	16,000	
Bank charges not entered in the Cash Book	3,000	
Deposit entered in the Cash Book twice	11,200	
Cheque returned 'out of date' entered in the Cash Book	11,00,000	23,39,400
		33,78,600
Less: Direct deposit by customer not entered in the Cash Book		(4,00,000)
Balance as per the Cash Book		29,78,600

Question 14

Mr. Manoj is employed by Century Rayon and Carpets Pvt Ltd. as their cashier. The main responsibility of Mr. Manoj is to maintain the company's cash book and prepare a bank reconciliation statement at the end of each month. The cash book (only bank column) is set out below together with a copy of the bank statement for the month of February 2022.

You are required to :

a) Reconcile the cash book with the bank statement.

b) Make necessary entries to update the cash book.

c) Start with the balance as per cash book, list any unpresented cheques and sub-total on the reconcliation statement.

Century Rayon and Carpets Pvt Ltd Cash Book (Bank Column only)

Date	Particulars	Amount Dr. Rs.	Date	Particulars	Amount Cr. Rs.
01/02/2022	To Balance b/d	1,42,500	03/02/2022	By Bhagwandas	1,980
01/02/2022	To Blue and Co	1,570	07/02/2022	By Maruti Ltd (400460)	1,500
04/02/2022	To GM Ltd	2,430	12/02/2022	By Jackson Ltd (400461)	54,000
08/02/2022	To Robinson Ltd	910	18/02/2022	By PC computers (400462)	1,420
13/02/2022	To Donald	750	24/02/2022	By Shiv garage (400463)	49,000
20/02/2022	To Avenue Super mart	4,200	30/02/2022	By Petty cash (400465)	1,500
28/02/2022	To Sleep Well Ltd	940		By Shweta & Co (400464)	2,100
				By AV Partners (400466)	5,200
				By Balance c/d	36,600
		1,53,300			1,53,300

Customer: Century Rayon and Carpets Pvt Ltd Account No – xxxxx0439

Account Statement for the month of February 2022

Date	Particulars	Amount Dr.	Amount Cr.	Dr. or Cr.	Balance Rs.
1/02/2022	Balance b/d				1,42,500
3/02/2022	Cheques		1,570	Cr.	1,44,070
5/02/2022	Maruti Ltd	1,500		Dr.	1,42,570

7/02/2022	Bhagwandas	1,980		Dr.	1,40,590
12/02/2022	GM Ltd		2,430	Cr.	1,43,020
15/02/2022	Robinson Ltd		910	Cr.	1,43,930
20/02/2022	Premium of New India Insurance Ltd	3,800		Dr.	1,40,130
14/02/2022	Donald		750	Cr.	1,40,880
14/02/2022 23/02/2022	400463 cheques	49,000	 4,200	Dr. Cr.	91,880 96,080
26/02/2022 26/02/2022 27/02/2022	Savita 400465 Shreya	1,030 1,500	 2,200	Dr. Dr. Cr.	95,050 93,550 95,750
28/02/2022	Bank charges	2,538		Dr.	93,212

[SM]

Answer

In the books of Century Rayon and Carpets Pvt Ltd

a) Journal entries to be posted:

Bank A/c	Dr	2200	
To Shreya A/c			2200
Bank Charges A/c	Dr	2538	
Insurance premium A/c	Dr	3800	
Savita A/c	Dr	1030	
To Bank A/c			7368

After posting above entries, following will be the updated book of the company.

Cash Book (Bank Column)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To balance b/d	36,600	By bank charges	2,538
To direct receipt in bank	2,200	By insurance premium	3,800
		By direct payment to Savita	1,030
		By balance c/d	31,432
	38,800		38,800

Bank Reconciliation Statement as on February 28, 2022

Particulars	Details	Amount Rs.
Updated Balance as per Cash book		31,432
Add: Cheques issued but not yet presented for payment Jackson Ltd	54000	
P C Computers	1,420	
Shweta & Co	2,100	
A.V. Partners	5,200	62,720
		94,152
Less: Cheques deposited but not yet credited Sleep Well Ltd	940	940
Balance as per the bank statement		93,212

Question 15

From the following particulars prepare a bank reconciliation statement as on 31st December 2022:

(i) On 31st December, 2022 the cash-book of a firm showed a bank balance of Rs. 60,000 (debit balance).

(ii) Cheques had been issued for Rs. 15,00,000, out of which cheques worth Rs. 4,00,000 only were presented for payment.

(iii) Cheques worth Rs. 11,40,000 were deposited in the bank on 28th December, 2022 but had not been credited by the bank. In addition to this, one cheque for Rs. 5,00,000 was entered in the cash book on 30th December, 2022 but was banked on 3rd January, 2023.

(iv) A cheque from Susan for Rs. 4,00,000 was deposited in the bank on 26th December 2022 but was dishonoured and the advice was received on 2nd January, 2023.

(v) Pass-book showed bank charges of Rs. 2000 debited by the bank.

(vi) One of the debtors deposited a sum of Rs. 5,00,000 in the bank account of the firm on 20th December, 2022 but the intimation in this respect was received from the bank on 2nd January, 2023.

(vii) Bank pass-book showed a debit balance of Rs. 3,82,000 on 31st December, 2022.

[SM]

Answer

Bank Reconciliation Statement as on 31st December, 2022

	Rs.	Rs.
Bank balance (Dr.) as per cash book		60,000
Add: Cheques issued but not yet presented for payment	11,00,000	
Cheques directly deposited by a customer not yet recorded in cash book	5,00,000	16,00,000
		16,60,000
Less: Cheques deposited but not yet credited by bank	11,40,000	
Cheque received and recorded in cash book but not yet banked	5,00,000	
Cheque dishonoured by the bank; the dishonour entry not yet passed in cash book	4,00,000	
Bank charges not recorded in cash book	2,000	(20,42,000)
Bank balance (Dr.) as per pass book		(3,82,000)

Question 16

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021.

The cash book of Satyam Traders shows a debit balance of Rs. 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by Rs. 12,000/-
2. A cheque of Rs. 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of Rs. 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to Rs. 42,000 issued in, the last week of March, 2021, cheques aggregating Rs. 28,500 were encashed in March, 2021.
5. Dividends of Rs. 35,000 collected by the Bank and Fire insurance premium of Rs. 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of Rs. 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for Rs. 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for Rs. 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of Rs. 2,500 which is not recorded in cash book.

10. Bank wrongly credited cheque of Rs. 25,000 of other customer in our account.
11. Bank credited cheque of Rs. 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. Rs. 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges Rs. 200 on 25th March for which no intimation received till 31st March.

[MTP Oct 21, April 23, Jan 25]

Answer

Bank Reconciliation Statement of Satyam Traders
as on 31st March, 2021

Particulars	Amount	Amount
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward Rs.18,500/-debit Balance as credit balance on 22nd March	37,000	
Cheques issued but not presented Issued = Rs.42,000 less cashed Rs. 28,500 = Rs.13,500/-	13,500	
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	
TOTAL		2,40,000
Less:		
Wrong casting in cash book on12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
TOTAL		1,26,700
Balance as per the Passbook		5,25,500
No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of Rs. 32,000/- can be added as well as deducted from balance as per cash book.		

Question 17

According to the cash-book of Gopi, there was a balance of Rs. 44,50,000 in his bank on 30th June, 2022. On investigation you find that:

(i) Cheques amounting to Rs. 6,00,000 issued to creditors have not been presented for payment till the date.
(ii) Cheques paid into bank amounting to Rs. 11,05,000 out of which cheques amounting to Rs. 5,50,000 only collected by the bank up to 30th June 2022.
(iii) A dividend of Rs. 40,000 and rent amounting to Rs. 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.
(iv) Insurance premium (up to 31st December, 2022) paid by the bank Rs. 27,000 not entered in the cash book.
(v) The payment side of the cash book had been under casted by Rs. 5,000.
(vi) Bank charges Rs. 1,500 shown in the pass book had not been entered in the cash book.

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

Required:

(a) to make the appropriate adjustments in the cash book, and

(b) to prepare a statement reconciling it with the bank pass book.

[SM, RTP Sep 24, PYQ Dec 21]

Answer

Cash Book (Bank Column)

Receipts	Rs.	Payments	Rs.
To Balance b/d	44,50,000	By Insurance premium A/c	27,000
To Dividend A/c	40,000	By Correction of errors	5,000
To Rent A/c	6,00,000	By Bank charges	1,500
To Bill receivable A/c	59,000	By Bill payable	2,00,000
		By Balance c/d	49,15,500
	51,49,000		51,49,000

Bank Reconciliation Statement as on 30th June, 2022

	Rs.
Adjusted balance as per cash book (Dr.)	49,15,500
Add: Cheques issued but not presented for payment till 30th June, 2022	6,00,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2022	(5,55,000)
Balance as per pass book	49,60,500

Question 18

Prepare a bank reconciliation statement as on 30th September, 2022 from the following particulars:

Particulars	Rs.
Bank balance as per pass-book	10,00,000
Cheque deposited in the bank, but no entry was passed in the Cash-Book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

[SM, PYQ May 22, MTP Dec 24]

Answer

Bank Reconciliation Statement as on 30th September, 2022

	Rs.	Rs.
Bank balance as per pass book		10,00,000
Add: Cheque received but not sent to the bank Credit side of the bank column cast short	11,20,000 2,000	

Insurance premium paid directly not recorded in the cash book	60,000	
Cheque received entered twice in the cash book	10,000	
Bills dishonoured not recorded in the cash book	5,00,000	16,92,000
		26,92,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	5,00,000	
Bank charges recorded twice in the cash book	2,000	
Cheque issued but not presented to the bank	5,00,000	(10,02,000)
Bank balance as per cash book		16,90,000

Question 19

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022:

Particulars	Rs.
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date.	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection.	3,50,000

[SM, RTP May 20, PYQ Nov 18]

Answer

Bank Reconciliation Statement as on 31st March, 2022

	Rs.	Rs.
Debit balance as per cash book		37,20,000
Add: Cheque issued but not yet presented to bank for payment	7,20,000	
Dividend received by bank not entered in cash book	5,00,000	
Interest allowed by bank	12,500	12,32,500
		49,52,500
Less: Cheques deposited into bank but not yet collected	15,40,000	
Bank charges	2,000	
A cheque deposited into bank was dishonoured	3,20,000	
House tax paid by bank	3,50,000	(22,12,000)
Credit balance as per pass book		27,40,500

Question 20

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022 and show the balance as per cash book:

i) Overdraft as per passbook on March 31, 2022, is Rs. 3,00,000.

ii) Interest on bank overdraft not entered in the cash book Rs. 36,500

iii) Insurance premium of Rs. 17,950 was due and paid by the bank but same has not been accounted in the books.

iv) Cheques drawn in the last week of March,2022, but not cleared till date for Rs. 13,000 and Rs. 23,500.

v) Cheques deposited into bank on February,2022, but yet to be credited on dated March 31, 2022 Rs.

56,000.

vi) Amount of Rs. 20,500 is wrongly debited by the bank

vii) Interest on Investment Rs. 83,800 collected and credited by bank but the same has not been entered in the Cash Book.

[SM]

Answer

Bank Reconciliation Statement as on 31st March, 2022

	Rs.	Rs.
Balance as per bank statement (Overdraft)		3,00,000
Add: Cheques drawn but not cleared	36,500	
Interest collected on investments directly credited by bank	83,800	1,20,300
		4,20,300
Less: Interest on bank overdraft not entered in the cash book		
Cheques deposited but not yet cleared	36,500	
Insurance premium paid by bank	56,000	
Amount wrongly debited by bank	17,950	
Overdraft as per cash book	20,500	1,30,950
		289,350

Question 21

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

(1) Bank overdraft as per Pass Book as on 31st March, 2024 was Rs. 8,800

(2) Cheques deposited in Bank for Rs. 5,800 but only Rs. 2,000 were cleared till 31st March.

(3) 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.

(4) Dividend collected by Bank Rs. 1,250 was wrongly entered as Rs. 1,520 in Cash Book.

(5) Corporation tax Rs. 1,200 paid by Bank as per standing instruction appears in Pass Book only.

(6) Interest on overdraft Rs. 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2024.

(7) Direct deposit by M/s Rajesh Trader Rs. 400 not entered in Cash Book.

(8) Amount transferred from fixed deposit A/c into the current A/c Rs. 2,000 appeared only in Pass Book.

[RTP Jan 25, May 22]

Answer

Bank Reconciliation Statement as on 31st March, 2024

Particulars	Amount Rs.	Amount Rs.
Overdraft as per Pass Book		8,800
Add:		
Cheques issued but not presented till 31st March	5,800	
Transfer from fixed deposit	2,000	
Direct deposit by M/s Rajesh Trader	400	8,200
		17,000

Less:		
Cheques deposited but not cleared (5,800 - 2,000)	3,800	
Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
Interest on overdraft debited in Pass Book only	930	
Corporation tax paid appeared in Pass Book only	1200	
		6,200
Overdraft as per Cash Book		10,800

Question 22

On 31 December 2023, Bank Statement of Samar & Co. was showing a favourable balance of Rs.1,05,980. This did not agree with the balance in the cash book. On scrutiny of the Cash Book and Bank Statement following discrepancies were found:

(i) A deposit of 30,825 made on 29th December 2023 had not been credited by the bank till 31 December 2023.

(ii) Cheques issued for Rs.48,400 not presented for payment till 31 December 2023.

(iii) On 25th September 2023, the firm had entered into Hire Purchase agreement to pay by bank order a sum of Rs. 25,000 on the 10th of each month, commencing from October 2023. For this transaction no entries had been made in cash book.

(iv) A customer of the firm, who received a cash discount of 4% on his account of Rs.2,00,000 paid the firm a cheque on 22 December. The Cashier erroneously entered the gross amount in the bank column of the Cash Book.

(v) Bank Charges amounting to Rs.1,250 had not been entered in Cash Book

(vi) Dividend of 25,000 collected by bank was not recorded in cash book.

Prepare Bank Reconciliation Statement as on 31st December 2023.

[RTP June 24]

Answer

Particulars	Details (Rs.)	Amount (Rs.)
Balance as per the Pass Book		1,05,980
Add:		
Deposited with bank but not credited	30,825	
Payment of Hire Purchases Instalments for 3 months (Oct.to Dec.) not entered in Cash Book (Rs. 25,000X3)	75,000	
Discount allowed wrongly entered n Bank Column	8,000	
Bank Charges not entered in the Cash Book	1,250	1,15,075
		2,21,055
Less:		
cheques issued but not presented for payments	(48,400)	
Dividends directly collected by bank but not entered in the Cash Book	(25,000)	(73,400)
Balance as per Cash Book		1,47,655

Question 23

On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of Rs. 13,440 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.

[RTP June 23, May 19]

Answer

Bank Reconciliation Statement as on 31st October, 2022

Particulars			Rs.	Rs.
Bank Overdraft as per Bank Statement				9,600
Add:	(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	3,900	10,200
				19,800
Less:	(iii)	Cheque issued for Rs. 561 posted in the Cash Book as Rs. 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	3,600	
	(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	900	6,270
Bank overdraft as per the Cash Book (Cr.)				13,530

Question 24

The Cash-book of M/s Rajat shows Rs. 1,10,280 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy Rs. 41,000 received from the government directly by the bank, but not advised to the company.
(ii) On 15th March,2022 the payments side of the Cash-book was under cast by Rs. 1400.
(iii) On 20th March,2022 the debit balance of Rs. 8624 as on the previous day, was brought forward as credit balance in Cash-book.
(iv) A customer of the M/s Rajat, who received a cash discount of 5% on his account of Rs. 80,000, paid to M/s Rajat a cheque on 24th March,2022. The cashier erroneously entered the gross amount in the Cash-Book.
(v) On 10th March,2022 a bill for Rs. 22,800 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to Rs. 22,000 only.
(vi) A cheque issued amounting to Rs. 6,900 returned marked 'out of date'. No entry made in Cash-book.
(vii) Insurance premium Rs. 3,024 paid directly by bank under a standing order. No entry made in cash-book.
(viii) A bill receivable for Rs.6,120 discounted for Rs. 6,000 with the bank had been dishonoured on 30th March,2022, but advice was received on 1st April,2022.
(ix) Bank recorded a Cash deposit of Rs. 6,550 as Rs. 6,505. Prepare Bank Reconciliation Statement on 31st March,2022.

[RTP Nov 22, May 18, PYQ Nov 22]

Answer

Bank Reconciliation Statement on 31st March,2022

Bank Balance as per Cash Book				1,10,280
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	41,000	
	(iii)	Debit balance of Rs.8624 brought forward as credit balance on 20th March, 2022 in the Cash Book	17,248	
	(vi)	Cheque issued returned marked 'out of date'	6,900	65,148
				1,75,428
Less:	(ii)	Cash Book under cast on 15th March, 2022	1,400	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	400	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	800	
	(vii)	Insurance Premium paid directly by bank under standing instructions	3,024	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	6,120	
	(ix)	Bank recorded short cash deposit	45	11,789
Balance as per Bank Statement				1,63,639

Question 25

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

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

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

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

(d) Interest allowed by bank Rs. 4,500.

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

[RTP Nov 21]

Answer

Bank Reconciliation Statement as on 31st March, 2021

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

Question 26
From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

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

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

[RTP May 21]

Answer

Cash Book as on 31.3.2020
(After making necessary adjustments)

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

Bank Reconciliation Statement as on 31.3.2020

Particulars	Details	Amount Rs.
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000	
Wrong credit given by bank	1,50,000	37,12,000
		66,73,600
Less: Cheques deposited but not yet credited by bank		(44,75,000)
Balance as per the pass book		21,98,600

The bank balance of Rs. 29,61,600 will appear in the trial balance as on 31st March, 2020.
Note: Cash sales should have been recorded by passing the following entry:
Cash A/c Dr 2,55,000
To Sales A/c 2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:
Cash A/c Dr. 2,55,000
To Bank A/c 2,55,000

Question 27
Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:
(i) Balance as per Pass Book is Rs. 10,000.
(ii) Bank collected a cheque of Rs. 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).
(iii) Bank recorded a cash deposit of Rs. 1,589 as Rs. 1,598.
(iv) Withdrawal column of the Pass Book undercast by Rs. 100.
(v) The credit balance of Rs. 1,500 on page 5 was recorded on page 6 as debit balance.
(vi) The payment of a cheque of Rs. 350 was recorded twice in the Pass Book.
(vii) The Pass Book showed a credit for a cheque of Rs. 1,000 deposited by Shri Hari (another customer of the bank).

[RTP Nov 20,18]

Answer

Bank Reconciliation Statement as at 31.03.2020

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

Question 28
Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.
You are required to prepare consignment account in the books of Manoj along with the necessary calculations.

(MTP Mar 18)

Answer

Books of Manoj
Consignment to Jaipur Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000

To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. Calculation of value of goods sent on consignment:		
Abnormal Loss at Invoice price	=	18,750
Abnormal Loss as a percentage of total consignment	=	10%.
Hence the value of goods sent on consignment = ₹ 18,750 X 100/10	=	1,87,500
Loading of goods sent on consignment = ₹ 1,87,500 X 25/125	=	37,500
2. Calculation of abnormal loss (10%):		
Abnormal Loss at Invoice price = ₹ 18,750.		
Abnormal Loss at cost = ₹ 18,750 X 100/125	=	₹ 15,000
Add: Proportionate expenses of Manoj (10 % of ₹ 15,000)	=	₹ 1,500
		₹ 16,500
3. Calculation of closing Inventories (15%):		
Manoj's Basic Invoice price of consignment	=	₹ 1,87,500
Manoj's expenses on consignment	=	₹ 15,000
		₹ 2,02,500
Value of closing Inventories = 15% of ₹ 2,02,500	=	₹ 30,375
Loading in closing Inventories = ₹ 37,500 x 15/100	=	₹ 5,625
Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.		
4. Calculation of commission :		
Invoice price of the goods sold = 75% of ₹ 1,87,500	=	₹ 1,40,625
Excess of selling price over invoice price (₹ 1,50,000 - ₹ 1,40,625)		₹ 9,375
Total commission 10% of ₹ 1,40,625 + 25% of ₹ 9,375		₹ 16,406

Question 29

On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(MTP Apr 19, March 22, Aug 24)

Answer

	Balance as per Cash Book			(49,350)
Add :	Cheques issued but not presented for payment		3,700	
	Crossed Cheque issued to Abdul not presented for payment		750	
	Amounts collected byBank on our behalf but not entered in the Cash Book			
	Dividend	150		
	Insurance claim	800		
		950		
	(-) Bank Commission	15	935	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		500	5885
				(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)		1550	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	320		
	Premium	160		
	Second call	600	1,080	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		300	(2,930)
	Overdraft as per Pass Book			46,395

Question 30

The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of Rs. 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

(a) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15 th April 2018.

(b) Bankers had credited her account with Rs. 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(c) Out of Rs. 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to Rs. 7,500 were collected on 7th April, 2018.

(d) Out of Cheques amounting to Rs. 7,800 drawn by her on 27th March, 2018 a cheque for Rs. 2,500 was encashed on 3rd April, 2018.

(e) Bankers seems to have given here wrong credit for Rs. 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for Rs. 300 against her account No.8765.

(f) A cheque for Rs. 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(g) A Bill Receivable for Rs. 5,200 previously dishonoured (Discount Rs. 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

(h) A Bill for Rs. 10,000 was retired /paid by the bank under a rebate of Rs. 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(i) A Cheque for Rs. 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

[PYQ May 18, MTP April 24]

Answer

Bank Reconciliation Statement
as on 31st March, 2018

Particulars	Rs.
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i) No adjustment required as there would be no difference on 31.3.18	
(ii) Add: No entry in Cash book for interest collection by Bank	2,800
(iii) Less: Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) Add: Cheque credited in cash book but not debited in pass book	2,500
(v) Add: Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) Less: Cheque of Rs. 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) Less: Discounted dishonored but no entry in Cash book	(5,200)
(viii) Add: Rebate on bill retired not entered in cash book	175
(viii) Add: Cheques deposited in bank not yet recorded in cash book	2,400
Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: A cheque of Rs. 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31 st March, 2018.

Question 31

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

(i) Dividend of Rs. 18,000 was deposited in the bank of which Hari had no information

(ii) Cheque was issued to Suresh of Rs. 14,780 on 18.12.2023 which was recorded in cash book as Rs. 14,870.

(iii) Cheques totalling of Rs. 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.

(iv) Mediclaim premium of Rs. 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.

(v) Goods amounting Rs. 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducting 4% cash discount. This entry was missed while preparing cash book.

(vi) Bank charges for issue of cheque book Rs. 150 was skipped while preparing cash book.

(vii) Hari received a UPI of Rs. 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.

(viii) Cheques amounting to Rs. 1,80,000 were issued during the month but cheques of Rs. 1,44,000 were only presented during the month for payment.

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

[PYQ Sep 24]

Answer

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

Particulars	Details Rs.	Amount Rs.
Balance as per the Cash Book		1,36,800
Add: Cheques issued but not presented for payment	36,000	
Dividends directly collected by bank	18,000	

but not yet entered in the Cash Book		
Cheque recorded with wrong amount in the Cash Book	90	
Cheque directly deposited but not recorded in the cash book	1,53,600	
Amount received from slae of scrap not recorded in cash book	1,000	2,08,690
		3,45,490
Less: Cheques deposited but not cleared till 31st dec	55,000	
Mediclaim paid by the bank directly not yet recorded in the Cash Book	14,160	
Bank charges not recorded in cash book	150	(69,310)
Balance as per the Pass Book		2,76,180

Alternatively, the question can also be solved by preparing adjusted cash book. In that case the solution will be:

Cash Book (Bank Column)

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

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

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

Question 32

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

(1) Out of the total cheques of Rs. 8,900 issued on 27th March, one cheque of Rs. 7,400 was presented for payment on 4th April and the other cheque of Rs. 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of Rs. 6,800 deposited in the Bank on 24th March, one cheque of Rs. 2,600 was cleared on 3rd April and the other cheque of Rs. 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges Rs. 35 and Bank interest Rs. 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of Rs. 1,550 wrongly credited to this account by the bank.

(5) A cheque of Rs. 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of Rs. 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.
(7) The bank allowed interest on deposit Rs. 1,000.
(8) A customer who received a cash discount of 4% on his account of Rs. 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

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

[PYQ Nov 20]

Answer

Adjusted Cash Book
as on 31-03-2020

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

Bank Reconciliation Statement
as on 31st March, 2020

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

Question 33

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

(i) Debit balance as per Bank Pass Book Rs. 3,500.
(ii) A cheque amounting to Rs. 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.
(iii) During March, two bills amounting to Rs. 2,500 and Rs. 500 were collected by the Bank but no entry was made in the Cash Book.
(iv) A bill for Rs. 5,000 due from Mr. Balaji previously discounted for Rs. 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.
(v) A Cheque for Rs. 1,500 was debited twice in the cash book.

[PYQ July 21, MTP May 25]

Answer

Bank Reconciliation Statement
as on 31st March,2021

Particulars	Amount Rs.
Balance as per Pass Book (Dr.)	(3,500)
Add: Cheques deposited but returned on 24th March,2021 Discounted bill from Mr. Balaji dishonoured	2,500 5,000
Wrong debit in passbook	1,500
	5,500
Less: Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)	2,500

Question 34

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

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

[PYQ Jan 21, MTP June 24]

Answer

Adjusted Cash Book
as on 31st December, 2020

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

Bank Reconciliation Statement
as on 31st December, 2020

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

LESS: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book		2,83,000

* Adjusted Cash book has been given here for better understanding. However, these adjustments may be routed through Bank Reconciliation Statement without preparing adjusted cash book.

Question 35

From the following information prepare a Bank Reconciliation Statement as on 31st March 2022 for A Ltd.

		Rs.
	Bank overdraft as per cash book as 31st March, 2022	15,50,750
1.	Cheques deposited on 15th February, 2022 credited on 5th April, 2022	12,50,000
2.	Interest debited by bank on 31st March, 2022 but not entered in Cash Book	1,75,500
3.	Cheques issued before 31st March, 2022 but not yet presented	7,75,000
4.	On 10th March, 2022 bank credited to A Ltd. in error	1,50,000
5.	Draft deposited in bank but not credited till 31st March, 2022	12,75,000
6.	Bills for collection credited by bank but no advice received by the company	9,45,000
7.	Bank charges charged by bank but not entered in cash book	2,85,000
8.	Transport subsidy received from the state government directly by the bank not advised to the company	17,50,000

[PYQ June 23]

Answer

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details Rs.	Amount Rs.
Overdraft as per Cash Book		15,50,750
Add: Cheque deposited but not credited	12,50,000	
Interest charged by the bank	1,75,500	
Draft deposited in bank but not yet credited	12,75,000	
Bank Charges not entered in cash book	2,85,000	29,85,500
		45,36,250
Less: Cheque issued but not yet presented	(7,75,000)	
Transport subsidy not yet recorded in the Cash Book	(17,50,000)	
Bills for collection credited in the bank not yet entered in the cash book	(9,45,000)	
Wrong credit by the bank	(1,50,000)	(36,20,000)
Overdraft as per bank statement		9,16,250

Alternatively, the above solution can also be done through Adjusted Cash Book.

Cash Book (Bank Column)

Particulars	Amount Rs.	Particulars	Amount Rs.
To Bill Receivable	9,45,000	By Balance b/d	15,50,750
To Transport subsidy received	17,50,000	By Interest debited by Bank Bank	1,75,500
		By Charges	2,85,000
		By Balance c/d	6,83,750
	26,95,000		26,95,000

M/s. A Ltd.
Bank Reconciliation Statement
as on 31st March, 2022

Particulars	Details Rs.	Amount Rs.
Balance as per Cash Book		6,83,750
Add : Cheque issued but not yet presented Wrong credit by the bank	7,75,000	
	1,50,000	9,25,000
		16,08,750
Less: Cheque deposited but not credited	(12,50,000)	(25,25,000)
Draft deposited in bank but not yet credited	(12,75,000)	
Overdraft as per bank statement		(9,16,250)

Question 36

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

(i) Debit balance (overdraft) shown by the pass book 2,48,000.

(ii) Cheques of 2,10,000 were issued in the last week of December, but of these only Rs. 1,40,000 were presented for payment.

(iii) 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.

(iv) A cheque received for Rs. 37,520 entered twice in the Cash book.

(v) 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.

(vi) Interest on overdraft and bank charges amounting to Rs. 3,500 were not entered in the Cash Book.

(vii) A Cheque for 45,000 was credited in the Pass Book but was not recorded in the Cash Book.

(viii) A bill of exchange for Rs. 26,200 which was discounted with bank returned dishonored but on entry was made in the cash book.

(ix) Payment side of the Cash Book has been undercast by Rs. 12,000.

[PYQ Dec 23]

Answer

Bank Reconciliation Statement
as on 31st December, 2022

	Particulars	Amount (Rs.)	Amount (Rs.)
	Overdraft as per Pass Book (Dr. Balance)		2,48,000
Add:	Cheques issued but not yet presented Rs. (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	45,000	1,25,000
Less:	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	12,000	1,96,220
	Overdraft as per Cash Book		1,76,780

Question 37

Prepare the Bank Reconciliation Statement of M/s. Singh Brothers on 30th June 2022 from the particulars given below:

(i) The Bank Pass Book had a debit balance of Rs. 75,000 on 30th June, 2022.

(ii) A cheque worth Rs. 1,200 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth Rs. 1,02,000, cheques amounting to Rs. 60,000 only were presented for payment till 30th June, 2022.

(iv) A cheque for Rs. 12,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth Rs. 60,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2022, Rs. 42,000

(2) Cheques collected on 10th July, 2022, Rs. 12,000

(3) Cheques collected on 12th July, 2022, Rs. 6,000.

(vi) The Bank made a direct payment of Rs. 1,800 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank Rs. 4,800 was not recorded in the Cash Book.

(viii) Bank charges worth Rs. 240 have been entered twice in the cash book whereas Insurance charges for Rs. 210 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. 6,000.

(x) A bill for Rs. 3000(discounted with bank in May, 2022) dishonored on 30th June ,2022 and noting charges of Rs 100 paid by bank.

[MTP Nov 22, MTP May 20, Dec 23, PYQ May 19]

Answer

Bank Reconciliation Statement
as on 30th June 2022

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		75,000
Add:	Cheques deposited into the Bank by Customer but not entered in Cash Book	1,200	
	Cheques issued but not presented Rs. (1,02,000-60,000)	42,000	
	Bank charges written twice in Cash Book	240	
	Discounted bill dishonored & noting charges Paid (WN)	3,100	46,540
			1,21,540
Less:	Cheques received, recorded in cash Book but not sent to the Bank	12,000	
	Cheques sent to the Bank but not collected	18,000	
	Direct payment made by the bank not recorded in the Cash book	1,800	
	Interest on Overdraft charged by Bank	4,800	
	Insurance charges not entered in Cash Book	210	
	Credit side of bank column of Cash Book was undercast	6,000	42,810
	Balance as per Cash Book		78,730

Working Note: Bill amount of Rs 3,100 were debited by bank. However, it is not been recorded in the Cash Book. So to arrive at the cash balance, Rs 3,100 was added.

Question 38

From the following information, prepare a Bank Reconciliation Statement as on June 30, 2024 for M/s XYZ Limited:

(i) The Bank column of Cash Book was overdrawn to the extent of Rs. 24,768.

(ii) Bank charges amounting to Rs. 350 had not been entered in the Cash Book.

(iii) Cheque amounting to Rs. 88,678 issued before June 30, 2024 but not yet presented to Bank.

(iv) One payment of Rs. 4,590 was recorded in the Cash Book as if there is no bank column.

(v) The company paid Rs. 15,500 to a creditor and received a cash discount @ 2%. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

(vi) A debit of Rs. 5,700 appeared in the Bank Statement for an unpaid cheque, which had been returned marked out of date'. The cheque had been re-dated by the customer and paid into the Bank again on July 8, 2024.

(vii) Cheques deposited in bank but not yet cleared amount to Rs. 45,789.

(viii) Dividends of Rs. 1,980 collected by the Bank was not recorded in the Cash Book.

(ix) Amount of Rs. 2,340 wrongly credited by bank to company account for which no details are available.

(x) On June 25, 2024 the credit side of bank column of the Cash Book was overcast by Rs.6,789.

[PYQ Jan 25]

Answer

Bank Reconciliation Statement of M/s XYZ Limited as on 30th June, 2024

Particulars	Details (Rs.)	Amount (Rs.)
Balance as per the Cash Book (Cr.)		24,768
Add: Bank charges not entered in the cash book	350	
Cheques issued but not recorded in cash book	4,590	
Cheques deposited but not cleared	45,789	
Cheque returned out of date in pass book	5,700	56,429
		81,197
Less: Cheque issued but not presented to Bank	(88,678)	
Discount received wrongly entered in the bank column of cash book	(310)	
Dividend collected by bank not recorded in cash book	(1,980)	
Amount wrongly credited by Bank	(2,340)	
Credit side of the bank column overcast	(6,789)	(1,00,097)
Balance as per the Pass Book (credit)		(18,900)

Alternatively, if the books are to be closed on 30th June, then adjusted cash book will be prepared. In that case the solution will be as given below:

Cash Book (Bank Column)

Particulars	Amount (`)	Particulars	Amount (`)
To discount	310	By balance b/d	24,768
To dividends	1,980	By bank charges not entered in cash book	350
To credit side of the bank column overcast	6,789	By payment recorded in the cash column of cash	4,590

To balance c/d	26,329	book	
		By cheque returned out	
		of date	5,700
	35,408		35,408

Bank Reconciliation Statement

Particulars	Amount (`)
Balance as per the Cash Book (Cr.) (corrected)	26,329
Add: Cheque deposited but not cleared	45,789
Less: Cheques issued not yet presented	(88,678)
Amount wrongly credited by bank	(2,340)
Balance as per Pass Book (Credit)	(18,900)

Alternative solution –

Alternatively, in point (v) of the question, if it is assumed that the amount paid ` 15,500 is a net amount. then the discount will be ` 316 {(i.e. (15,500/98 %) x 2%) and accordingly the solution will be:

Bank Reconciliation Statement of M/s XYZ Limited
as on June 30, 2024

Particulars	Amount (`)	Amount (`)
Balance as per Cash Book (Cr.)		24768
Add: Bank Charges not entered in cash book	350	
Cheques issued but not entered in cash book	4,590	
Cheque returned out of date entered in Pass Book	5,700	
Cheque deposited but not cleared	45,789	56,429
		81,197
Less: Cheque issued but not presented to bank	(88,678)	
Discount received wrongly entered in bank column of cash book	(316)	
Dividend collected by Bank not recorded in cash book	(1,980)	
Amount wrongly credited by Bank	(2,340)	
Credit side of the bank column overcast	(6,789)	(1,00,103)
Balance as per Pass Book (Cr.)		(18,906)

Alternatively, if the books are to be closed on 30th June, then adjusted cash book will be prepared. In that case the solution will be as given below:

Cash Book (Bank Column only)

Date	Particulars	(`)	Date	Particulars	(`)
June-30	To Discount	316	June-30	By Balance b/d	24,768
	To Dividends	1,980		By bank charges not entered in cash book	350
	To credit side of the bank column overcast	6,789		By payment recorded in the cash column of cash book	4,590
	To Balance c/d	26,323		By Cheque returned out of date	5,700
		35,408			35,408

Bank Reconciliation Statement as on June 30, 2024

Particulars	Amount (`)

Balance as per Cash Book (Cr)	26,323
Add: Cheque deposited but not cleared	45,789
	72,112
Less: Cheque issued but not presented	(88,678)
Amount wrongly credited by Bank	(2,340)
Balance as per Pass Book (Cr.)	(18,906)

Chapter 4 : Inventories

Question 1

Write short notes on:

(i) Adjusted Selling Price method of determining cost of stock.

(ii) Principal methods of ascertainment of cost of inventory.

[SM, MTP March 22, Aug 24, April 25]

Answer

(i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Question 2

Distinguish between:

(i) LIFO and FIFO basis of costing of stock.

(ii) FIFO and weighted average price method of stock costing.

[SM]

Answer

(i) Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.

(ii) Under the First-In-First-Out (FIFO) method of valuation of stock, the actual issue of goods is usually the earliest lot on hand. Hence, the stock in hand will therefore consist of the latest consignments. The closing stock is valued at the price paid for such consignments.

The weighted average price method is not a simple average price method. Under this method of valuation of stock, a stock ledger is maintained, recording receipts and issues on daily basis. A new average would be calculated on receiving fresh consignment. The average price thus calculated after considering arrival of new consignment with the previous value of stock and dividing the preceding stock value and the cost of new arrival with the total units of preceding and new arrival will give the weighted average price.

Question 3

Define inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.

[SM]

Answer

Inventory can be defined as assets held

(a) for sale in the ordinary course of business, or
(b) in the process of production for such sale, or
(c) for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:

(i) Determination of Income
(ii) Ascertainment of Financial Position
(iii) Liquidity Analysis
(iv) Statutory Compliance

Question 4

Write short notes on the following: "LIFO and FIFO basis of costing of stock."

[MTP May 23]

Answer

Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases. In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices .

Question 5

Differentiate between Periodic Inventory System and Perpetual Inventory System.

[PYQ Sep 24, Nov 19, RTP June 23]

Answer

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

S. No.	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory.
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.

7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

Question 6
Surekha Ltd deals in 3 products P, Q & R, which are neither similar nor interchangeable. At the end of a financial year, the Historical Cost and NRV of items of Closing Stock are given below. Determine the value of Closing Stock.

Items	Historical Cost (in Rs. Lakhs)	Net Realisable Value (in Rs. Lakhs)
P	38	42
Q	29	29
R	17	14

[SM]

Answer
Inventories are to be valued at the lower of cost and Net Realisable Value (NRV). Inventories are usually written down to NRV on an item-by-item basis. The Value of Closing Stocks is determined as under:

Items	Historical Cost (in Rs. Lakhs)	Net Realisable Value (in Rs. Lakhs)	Valuation = Least of Cost or NRV
P	38	42	38
Q	29	29	29
R	17	14	14
Total			81

Question 7
A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets:

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

1,600 units were issued during the month of December till 18th December. Calculate the value of closing inventory.
[SM]

Answer
The closing inventory is 1,000 units and would consist of:
800 units received on 28th December; and
200 units received on 19th December as per FIFO

	Rs.
The value of 800 units @ Rs. 47	37,600
The value of 200 units @ Rs. 60	12,000
Total	49,600

Question 8
In the previous example assume that following issues were made during the month of December: Record of issues

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

[SM]

Answer

Computation of closing stock under perpetual inventory system Using LIFO method, following will be stock ledger:

Date	Receipts			Issues			Balance inventory		
Dec.	Qty.	Rate	Amount	Qty	Rate	Amount	Qty.	Rate	Amount
4	900	50	45,000	-	-	-	900	50	45,000
5	-	-	-	500	50	25,000	400	50	20,000
10	400	55	22,000	-	-	-	400 400	50 55	20,000 22,000
11	300	55	16,500	-	-	-	400 400 300	50 55 55	20,000 22,000 16,500
19	200	60	12,000	-	-	-	400 400 300 200	50 55 55 60	20,000 22,000 16,500 12,000
20	- - -	- - -	- - -	200 300 100	60 55 55	12,000 16,500 5,500	400 300	50 55	20,000 16,500
28	800	47	37,600	-	-	-	400	50	20,000
							300	55	16,500
28							800	47	37,600
29	-	-	-	500	47	23,500	400	50	20,000
							300	55	16,500
							300	47	14,100

Therefore, cost of closing inventory of 1,000 pcs will be Rs. 50,600.

Computation under periodic inventory system

In the above example, if the entity followed periodic inventory valuation, closing inventory of 1,000 pcs. will be valued as follows:

800 pcs. @ Rs. 47 each (purchased on Dec. 28th) = Rs. 37,600

200 pcs. @ Rs. 60 each (purchased on Dec. 19th) = Rs. 12,000

Total 1,000 pcs. = Rs. 49,600

Question 9

In the same example of a manufacturer of radio sets given earlier, let us calculate the value of closing inventory using Average Price Method:

[SM]

Answer

The simple average in this question is:

[(50 + 55 + 55 + 60 + 47)/5] = 267/5 = Rs. 53.4
1,000 units valued at Rs. 53.4 would be Rs. 53,400.

Question 10
On the basis of the data given in Question 8 and 10, calculate the weighted average price and also the value of closing inventory by weighted average price method.

[SM]

Answer
The computation of weighted average price in the referred example is shown below:
A new average rate would be calculated on receiving a fresh consignment. Answer on that basis would be as under:

Date	Receipts			Issues			Balance inventory		
	Qty	Rate	Amount	Qty	Rate	Amount	Qty	Rate	Amount
Dec. 4	900	50	45,000	-	-	-	900	50	45,000
Dec. 5	-	-	-	500	50	25,000	400	50	20,000
Dec. 10	400	55	22,000	-	-	-	800	52.5	42,000
Dec. 11	300	55	16,500	-	-	-	1,100	53.18	58,500
Dec. 19	200	60	12,000	-	-	-	1,300	54.23	70,500
Dec. 20	-	-	-	600	54.23	32,538	700	54.23	37,962
Dec. 28	800	47	37,600	-	-	-	1,500	50.37	75,562
Dec. 29	-	-	-	500	50.37	25,185	1,000	50.37	50,377

Details of purchases/receipt during the period

Date	Qty.	Rate	Value
Dec. 4	900	50	45,000
Dec. 10	400	55	22,000
Dec. 11	300	55	16,500
Dec. 19	200	60	12,000
Dec. 28	800	47	37,600
Total	2,600	51.19	133,100

Accordingly, closing stock of 1,000 pcs. would have been valued at 51,190 @ Rs. 51.19 per unit.

Question 11
M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2022:

Goods received from Suppliers (subject to trade discount and taxes)	Rs.	15,75,500
Trade discount 3% and GST 11%		
Packaging and transportation charges	Rs.	87,500
Sales during the year	Rs.	22,45,500
Sales price of closing inventories	Rs.	2,35,000

Find out the non-historical cost of inventories using adjusted selling price method.

[SM]

Answer
Determination of cost of purchases:

Goods received from suppliers	15,75,500
Less: Trade discount 3%	(47,265)
	15,28,235
Add: GST 11%	1,68,106
	16,96,341
Add: Packaging and transportation charges	87,500
	17,83,841

Determination of estimated gross profit margin:

Sales during the year Closing inventory at the selling price	Rs. 22,45,500 Rs. 2,35,000
	24,80,500
Less: Purchases	Rs. (17,83,841)
Gross profit	Rs. 6,96,659
Gross profit margin	28.09%
Inventory valuation:	
Selling price of closing inventories	Rs. 2,35,000
Less: Gross profit margin 28.09%	Rs. (66,012)
	Rs. 1,68,988

Question 12

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

	Rs.
Sales during the year	2,00,000
Cost of purchases	2,00,000
Opening inventory	Nil
Closing inventory at selling price	50,000

[SM]

Answer

Calculation of gross margin of profit:

	Rs.
Sales	2,00,000
Add: Closing inventory (at selling price)	50,000
Selling price of goods available for sale:	2,50,000
Less: Cost of goods available for sale	2,00,000
Gross margin	50,000

Rate of gross margin = 50,000/2,50,000 × 100 = 20%

Cost of closing inventory = 50,000 less 20% on Rs. 50,000 = Rs. 40,000

Question 13

From the following particulars ascertain the value of Inventories as on 31st March, 2022:

	Rs.
Inventory as on 1.4.2021	1,42,500

Purchases	7,62,500
Manufacturing Expenses	1,50,000
Selling Expenses	60,500
Administrative Expenses	30,000
Financial Charges	21,500
Sales	12,45,000

At the time of valuing inventory as on 31st March, 2021, a sum of Rs. 17,500 was written off on a particular item, which was originally purchased for Rs. 50,000 and was sold during the year for Rs. 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 % on sales.

[SM, PYQ Jan 21]

Answer

Statement of Inventory in trade
as on 31st March, 2022

	Rs.	Rs.
Inventory as on 1st April, 2021	1,42,500	
Less: Book value of abnormal inventory		
(Rs. 50,000 - Rs. 17,500)	32,500	1,10,000
Add: Purchases		7,62,500
Manufacturing Expenses		1,50,000
		10,22,500
Less: Cost of goods sold:		
Sales as per books	12,45,000	
Less: Sales of abnormal item	45,000	
	12,00,000	
Less: Gross Profit @ 20%	2,40,000	9,60,000
Inventory in trade as on 31st March, 2022		62,500

Question 14

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2022 on which date total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2022.

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

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

(iii) Sales return Rs. 1,000.

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

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

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

You are required to ascertain the value of inventory as on 31st March, 2022.

[SM, RTP June 24, May 19,22, Nov 20,22, MTP Apr 19, May 20, April 23]

Answer

Statement of Valuation of Stock

on 31st March, 2022

	Rs.	Rs.
Value of stock as on 15th April, 2022		50,000
Add: Cost of sales during the period from 31st March, 2022 to 15th April, 2022:		
Sales (Rs. 41,000-Rs. 1,000)	40,000	
Less: Gross profit (20% of Rs. 40,000)	8,000	32,000
Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
		86,800
Less: Purchases during the period from 31st March, 2022 to 15th April, 2022	5,034	
Unsold stock out of goods received on consignment basis (30% of Rs. 8,000)	2,400	7,434
		79,366

Question 15

Inventory taking for the year ended 31st March, 2022 was completed by 10th April 2022, the valuation of which showed a inventory figure of Rs. 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for Rs. 68,750, profit margin being 33.33 % on cost. Purchases for the next year included in the inventory amounted to Rs. 90,000 at cost less trade discount 10 %. During this period, goods were added to inventory at the mark up price of Rs. 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow-moving items costing Rs. 11,250, which should be taken at Rs. 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing Rs. 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 31st March, 2022.

[SM, RTP Nov 23, 19, May 21,18]

Answer

Statement showing the valuation of Inventory as on 31st March, 2022

	Rs.
Value of Inventory as on 10th April	16,75,000
Add: Cost of goods sold after 31st March till Inventory taking	51,560
(Rs. 68,750 – Rs. 17,190)	
Less: Purchases for the next period (net)	(81,000)
Less: Cost of Sales Returns	(2,250)
Less: Loss on revaluation of slow-moving inventories	(6,000)
Less: Reduction in value on account of default	(3,000)
Value of Inventory on 31st March	16,34,310

Note: Profit margin of 33.33 % on cost means 25 % on sales price.

Question 16

The following are the details of a spare part of Sriram mills:

1-1-2022	Opening Inventory	Nil
1-1-2022	Purchases	100 units @ Rs. 30 per unit
15-1-2022	Issued for consumption	50 units
1-2-2022	Purchases	200 units @ Rs. 40 per unit
15-2-2022	Issued for consumption	100 units
20-2-2022	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2022 if the company follows First in first out basis.

[SM]

Answer

First-in-First out basis

Sriram Mills

Calculation of the value of Inventory as on 31-3-2022

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
1-1-2022	Balance							Nil	
1-1-2022	100	30	3,000				100	30	3,000
15-1-2022				50	30	1,500	50	30	1,500
1-2-2022	200	40	8,000				50	30	1,500
							200	40	8,000
15-2-2022				50	30	1,500			
				50	40	2,000	150	40	6,000
20-2-2022				100	40	4,000	50	40	2,000

Therefore, the value of Inventory as on 31-3-2022: 50 units @ Rs. 40 = Rs. 2,000

Question 17

Continuing with the information given in Question 16, find out the value of Inventory as on 31-3-2022 if the company follows Weighted Average basis.

[SM]

Answer

Weighted Average basis

Sriram Mills

Calculation of the value of Inventory as on 31-3-2022

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
1-1-2022	Balance							Nil	
1-1-2022	100	30	3,000				100	30	3,000
15-1-2022				50	30	1,500	50	30	1,500
1-2-2022	200	40	8,000				250	38	9,500
15-2-2022				100	38	3,800	150	38	5,700
20-2-2022				100	38	3,800	50	38	1,900

Therefore, the value of Inventory as on 31-3-2022 = 50 units @ Rs. 38 = Rs. 1,900

Question 18
X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, when it was ascertained by him to be worth Rs. 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2022 and 9.4.2022 as per the sales day book are Rs. 17,200. Purchases between 31.3.2022 and 9.4.2022 as per purchases day book are Rs. 1,200, out of these goods amounting to Rs. 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2022 but goods received only on 4th April, 2022 amounted to Rs. 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2022.

[SM]

Answer

Statement of Valuation of Physical Stock as on 31st March, 2022

		Rs.
Value of stock as on 9th April, 2022		2,50,000
Add: Cost of sales during the intervening period		
Sales made between 31.3.2022 and 9.4.2022	17,200	
Less: Gross profit @25% on sales	(4,300)	12,900
		2,62,900
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	1,200	
Less: Goods not received upto 9.4.2022	(500)	700
		2,62,200
Less: Purchases during March, 2022 received on 4.4.2022		1,000
Value of physical stock as on 31.3.2022		2,61,200

Question 19
From the following information, ascertain the value of stock as on 31.3.2022:

	Rs.
Value of stock on 1.4.2021	7,00,000
Purchases during the period from 1.4.2021 to 31.3.2022	34,60,000
Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2021 a sum of Rs. 60,000 was written off a particular item which was originally purchased for Rs. 2,00,000 and was sold for Rs. 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

[SM, PYQ May 22]

Answer

Statement of Valuation of Stock

as on 31st March, 2022

		Rs.
Value of stock as on 1st April, 2021		7,00,000
Add: Purchases during the period from 1.4.2021 to 31.3.2022		34,60,000
Add: Manufacturing expenses during the above period		7,00,000
		48,60,000
Less: Cost of sales during the period:		
Sales	52,20,000	
Less: Gross profit	10,32,000	41,88,000
Value of stock as on 31.3.2022		6,72,000

Working Note:

	Rs.
Calculation of gross profit:	
Gross profit on normal sales 20/100 x (52,20,000 -1,60,000)	10,12,000
Gross profit on the particular (abnormal) item 1,60,000 - (2,00,000 - 60,000)	20,000
	10,32,000

Note: The value of closing stock on 31st March, 2022 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2022.

Question 20

The Profit and loss account of Hanuman showed a net profit of Rs. 6,00,000, after considering the closing stock of Rs. 3,75,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 15,000 paid for new electric fittings for the shop.

(ii) Hanuman gave away goods valued at Rs. 40,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 2,50,000 have been entered on 27th March, 2022, but the goods were not included in stock.

(iv) In March, 2022 goods of Rs. 2,00,000 sold and delivered were taken in the sales for April, 2022.

(v) Goods costing Rs. 75,000 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.

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended on that date.

(SM, MTP Mar 18, Nov 22, May 22, May 24, July 24 (Different Figures, Same Concept))

Answer

Profit and Loss Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Advertisement (samples)	40,000	By Net profit	6,00,000
To Sales (goods approved in April	1,00,000	By Electric fittings	15,000
to be taken as April sales: (75,000			
+ 25,000)			
To Adjusted net profit	10,40,000	By Samples	40,000
		By Stock (purchases of March not included in stock)	2,50,000
		By Sales (goods sold in March wrongly taken as April sales)	2,00,000

		By Stock (goods sent on approval basis not included in stock)	75,000
	11,80,000		11,80,000

Calculation of value of inventory on 31st March, 2022

	Rs.
Stock on 31st March, 2022 (given)	3,75,000
Add: Purchases of March, 2022 not included in the stock	2,50,000
Goods lying with customers on approval basis	75,000
	7,00,000

Question 21

Physical verification of stock in a business was done on 23rd June, 2022. The value of the stock was Rs. 48,00,000. The following transactions took place between 23rd June to 30th June, 2022:

(i) Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.

(ii) Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5th July, 2022.

(iii) Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2022.

(iv) Goods are sold at cost plus 25%. However, goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

Determine the value of stock on 30th June, 2022.

(MTP Oct 18, Nov 23, PYQ Nov 20)

Answer

Statement of Valuation of Stock
on 30th June, 2022

		Rs.
Value of stock as on 23rd June, 2022		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2022 to 30th June, 2022	2,40,000	
Goods in transit on 30th June, 2022	1,60,000	
Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	
		7,68,000
Less: Cost of sales during the period from 23rd June, 2022 to 30th June, 2022		55,68,000
Sales (Rs. 13,60,000 – Rs. 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		11,04,000
Value of stock as on 30th June, 2022		44,64,000

Working Note:

1. Calculation of normal sales:		
Actual sales		13,60,000
Less: Abnormal sales		
Return of goods sent on approval	1,20,000	

	1,60,000	2,80,000
		10,80,000
2. Calculation of gross profit:		
Gross profit or normal sales 20/100 x Rs. 10,80,000		2,16,000
Less: Loss on sale of particular (abnormal) goods (Rs. 2,40,000 – Rs. 1,20,000)		1,20,000
Gross profit		96,000

Question 22

The following are the details of material inventory bought and used by manufacturing company:

Date	Particulars	Unit and Rate
1.10.24	Balance opening inventory	NIL
1.10.24	Material bought	200 unit, Rs.60 per unit
2.10.24	Issued for use	100 unit
3.10.24	Material bought	400 unit, Rs.80 per unit
4.10.24	Issued for use	200 unit
7.10.24	Issued for use	200 unit

You are required to calculate the value of inventory material as on 7.10.24 by applying weighted average method.

[RTP Jan 25, MTP Dec 23]

Answer

Calculation of value of inventory as on 7.1.2024 of manufacturing company.

Date	Receipts	Rate	Amount	Issue	Rate	Amount (Rs.)	Balance Units	Rate	Amount (Rs.)
1.10.24	Balance						Nil		
1.10.24	200	60	12,000				200	60	12,000
2.10.24				100	60	6000	100	60	6,000
3.10.24	400	80	32,000				500	76	38,000
4.10.24				200	76	15200	300	76	22,800
7.10.24				200	76	15200	100	76	7,600

The value of 100 units of inventory as on 7.10.24 Rs. 7,600.

Question 23

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.

[PYQ Dec 21, MTP Dec 24]

Answer

Oil Mill

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

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
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 @ Rs.380 = Rs.1,900

Question 24

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

Purchase during the year - Rs. 10,00,000
Sales during the year - Rs. 15,00,000
Opening Inventory Nil
Closing Inventory at selling price Rs. 2,00,000

[RTP Jan 25, PYQ July 21, MTP May 25(Similar)]

Answer

Sales	15,00,000
Add: Closing inventory (at selling price)	2,00,000
Selling price of goods available for sale:	17,00,000
Less: Cost of goods available for sale	10,00,000
Gross margin	7,00,000

Rate of gross margin = $7,00,000 / 17,00,000 \times 100 = 41.18\%$

Cost of closing inventory = 2,00,000 less 41.18% of Rs. 2,00,000 = Rs. 1,17,640

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at Rs. 1,17,640 OR as 41.17% in that case, the closing inventory will be valued at Rs. 1,17,640.

Question 25

From the following particulars ascertain the value of inventories as on 31st March, 2024 :

Inventory as on 1st April, 2023 Rs. 3,50,000
Purchase made during the year Rs. 12,00,000
Sales Rs. 18,50,000
Manufacturing Expenses Rs. 1,00,000
Selling and Distribution Expenses Rs. 50,000
Administration Expenses Rs. 80,000

At the time of valuing inventory as on 31st March, 2023, a sum of Rs. 20,000 was written off on a particular item which was originally purchased for Rs. 55,000 and was sold during the year for Rs. 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20 % on sales.

[RTP Sep 24]

Answer

Statement of Inventory in trade
as on 31st March, 2024

	Rs.	Rs.

Inventory as on 31st March, 2023	3,50,000	
Less: Book value of abnormal inventory (Rs. 55,000 - Rs. 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2024		1,75,000

Question 26

Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at Rs. 5,00,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April 2022 to 9th April 2022 amounting to Rs. 80,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2022 to 9th April 2022 amounting to Rs. 16,000 at cost.

(v) Purchases during 1st April 2022 to 9th April 2022 amounting to Rs. 40,000 but goods amounts to Rs. 8,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to Rs. 80,000 were entered on 28th March 2022 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, 2022.

[RTP June 23, PYQ May 19]

Answer

Statement of Valuation of Physical Stock
as on 31st March,2022

	Rs.	Rs.
Value of stock as on 10th April, 2022		5,00,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2022 and 9.4.2022	80,000	
Less: Gross profit @20% on sales	(16,000)	64,000
Free sample		16,000
		5,80,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	40,000	
Less: Goods not received upto 9.4.2022	(8,000)	(32,000)
		5,48,000
Add: Purchases during March, 2022 but not recorded in stock		80,000
Value of physical stock as on 31.3.2022		6,28,000

Question 27

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

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was Rs. 2,40,000.
(ii) On 30th September, stock sheet showed the following discrepancies:
  (a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 16,000.
  (b) The total of a page had been undercast by Rs. 600.
(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 30thSeptember, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled Rs.12,000.
(iv) Sales invoiced to customers totaled Rs.2,70,000 from September,2020 to March, 2021. Of this Rs. 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled Rs. 12,000.
(v) During the final quarter, credit notes at invoiced value of Rs. 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

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

[RTP Nov 18,21, May 20, MTP Oct 19, March 21, June 24, Jan 25]

Answer

Valuation of Physical Stock as at March 31, 2021

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

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

Question 28

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

(i) Out of the goods sent on consignment, goods at cost worth Rs. 24,000 were unsold.
(ii) Purchase of Rs. 40,000 were made out of which goods worth Rs. 16,000 were delivered on 5th July, 2023
(iii) Sales were Rs. 1,36,000 which include goods worth Rs. 32,000 sent on approval. Half of these goods were returned before 30th June 2023, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However, Goods costing Rs. 24,000 had been sold for Rs. 12,000.

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

[PYQ Sep 24]

Answer

Statement of Valuation of Stock
on 30th June, 2023

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

Working Notes:

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

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

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

Particulars		Rs.	Particulars	Rs.
To Opening Stock		4,80,000	By Sales including abnormal sales	1,20,000
To Purchase	40,000		By Closing stock as on June 30 (b/f)	3,93,600
Less: Goods In transit	<u>16,000</u>	24,000		
To Gross Profit (W.N.)		9,600		
		5,13,600		5,13,600

Statement of valuation of stock
on 30th June 2023

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

Working Notes:

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

Question 29

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

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

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

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

[PYQ June 24]

Answer

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

Particulars	Amount (Rs.)	Amount (Rs.)
Value of stock as on 10th April, 2024		4,50,000
Add: Cost of sales during the period from 31st March, 2024 to 10th April, 2024:		
Sales (Rs. 1,10,000-Rs. 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(20,000)	80,000

		5,30,000
Less: Purchases during the period from 31st March, 2024 to 10th April, 2024 (85,000- 2,500) Unsold stock out of goods received on consignment basis (40% of Rs. 15,000) Loss on revaluation of slow-moving inventories (14,850-9,500)	82,500 6,000 5,350	93,850
		4,36,150

ALTERNATE PRESENTATION

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

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

Question 30

From the following information, ascertain the value of Closing Stock as on 31st March,2023.

Particulars	(Rs.)
Opening Stock	1,47,500
Cash Sales	5,50,000
Credit Sales	4,00,000
Purchases	8,85,000
Manufacturing Expenses	1,35,000
Advertisement Expenses	43,000
Rate of Gross Profit on Cost	25%

At the time of valuing inventory as on 31st March,2022, a sum of Rs. 12,500 was written off on a particular item, which was originally purchased for Rs. 50,000 and was sold during the year for Rs. 40,000. (4 Marks)

[PYQ Dec 23]

Answer

Statement of Valuation of Stock
as on 31st March, 2023

		Rs.
Value of stock as on 1st April, 2022		1,47,500
Add: Purchases during the period from 1.4.2022 to 31.3.2023		8,85,000
Add: Manufacturing expenses during the above period		1,35,000
		11,67,500
Less: Cost of sales during the period:		
Sales	9,50,000	
Less: Gross profit (Working Note)	1,84,500	7,65,500
Value of stock as on 31.3.2023		4,02,000

Working Note:

	Rs.
Calculation of gross profit:	
Gross profit on normal sales 20/100 x (9,50,000 -40,000)	1,82,000
Gross profit on the particular (abnormal) item 40,000 - (50,000 - 12,500)	2,500
	1,84,500

Alternative:

Statement showing the valuation of inventory
as on 31st March, 2023

	Rs.	Rs.
Inventory in the beginning	1,47,500	
Less: Book value of Abnormal Inventory (50,000-12,500)	37,500	1,10,000
Add: Purchases		8,85,000
Manufacturing Expenses		1,35,000
		11,30,000
Less: Cost of goods sold:		
Sales as per books (5,50,000 + 4,00,000)	9,50,000	
Less: Sales of abnormal item	40,000	
	9,10,000	
Less: Gross Profit @20%	1,82,000	7,28,000
Inventory in trade as on 31st March 2023		4,02,000

Note: The value of closing stock on 31st March, 2023 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2023.

Question 31

The Profit and Loss account of Ram showed a net profit of Rs. 5,75,000 after considering the closing stock of Rs. 2,55,000 on 31st March 2022. Subsequently the following information was obtained from scrutiny of the books.

(i) Purchases for the year included Rs. 10,500 paid for electrical fittings of the shop.

(ii) Ram gave goods worth of Rs. 25,000 as free samples for which no entry was made.

(iii) Invoices for goods amounting to Rs. 1,85,000 have been entered on 29th March 2022 but were not included in the stock.

(iv) Sales amounting to Rs. 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.

(v) Goods costing Rs. 55,000 were sent on sale or return basis in March, 2022 at a margin of profit of $33\frac{1}{2}$ % on cost. Approval was given in April, 2022 but these were considered as sales in March, 2022.

Calculate. the value of stock as on 31st March, 2022 and the adjusted net profit for the year ended on that date.

[PYQ June 23]

Answer

Profit and Loss Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Advertisement (samples)	25,000	By Net profit	5,75,000
To Sales (goods approved in April to be taken as April sales: (55,000 + 18,333)	73,333	By Electric fittings	10,500
To Adjusted net profit	9,57,167	By Samples	25,000
		By Stock (purchases of March not included in stock)	1,85,000
		By Sales (goods sold in March wrongly taken as April sales)	2,05,000
		By Stock (goods sent on approval basis not included in stock)	55,000
	10,55,500		10,55,500

Calculation of value of inventory on 31st March, 2022

	Rs.
Stock on 31st March, 2022 (given)	2,55,000
Add: Purchases of March, 2022 not included in the stock	1,85,000
Goods lying with customers on approval basis	55,000
Value of inventory as on 31.03.2022	4,95,000

Note: Figures are rounded off to the nearest Rupee.

Question 32

The following details are available of raw material of a manufacturing unit:

1-5-2024	Opening Inventory	100 units @ Rs. 15 per unit
2-5-2024	Purchases	300 units @ Rs. 18 per unit
5-5-2024	Issued for consumption	250 units
16-5-2024	Purchases	500 units @ Rs. 21 per unit
21-5-2024	Issued for consumption	100 units
25-5-2024	Issued for consumption	450 units

The manufacturer also incurred the following expenses:

- Freight of Rs. 300 and unloading charges of Rs. 150 at the time of every purchase respectively.
- Warehouse rent of Rs. 2,000 per month.
- Administrative Expenses of Rs. 1,500 per month.

You are required to find out the value of inventory as on May 31, 2024 if the company follows:
(a) Weighted Average method for inventory valuation.
(b) First in First Out method for inventory valuation.

[PYQ Jan 25, MTP April 25(Similar)]

Answer

(a) Weighted Average basis

Calculation of the value of Inventory as on 31-5-2024

	Receipts			**Issues**			**Balance**		
Date	**Units**	**Rate**	**Amount (Rs.)**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount (Rs.)**
1-5-24	Balance						100	15	1,500
2-5-24	300	19.5	5,850				400	18.375	7,350
5-5-24				250	18.375	4593.75	150	18.375	2756.25
16-5-24	500	21.9	10,950				650	21.09	13,708.5
21-5-24				100	21.09	2,109	550	21.09	11,599.5
25-5-24				450	21.09	9,490.5	100	21.09	2,109

Therefore, the value of Inventory is as follows:
Value as per Weighted Method as on 31-5-2024: 100 units @ Rs. 21.09 = Rs. 2,109

(b) First-in-First out basis

Calculation of the value of Inventory as on 31-5-2024

	Receipts			**Issues**			**Balance**		
Date	**Units**	**Rate**	**Amount (Rs.)**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount (Rs.)**
1-5-24	Balance						100	15	1,500
2-5-24	300	19.5	5,850				100	15	1,500
5-5-24				100	15	,500	300	19.5	5,850
				150	19.5	2,925	150	19.5	2,925
16-5-24	500	21.9	10,950				150	19.5	2,925
							500	21.9	10,950
21-5-24				100	19.5	1,950	50	19.5	975
25-5-24				50	19.5	975	500	21.9	10,950
				400	21.9	8,760	100	21.9	2,190

Therefore, the value of Inventory as on 31-5-2024 will be as follows: Value of Inventory as per FIFO Method: 100 units @ Rs. 21.9 = Rs. 2,190

Working Note:

(i) Per unit cost of raw material purchased on May 2,2024
= (300 x 18 + 300 + 150) / 300 = Rs. 19.5

(ii) Per unit cost of raw material purchased on May 16,2024
= (500 x 21 + 300 + 150) / 500 = Rs. 21.9

Note:

(a) Freight and unloading charges are directly attributable cost and are necessary to bring the inventory into present location and condition hence are included in the cost of inventory.
(b) Warehouse rent are indirectly attributable expenses and are not considered as cost of inventory.

(c) Administrative expenses are indirectly attributable expenses and do not usually add any specific value to inventories and hence excluded from the cost of inventory.

Chapter 5 : Depreciation and Amortisation

Question 1
Distinguish between Straight line method of depreciation and Written down value method of depreciation.
[SM]

Answer
Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fixed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows:

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced over the years as the asset grows old.

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.

Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset.

Question 2
Write short notes on the following: "Machine Hour Rate method of calculating depreciation."
[RTP Sep 24, June 23, Nov 20, 19]

Answer
Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is Rs.10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

Hourly Depreciation = Total cost of Machine / Estimated life of Machine
= Rs.10,00,000 / 50,000 hours
= Rs. 20 per hour
If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × Rs. 20 = Rs. 40,000.

Question 3
Write short note on Depletion method of depreciation.

[SM]

Answer
Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.
Depletion per unit is calculated as (Acquisition cost - Residual Value) / Estimate life in terms of production units

Question 4
What factors are considered for calculation of depreciation of a plant?

[SM]

Or

Discuss the factors taken into consideration for calculation of depreciation.

[PYQ Nov 20, MTP April 24]

Answer
Following factors are taken into consideration for calculation of depreciation.

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

Question 5
What are intangible assets. Explain with the help of examples.

[SM]

Answer
An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. Examples of intangible assets include:

(a) Streaming rights of movies / TV shows / web series on platforms like Netflix, Disney Hot Star, Amazon Prime / Sony LIV etc.
(b) Broadcasting rights of events such as the Cricket World Cup, the Indian Premier League, the Pro Kabaddi League etc.
(c) Landing rights / time slots at airports which permit aircrafts to land or take-off during a particular time frame
(d) Patents
(e) Trademarks
(f) Copyrights
(g) Distribution rights for motion pictures in theatres
(h) Long-term customer contracts
(i) Customer data collected by the entities such as customer contact numbers / email IDs and spending

data at stores like Pantaloons, Westside etc. could be a major intangible asset for these entities.
(j) Goodwill (purchased)
(k) Computer Software

Question 6
"The cost of Property, Plant and Equipment comprises of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise". Give any five examples of such 'directly attributable costs'.

[PYQ Nov 22]

Answer
Cost of Property, Plant and Equipment comprise of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Examples of directly attributable costs are:
(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.
(b) cost of site preparation
(c) initial delivery and handling costs
(d) installation and assembly costs
(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)
(f) professional fees e.g., engineers hired for helping in installation of a machine
(g) transportation cost
(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset.

Question 7
Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.
Required
Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

[SM]

Answer

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c	
July 1	To Bank A/c - Installation Expenses	1,00,000		10% on Rs. 15,00,000 for 6 months	75,000
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			15,00,000
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c	
				10% on Rs. 15,00,000	1,50,000
			Dec. 31	By Balance c/d	12,75,000

		14,25,000			14,25,000

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021 Dec. 31	To Machinery A/c	75,000	2021 Dec. 31	By Profit & Loss A/c	75,000
2022 Dec. 31	To Machinery A/c	1,50,000	2022 Dec. 31	By Profit & Loss A/c	1,50,000

Question 8

Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required

Show the Machinery Account on diminishing balance method for the year 2021 and 2022.

[SM]

Answer

As per Reducing Balance Method
Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c (Rs. 15,00,000 x 10% x 6/12) for 6 months	75,000
July 1	To Bank A/c -	1,00,000			
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			15,00,000
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c (Rs. 14,25,000 x 10%)	1,42,500
			Dec. 31	By Balance c/d	12,82,500
		14,25,000			14,25,000

Question 9

M/s Akash & Co. purchased a machine for Rs. 10,00,000. Estimated useful life and scrap value were 10 years and Rs. 1,20,000 respectively. The machine was put to use on 1.1.2017.

Required

Show Machinery Account and Depreciation Account in their books for 2022 by using sum of years digits method.

[SM]

Answer

In the books of M/s Raj & Co.
Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2022 Jan. 1	To Balance b/d (w.n.2)	3,60,000	2022 Dec. 31	By Depreciation A/c (w.n.3)	80,000
			Dec. 31	By Balance c/d	2,80,000

		3,60,000			3,60,000
2023 Jan.1	To Balance b/d	2,80,000			

Depreciation Account

		Rs.			Rs.
2022 Dec. 31	To Machinery A/c	80,000	2022 Dec. 31	By Profit and Loss A/c	80,000
		80,000			80,000

Working Notes:

(1) Total of sum of digit of depreciation for 2017-21

= (Rs. 10,00,000 - Rs. 1,20,000) × $\frac{10+9+8+7+6}{\frac{10\,(10+1)}{2}}$

= Rs. 8,80,000 × 40/ 5.5 = Rs. 6,40,000

(2) Written down value as on 1-1-2022
Rs. 10,00,000 – Rs. 6,40,000 = Rs. 3,60,000

(3) Depreciation for 2022
(Rs. 10,00,000 – Rs. 1,20,000) × 5 / 55 = Rs. 80,000.

Question 10

A machine was purchased for Rs. 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be Rs. 2,00,000 and anticipated pattern of distribution of effective hours is as follows :

Year
1 – 3 3,000 hours per year
4 - 6 2,600 hours per year
7 - 10 1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

[SM]

Answer

Statement of Annual Depreciation under Machine Hours Rate Method

Year	Annual Depreciation
1 - 3	3,000/ 24000 × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 3,50,000
4 - 6	2,600/24000 × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 3,03,333
7 - 10	1,800/24000 × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 2,10,000

Question 11

A machine is purchased for Rs. 20,00,000. Its estimated useful life is 10 years with a residual value of Rs. 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year Production
1-3 20,000 units per year
4-7 15,000 units per year
8-10 10,000 units per year

Required
Determine the value of depreciation for each year using production units method.

[SM]

Answer
Statement showing Depreciation under Production Units Method

Year	Annual Depreciation
1-3	20,000 / 150000 × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 2,40,000
4-7	15,000 / 150000 × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 1,80,000
8-10	10,000 / 150000 × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 1,20,000

Question 12
M/s Surya & Co. took lease of a quarry on 1-1-2019 for Rs. 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:
Year Quantity of Mineral extracted
2019 2,000 tonnes
2020 10,000 tonnes
2021 15,000 tonnes
Required
Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

(SM, MTP Oct 18,Oct 19, MTP Nov 22, March 22)

Answer

Quarry Lease Account

		Rs.			Rs.
2019			2019		
Jan.	To Bank A/c	1,00,00,000	Dec. 31	By Depreciation A/c [(2,000/2,00,000) × Rs. 1,00,00,000]	1,00,000
			Dec. 31	By Balance c/d	99,00,000
		1,00,00,000			1,00,00,000
2020			2020		
Jan. 1	To Balance b/d	99,00,000	Dec. 31	By Depreciation A/c	5,00,000
			Dec. 31	By Balance c/d	94,00,000
		99,00,000			99,00,000
2021			2021		
Jan. 1	To Balance b/d	94,00,000	Dec. 31	By Depreciation A/c	7,50,000
			Dec. 31	By Balance c/d	86,50,000
		94,00,000			94,00,000

Depreciation Account

		Rs.			Rs.
2019			2019		
Dec. 31	To Quarry lease A/c	1,00,000	Dec. 31	By Profit & Loss A/c	1,00,000
		1,00,000			1,00,000
2020			2020		
Dec. 31	To Quarry lease A/c	5,00,000	Dec. 31	By Profit & Loss A/c	5,00,000

		5,00,000			5,00,000
2021 Dec. 31	To Quarry lease A/c	7,50,000	2021 Dec. 31	By Profit & Loss A/c	7,50,000
		7,50,000			7,50,000

Question 13

A firm purchased on 1st January, 2020 certain machinery for Rs. 5,82,000 and spent Rs. 18,000 on its erection. On July 1, 2020 another machinery for Rs. 2,00,000 was acquired. On 1st July, 2021 the machinery purchased on 1st January, 2020 having become obsolete was auctioned for Rs. 3,86,000 and on the same date fresh machinery was purchased at a cost of Rs. 4,00,000.

Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required

Prepare machinery account.

[SM]

Answer

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2020			2020		
Jan. 1	To Bank A/c	5,82,000	Dec. 31	By Depreciation A/c	70,000
Jan. 1	To Bank A/c – erection charges	18,000		By Balance c/d	7,30,000
July 1	To Bank A/c	2,00,000			
		8,00,000			8,00,000
2021			2021		
Jan. 1	To Balance b/d	7,30,000	July 1	By Depreciation on sold machine	27,000
July 1	To Bank A/c	4,00,000		By Bank A/c	3,86,000
				By Profit and Loss A/c	1,27,000
			Dec. 31	By Depreciation A/c	39,000
				By Balance c/d	5,51,000
		11,30,000			11,30,000

Working Note:

Book Value of Machines

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost	6,00,000	2,00,000	4,00,000
Depreciation for 2020	(60,000)	(10,000)	
Written down value	5,40,000	1,90,000	
Depreciation for 2021	(27,000)	(19,000)	(20,000)
Written down value	5,13,000	1,71,000	3,80,000
Sale Proceeds	(3,86,000)		
Loss on Sale	1,27,000		

Question 14

On April 1, 2019 Shubra Ltd. purchased a machinery for Rs. 12,00,000. On Oct 1, 2021, a part of the machinery purchased on April 1, 2019 for Rs. 80,000 was sold for Rs. 45,000 and a new machinery at a cost of Rs. 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Required : Show the necessary ledger accounts for the years ended 31st March, 2020 to 2022 assuming that (a) 'Provision for Depreciation Account' is not maintained (b) Provision for Depreciation Account is maintained.

[SM]

Answer

(a) When 'Provision for Depreciation Account' is not maintained.

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Depreciation A/c	1,20,000
				By Balance c/d	10,80,000
		12,00,000			12,00,000
01.04.2020	To Balance b/d	10,80,000	31.03.2021	By Depreciation A/c	1,08,000
				By Balance c/d	9,72,000
		10,80,000			10,80,000
01.04.2021	To Balance b/d	9,72,000	01.10.2021	By bank A/c	45,000
01.10.2021	To Bank A/c	1,58,000		By Profit & Loss A/c	16,560
				By Depreciation A/c	3,240
			31.3.2021	By Depreciation A/c (7,900+ 90,720)	98,620
				By Balance c/d (8,16,480 + 1,50,100)	9,66,580
		11,30,000			11,30,000

(b) When 'Provision for Depreciation Account' is maintained

Dr. Machinery Account (at original cost) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Balance c/d	12,00,000
01.04.2020	To Balance b/d	12,00,000	31.03.2021	By Balance c/d	12,00,000
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Machinery Disposal A/c	80,000
01.10.2021	To Bank A/c	1,58,000	31.03.2022	By Balance c/d	12,78,000
		13,58,000			13,58,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To Balance c/d	1,20,000	31.03.2020	By Depreciation A/c	1,20,000
31.03.2021	To Balance c/d	2,28,000	1.04.2020	By Balance b/d	1,20,000
			31.03.2021	By Depreciation A/c	1,08,000

		2,28,000			2,28,000
01.10.2021	To Machinery Disposal A/c	18,440	01.04.2021	By Balance b/d	2,28,000
31.03.2022	To Balance c/d	3,11,420	01.10.2021	By Depreciation A/c	3,240
			31.03.2022	By Depreciation A/c	98,620
		3,29,860			3,29,860

Dr. Machinery Disposal Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.10.2021	To Machinery Disposal A/c	80,000	01.10.2021	By Provision for Depreciation A/c	18,440
				By Bank A/c	45,000
				By Profit and Loss A/c	16,560
		80,000			80,000

Working Notes:

(1) Calculation of Profit/Loss on Sale of Machinery

Particulars	Rs.
A. Original Cost	80,000
B. Less : Depreciation @ 10% WDV p.a. for 2 $\frac{1}{2}$ years	18,440
C. Book Value as on date of Sale (A – B)	61,560
D. Less : Sale proceeds	45,000
E. Loss on Sale (C – D)	16,560

(2) Calculation of Depreciation for Current Year on Machines (other than sold)

Particulars	Rs.
A. On Old Machines of Rs. 9,07,200 for 1 year (10% WDV)	90,720
B. On New Machine of Rs. 1,58,000 for $\frac{1}{2}$ year	7,900
	98,620

Question 15

A firm purchased second hand machinery on 1st January, 2019 for Rs. 3,00,000, subsequent to which Rs. 60,000 and Rs. 40,000 were spent on its repairs and installation, respectively. On 1st July, 2020 another machinery was purchased for Rs. 2,60,000. On 1st July, 2021, the first machinery having become outdated was auctioned for Rs. 3,20,000 and on the same date, another machinery was purchased for Rs. 2,50,000.

On 1st July, 2022, the second machinery was also sold off and it fetched Rs. 2,30,000.

Depreciation was provided on machinery @ 10% on the original cost annually on 31st December, under the straight line method.

Required

Prepare the following accounts in the books of the company: (i) Machinery Account for the years ending Dec. 31, 2019 to 2022 and (ii) Machinery Disposal Account.

[SM]

Answer

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.2019	To Bank A/c (A) – Cost	3,00,000	31.12.2019	By Depreciation (A)	40,000
	- Repairs	60,000		By Balance c/d (A)	3,60,000
	- Installation	40,000			
		4,00,000			4,00,000
01.01.2020	To Balance b/d	3,60,000	31.12.2020	By Depreciation 40,000 13,000	53,000
01.07.2020	To Bank A/c (B)	2,60,000		By Balance c/d 3,20,000 2,47,000	5,67,000
		6,20,000			6,20,000
01.01.2021	To Balance b/d	5,67,000	01.07.2021	By Machinery Disposal A/c (A)	3,00,000
01.07.2021	To Bank A/c (C)	2,50,000		By Depreciation A/c 20,000 26,000 12,500	58,500
				By Balance c/d 2,21,000 2,37,500	4,58,500
		8,17,000			8,17,000
01.01.2022	To Balance b/d	4,58,500	01.07.2022	By Machinery Disposal A/c (B)	2,08,000
				By Depreciation A/c 13,000 25,000	38,000
				By Balance c/d	2,12,500
		4,58,500			4,58,500

Machinery Disposal Account

Date	Particulars	Rs.	Date	Particulars	Rs.
01.07.2021	To Machinery A/c (A)	3,00,000	01.07.2021	By Bank A/c	3,20,000
	To Profit Loss A/c (Profit)	20,000			
		3,20,000			3,20,000
01.07.2022	To Machinery A/c (B)	2,08,000	01.07.2022	By Bank A/c	2,30,000
	To P & L A/c (Profit)	22,000			
		2,30,000			2,30,000

Question 16

M/s Anshul & Co. commenced business on 1st January 2017, when they purchased plant and equipment for Rs. 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount Rs.
1-1-2018	1,50,000
1-1-2021	2,00,000

On 1-1-2021 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2021 with no scrap value and 10 years for the asset purchased on 1.1.2021.

Required

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2021.

[SM]

Answer

Depreciation on written down value basis

		Purchased on Jan. 1, 2017 Rs.	Purchased on Jan. 1, 2018 Rs.	Total Depreciation Rs.
2017	Cost	7,00,000		
	Depreciation	(1,05,000)		1,05,000
	Written Down Value (WDV)	5,95,000		
2018	Cost	-	1,50,000	
	Depreciation	(89,250)	(22,500)	1,11,750
	W.D.V.	5,05,750	1,27,500	
2019	Depreciation	(75,863)	(19,125)	94,988
	W.D.V.	4,29,887	1,08,375	
2020	Depreciation	(64,483)	(16,256)	
	W.D.V.	3,65,404	92,119	80,739
2021	Depreciation	(60,900)	(15,353)	
		3,04,504	76,766	76,253

Plant and Equipment Account

		Rs.			Rs.
2021 Jan. 1	To Balance b/d	4,57,523	2021 Dec. 31	By Depreciation (60,900+15,353+20,000)	96,253
	To Bank	2,00,000		By Balance c/d	5,61,270
		6,57,523			6,57,523
2022 Jan. 1	To Balance b/d	5,61,270			

Question 17

A Machine costing Rs. 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required

Calculate depreciation for the fourth year.

[SM]

Answer

Depreciation per year = Rs. 6,00,000 / 10 = Rs. 60,000

Depreciation on SLM charged for three years = Rs. 60,000 × 3 years = Rs. 1,80,000

Book value of the computer at the end of third year = Rs. 6,00,000 – Rs. 1,80,000 = Rs. 4,20,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Depreciation from the fourth year onwards = Rs. 4,20,000 / 5 = Rs. 84,000 per annum

Question 18

A machine of cost Rs. 12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by Rs. 60,000 the remaining useful life was reassessed at 9 years.

Required: Calculate depreciation for the fourth year.

[SM, PYQ Nov 19]

Answer

Depreciation per year charged for three years = Rs. 12,00,000 / 10 = Rs. 1,20,000

WDV of the machine at the end of third year = Rs. 12,00,000 – Rs. 1,20,000 × 3 = Rs. 8,40,000.

Depreciable amount after revaluation = Rs. 8,40,000 + Rs. 60,000 = Rs. 9,00,000

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 9 years

Depreciation for the fourth year onwards = Rs. 9,00,000 / 9 = Rs.1,00,000.

Question 19

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

(MTP May 20, April 21, Oct 21, May 24)

Answer

Calculation of depreciation for 5th year

Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs. 1,00,000

WDV of the machine at the end of fourth year = Rs. 10,00,000 – Rs. 1,00,000 × 4 = Rs. 6,00,000.

Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs. 6,40,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 6,40,000 / 8 = Rs. 80,000.

Question 20

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of Rs. 28,00,000 and spent Rs. 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

[SM]

Answer

Useful Life: 10 years from 1 July, 2021 Residual Value: NIL
Value of patent = Rs. 30,00,000 (Rs. 28,00,000 cost + Rs. 2,00,000 legal expenses and registration fees)
Therefore, annual depreciation: Rs. 30,00,000 ÷ 10 years = Rs. 3,00,000

Patent Account

		Rs.			Rs.
2021			2021		
July 1	To Bank A/c	28,00,000	Dec. 31	By Amortisation A/c:	
July 1	To Bank A/c - Legal & Reg. Exp.	2,00,000		Rs. 3,00,000 x 6/12	1,50,000
			Dec. 31	By Balance c/d	28,50,000
		30,00,000			30,00,000
2022			2022		
Jan. 1	To Balance b/d	28,50,000	Dec. 31	By Amortisation A/c	3,00,000
			Dec. 31	By Balance c/d	25,50,000
		28,50,000			28,50,000

Amortisation Account

		Rs.			Rs.
2021			2021		
Dec. 31	To Patent A/c	1,50,000	Dec. 31	By Profit & Loss A/c	1,50,000
2022			2022		
Dec. 31	To Patent A/c	3,00,000	Dec. 31	By Profit & Loss A/c	3,00,000

Question 21

Prime Streaming Co. acquired the streaming rights of a movie for Rs. 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years.
Required: Calculate amortisation for the fourth year.

[SM]

Answer

Amortisation per year = Rs. 18,00,000 / 10 = Rs. 1,80,000
Amortisation on SLM charged for three years = Rs. 1,80,000 x 3 years = Rs. 5,40,000
Carrying Amount of the Streaming Rights at the end of third year = Rs. 18,00,000 – Rs. 5,40,000 = Rs. 12,60,000.

Remaining useful life as per previous estimate = 7 years Remaining useful life as per revised estimate = 5 years
Amortisation from the fourth year onwards = Rs. 12,60,000 / 5 = Rs. 2,52,000 per annum

Question 22

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost Rs.	Depreciation Provision Rs.
2005	2,00,000	2,00,000
2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	21,35,000

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to Rs. 15,00,000
2. Plant that had been bought in 2011 for Rs. 170,000 was scrapped.
3. Plant that had been bought in 2012 for Rs. 90,000 was sold for Rs. 5,000.
4. Plant that had been bought in 2013 for Rs. 2,40,000 was sold for Rs. 15,000.

You are required to:
Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2022.

(i) Plant and machinery at cost;
(ii) Depreciation provision;
(iii) Sales or disposal of plant and machinery.

[SM]

Answer
Calculation of provision for depreciation of plant and machinery for the year ended 31st December, 2022.

Plant purchased in:		Rs.	Rs.
2005		nil	
2011		nil	
2012			50,000
2013	1/2 year at 10% on Rs. 2,40,000	12,000	
	1 year at 10% on Rs. 4,60,000	46,000	58,000
2020	10% on Rs. 5,00,000		50,000
2021	10% on Rs. 3,00,000		30,000
2022	1/2 year at 10% on Rs. 15,00,000		75,000
			2,63,000

Plant and Machinery Account (for 2022) at Cost

	Rs.		Rs.
To Balance b/d To Bank A/c	30,00,000	By Disposals account:	

	15,00,000	Scrapped Sold	1,70,000 3,30,000
		By Balance c/d	40,00,000
	45,00,000		45,00,000

Depreciation Provision Account (for 2022)

		Rs.		Rs.
To Disposal Account : Scrapped - 2011 assets Sold - 2012 assets Sold - 2013 assets	1,70,000 90,000 2,16,000	4,76,000	By Balance b/d By Profit and Loss Account	21,35,000 2,63,000
To Balance c/d		19,22,000		
		23,98,000		23,98,000

Sale or disposal of Plant and Machinery Account (for 2022)

		Rs.		Rs.
To Plant and Machinery :			By Provision for Depreciation	4,76,000
Scrapped		1,70,000	By Cash-Sales Proceeds	20,000
Sold		3,30,000	By Loss on sales	4,000
		5,00,000		5,00,000

Question 23

The Machinery Account of a Factory showed a balance of Rs. 19,00,000 on 1st January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2022, a new machinery was acquired at a cost of Rs. 2,80,000 and installation charges incurred in erecting the machine works out to Rs. 8,920 on the same date. On 1st June, 2022 a machine which had cost Rs. 4,37,400 on 1st January 2020 was sold for Rs. 75,000. Another machine which had cost Rs. 4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing.

Write a machinery account for the year 2022, allowing the same rate of depreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

[SM, MTP Nov 22]

Answer

Plant and Machinery Account

		Rs.			Rs.
2022			2022		
Jan. 1	To Balance b/d	19,00,000	June 1	By Bank (Sales)	75,000
June. 1	To Bank (2,80,000 + 8,920)	2,88,920		By Depreciation (on sold machine)	14,762
				By Loss on sale	2,64,532
				By Loss on scrapping the machine	3,76,912
				By Depreciation (on scrapped machinery)	16,388

				By Depreciation (Note iii)	1,32,094
				By Balance c/d	13,09,232
		21,88,920			21,88,920

Working Note :

(i)	Calculation of loss on sale of machine on 1-6-2022		Rs.
	Cost on 1-1-2020		4,37,400
	Less : Depreciation @ 10% on Rs. 4,37,400		(43,740)
	W.D.V. on 31-12-2020		3,93,660
	Less : Depreciation @ 10% on Rs. 3,93,660		(39,366)
	W.D.V. on 31-12-2021		3,54,294
	Less : Depreciation @ 10% on Rs. 3,54,294 for 5 months		(14,762)
			3,39,532
	Less : Sale proceeds on 1-6-2022		(75,000)
	Loss		2,64,532
(ii)	Calculation of loss on scrapped machine		Rs.
	Cost on 1-1-2021		4,37,000
	Less : Depreciation @ 10% on Rs. 4,37,000		(43,700)
	W.D.V. on 1-1-2022		3,93,300
	Less : Depreciation @ 10% on Rs. 3,93,300 for 5 months		(16,388)
	Loss		3,76,912
(iii)	Depreciation		
	Balance of machinery account on 1-1-2022		19,00,000
	Less : W.D.V of machinery sold	3,54,294	
	W.D.V. of machinery scrapped	3,93,300	(7,47,594)
	W.D.V. of other machinery on 1-1-2022		11,52,406
	Depreciation @ 10% on Rs. 11,52,406 for 12 months		1,15,240
	Depreciation @ 10% on Rs. 2,88,920 for 7 months		16,854
			1,32,094

Question 24

A Machinery costing Rs. 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

[SM]

Answer

Depreciation per year for first 4 years = Rs. 20,00,000 / 10 = Rs. 2,00,000
Thus, WDV of the Machinery at end of the 4th year = Rs. 20,00,000 – (Rs. 2,00,000 x 4) = Rs. 12,00,000
Revalued Amount i.e. New Depreciable Amount shall be = Rs. 12,00,000 + Rs. 80,000 = Rs. 12,80,000
Original remining useful life is (10-4) = 6 Years whereas it is reassessed as 8 Years. Hence, depreciation for 5th Year = Rs. 12,80,000 / 8 = Rs. 1,60,000

Question 25

Amazing group had Property, Plant & Equipment (PP&E) with a book value of Rs. 35,00,000 on 31st December, 2022. The balance in Revaluation Surplus on that date was Rs. 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December, 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December, 2022 was (a) Rs. 37,00,000 (b) Rs. 33,00,000 and (c) Rs. 31,00,000. Also, give the journal entries.

[SM]

Answer

(a) Fair Value: Rs. 37,00,000

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

Property, Plant & Equipment A/c	Dr	2,00,000	
To Revaluation Surplus A/c		2,00,000	

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

Revaluation Surplus A/c	Dr	2,00,000	
To Property, Plant & Equipment A/c		2,00,000	

(c) Fair Value : Rs. 31,00,000

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

Revaluation Surplus A/c	Dr	3,00,000	
Profit & Loss A/c	Dr	1,00,000	
To Property, Plant & Equipment A/c			4,00,000

Question 26

Mangalam group had Property, Plant and Machinery with a book value of Rs. 1,00,00,000/- on 31st December, 2022. The balance in Revaluation Surplus on that date was Rs. 10,00,000/-. As part of regular practice of revaluing the assets on yearly basis, another valuation was carried out on 31st December, 2022. Evaluate the impact of Revaluation, if the fair market value as a result of Revaluation done on 31st December, 2022 was (a) Rs. 1,05,00,000/- and (b) 85,00,000/-.You are required to explain with reason the accounting treatment with Journal Entries.

[MTP April 23]

Answer

(a) Fair Value : Rs. 1,05,00,000/-

Since this is an upward revaluation and group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in additional credit of Rs. 5,00,000/- to Revaluation Surplus and hence total Revaluation Surplus Balance (part of other comprehensive income in Equity) shall increase to Rs. 15,00,000/-

The journal entry shall be:

Property, Plant and Machinery A/c Dr. 5,00,000

To Revaluation Surplus A/c 5,00,000

(b) Fair Value : Rs. 85,00,000/-

Since this is a downward revaluation and group had a balance in revaluation surplus (i.e, there was an upward movement earlier), hence this will result in a reduction or a debt to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of Rs. 15,00,000 (Rs. 1,00,00,000 – Rs. 85.00.000). Hence, the Revaluation Surplus A/c shall be debited by Rs. 10,00,000 and the balance Rs.5,00,000 shall be debited to Profit & Loss A/c. Hence total Revaluation surplus balance (part of other comprehensive income in Equity) shall become NIL.

The journal entry shall be :

Revaluation Surplus A/c Dr. 10,00,000

Profit & Loss A/c Dr. 5,00,000

To Property, Plant and Machinery A/c 15,00,000

Question 27

On April 1, 2019 a firm purchased a machinery for Rs. 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for Rs. 90,000. On October 1, 2021, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October 2019 was sold for Rs. 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

[SM]

Answer

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019 01.10.2019	To Bank A/c To Bank A/c	2,00,000 1,00,000	31.03.2020	By Balance c/d	3,00,000
		3,00,000			3,00,000
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Bank A/c	90,000
				By Provision for Depreciation A/c	30,000
				By Profit and Loss A/c	80,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			3,00,000
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Bank A/c	85,000
01.10.2021	To Bank A/c	2,50,000		By Provision for Depreciation A/c	20,000
	To Profit and Loss A/c	5,000	31.3.2022	By Balance c/d	2,50,000
		3,55,000			3,55,000

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To provision for Depreciation A/c	25,000	31.03.2020	By Profit and Loss A/c	25,000
		25,000			25,000
01.10.2020	To Provision for Depreciation A/c	10,000	31.03.2021	By Profit and Loss A/c	20,000
31.03.2021	To Provision for Depreciation A/c	10,000			
		20,000			20,000
01.10.2021	To Provision for Depreciation A/c	5,000	31.03.2022	By Profit and Loss A/c	17,500
31.03.2022	To Provision for Depreciation A/c	12,500			
		17,500			17,500

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (Rs. 20,000 + Rs. 5,000)	25,000
		25,000			25,000
01.12.2020	To Machinery A/c (Rs. 20,000 + Rs. 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			45,000
01.10.2021	To Machinery A/c (Rs. 5,000 + Rs. 10,000+ Rs. 5,000)	20,000	01.04.2021	By Balance b/d	15,000
			01.10.2021	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
31.03.2022	To Balance c/d	12,500			
		32,500			32,500

Question 28

M/s. Deep lakshmi purchased a second-hand machine on 1st April, 2020 for Rs. 1,60,000. Overhauling and erection charges amounted to Rs. 40,000.

Another machine was purchased for Rs. 80,000 on 1st Oct, 2020.

On 1st Oct, 2022, the machine installed on 1st April, 2020 was sold for Rs. 1,00,000. Another machine for Rs.30,000 was purchased and was installed on 31st December, 2022.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2024.

[RTP Jan 25, May 22, Nov 18,19,20, 23, 22, MTP march 21]

Answer

Machinery Account in the books of M/s. Deep Lakshmi

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.4.2020	To Bank A/c	1,60,000	31.03.2021	By Depreciation A/c (Rs. 20,000 + Rs. 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.03.2021	By Balance c/d (Rs. 1,80,000 + Rs. 76,000)	2,56,000
1.10.2020	To Bank A/c	80,000			
		2,80,000			2,80,000
1.4.2021	To Balance b/d	2,56,000	31.03.2022	By Depreciation A/c (Rs. 20,000 + Rs. 8,000)	28,000
			31.03.2022	By Balance c/d (Rs. 1,60,000 + Rs. 68,000)	2,28,000
		2,56,000			2,56,000
1.4.2022	To Balance b/d	2,28,000	1.10.2022	By Bank A/c	1,00,000
31.12.2022	To Bank A/c	30,000	1.10.2022	By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.03.2023	By Depreciation A/c (Rs. 10,000 + Rs. 8,000 + Rs. 750)	18,750
			31.03.2023	By Balance c/d (Rs. 60,000 + Rs. 29,250)	89,250
		2,58,000			2,58,000
1.4.2023	To Balance b/d	89,250	31.3.2024	By Depreciation A/c (Rs. 9,000 + Rs. 4,387.5)	13,387.5
			31.3.2024	By Balance c/d (Rs. 51,000 + Rs. 24,862.5)	75,862.5
		89,250			89,250

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

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost	2,00,000	80,000	30,000
Depreciation for 2020-21	20,000	4,000	
Written down value as on 31.03.2021	1,80,000	76,000	

Depreciation for 2021-22	20,000	8,000	
Written down value as on 31.03.2022	1,60,000	68,000	
Depreciation for 2022-23 (Mach I- 6 months)	10,000	8,000	750
Written down value as on 01.10.2022	1,50,000		
Written down value as on 31.03.2023		60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

Question 29

M/s. Deepak Transport Company purchased 10 trucks @ Rs. 50,00,000 each on 1st October,2020. On 1st January, 2023, one of the trucks is involved in an accident and is completely destroyed and Rs. 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 60,00,000. The company writes off 20% of the original cost per annum.

Give the motor truck account for the years ending 31st March, 2023 and 31st March,2024.

[SM, RTP Sep 24, June 24, May 18, Nov 21, PYQ Jan 21, MTP Nov 18, MTP Mar 19, Oct 20, May 23]

Answer

Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
01.04.22	To balance b/d To Profit & Loss A/c	3,50,00,000	01.01.23	By bank A/c	35,00,000
01.01.23	To Profit on settlement of Truck (W. Note 1)	7,50,000	01.01.23	By Depreciation on lost assets	7,50,000
01.01.23	To Bank A/c	60,00,000	31.03.23	By Depreciation A/c (W Note 3)	93,00,000
			31.03.23	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
01.04.23	To balance b/d	2,82,00,000	31.03.24	By Depreciation A/c (W Note 3)	1,02,00,000
			31.03.24	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of truck

Original cost as on 1.10.2020	50,00,000
Less: Depreciation for 2020 -21 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2021-22	10,00,000
	35,00,000
Less: Depreciation for 2022-23 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.04.2022

	Amount
WDV of 1 truck as on 31.3.2022 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.04.22	3,50,00,000

3. Calculation for Depreciation for 2022-23 and 2023-24

	Amount
Depreciation for 2022-23	
On 9 trucks (Rs. 50,00,000 x 9 x 20%)	90,00,000
On new truck (Rs. 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2023-24	
On 9 tucks (Rs. 50,00,000 x 9 x 20%)	90,00,000
On new truck (Rs 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

Question 30

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

Date Amount
01.04.2021 Rs. 1,50,000
01.04.2023 Rs. 1,00,000

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

[PYQ Sep 24]

Answer

Calculation of Depreciation

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

Computers Account

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

Question 31
On 1st April,2022, LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had Rs. 9,72,000 to the debit of Machinery Account. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for Rs. 80,000 was sold for Rs. 45,000.

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

The company changed the method of depreciation from diminishing balance method to straight line method with effect from 1st April, 2020 and adjusted the difference on 31st March, 2023. The rate of depreciation remains the same.

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

[PYQ June 24, MTP April 25]

Answer
Alternative 1
The question is solved based on the information given in the question by giving retrospective effect of depreciation only on the remaining machinery as on 31.03.2023 i.e. by ignoring the retrospective impact of change in the method of depreciation on the machinery disposed off.

In the books of LMP Co.
Machinery Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
01.04.22	To Balance b/d	9,72,000	01.10.22	By Depreciation on machinery sold (W.N.1)	3,240
01.10.22	To Bank	1,58,000	01.10.22	By Bank - Machinery sold	45,000
			01.10.22	By Loss on sale of machinery (W.N.1)	16,560
			31.03.23	By Depreciation on remaining machineries (W.N.3)	1,31,100
			31.03.23	By Balance c/d	9,34,100
		11,30,000			11,30,000

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

	Rs.
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022	(7,200)
Written Down Value (WDV) as on 01.04.2022	64,800
Less: Depreciation @10%for the half year till 30th September, 2022	(3,240)
Written Down Value (WDV) as on 1.10.2022	61,560
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	16,560

2. Computation of the written down value of the machinery.

	Rs.
Cost price of Machinery as on 01.04.2020 (972000*100/90*100/90)	12,00,000
Less: Cost of Machinery sold	80,000
Cost of Remaining asset as on 01.04.2020	11,20,000
Less: Depreciation @ 10% for the year 2020-2021 on diminishing balance method	(1,12,000)
Written down value of the remaining asset as on 01.04.2021	10,08,000
Less: Depreciation @ 10% for the year 2021-2022 on diminishing balance method	(1,00,800)
Written down value of the remaining asset as on 31.03. 2022	9,07,200
Total depreciation as per diminishing balance method	2,12,800
Total depreciation as per straight line method (Rs.11,20,000*10%*2 years)	2,24,000
Excess depreciation to be charged to profit and loss A/c	(11,200)

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

S. No.	Particulars	Depreciation (Rs.)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (11,20,000 * 10%)	1,12,000
2.	Depreciation on addition i.e. 1,58,000 * 10% * 1/2	7,900
3	Difference depreciation on method change (W.No.1)	11,200
	Sub-total	1,31,100
4.	Depreciation on machinery sold 1.10.2022	3,240
Grand Total		1,34,340

Alternative 2

The question is solved based on the information given in the question by giving retrospective effect of depreciation on all the machinery (including the machinery disposed off).

In the books of LMP Co.
Machinery Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
01.04.22	To Balance b/d	9,72,000	01.10.22	By Depreciation on machinery sold (W.N.1)	4,000
01.10.22	To Bank	1,58,000	01.10.22	By Bank – Machinery	45,000

				sold	
			01.10.22	By Loss on sale of machinery (W.N.1)	15,000
			31.03.23	By Depreciation on remaining machineries (W.N.5)	1,31,900
			31.03.23	By Balance c/d	9,34,100
		11,30,000			11,30,000

Working Note:

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

	Rs.
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021 (on SLM)	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022 (on SLM)	(8,000)
Written Down Value (WDV) as on 01.04.2022	64,000
Less: Depreciation @10%for the half year till 30th September, 2022(SLM)	(4,000)
Written Down Value (WDV) as on 1.10.2022	60,000
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	15,000

2. Computation of the written down value of the machinery.

	Rs.	Rs.
Cost price of Machinery as on 01.04.2020 (972000*100/90*100/90)	12,00,000	
Less: Cost of Machinery sold	80,000	
Cost of Remaining asset as on 01.04.2020	11,20,000	80,000
Less: Depreciation @ 10% for the year 2020-2021 on diminishing balance method	(1,12,000)	8,000
Written down value of the remaining asset as on 01.04.2021	10,08,000	72,000
Less: Depreciation @ 10% for the year 2021-2022 on diminishing balance method	(1,00,800)	7,200
Written down value of the remaining asset as on 31.03.2022	9,07,200	64,800
Total depreciation as per diminishing balance method	2,12,800	15,200
Total depreciation as per straight line method (Rs.11,20,000*10%*2 years) (Rs.80,000*10%* 2 Years)	2,24,000	16,000
Excess depreciation to be charged to profit and loss A/c	(11,200)	(800)

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

S. No.	Particulars	Depreciation (Rs.)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (11,20,000*10%)	1,12,000
2.	Depreciation on addition i.e. 1,58,000 * 10% * 1/2	7,900
3	Difference depreciation on method change (W.No.1)	12,000
	Sub-total	1,31,900

4.	Depreciation on machinery sold 1.10.2022	4,000
Grand Total		1,35,900

Alternative 3

The change in the method of computing depreciation is treated as a change in accounting estimate which may affect the current period only or both the current period and future periods. Accordingly, the question is solved by ignoring the retrospective effect of depreciation as mentioned in the question.

In the books of LMP Co.
Machinery Account

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

Working Note:

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

Particulars	Amount (Rs.)
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022	(7,200)
Written Down Value (WDV) as on 01.04.2022	64,800
Less: Depreciation @10%for the half year till 30th September, 2022	(3,240)
Written Down Value (WDV) as on 1.10.2022	61,560
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	16,560

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

	Rs.
Total WDV of the machinery as on 01.04.2022	9,72,000
Less: WDV of the part of the machinery sold as on 01.04.2022	(64,800)
Written down value of the remaining asset as on 01.04.2022	9,07,200

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

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

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

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

Question 32

From the following transactions of a concern, prepare the Machinery Account for the year ending 31st December, 2022:

01.01.21	Purchased a second – hand Machinery for Rs. 2,00,000
01.01.21	Spent Rs. 50,000 on repairs for making it serviceable
30.06.21	Purchased additional new Machinery for Rs. 3,50,000
30.06.21	Installation charges of new Machine Rs. 15,000
01.04.22	Repairs and maintenance of Machinery Rs. 30,000
30.06.22	Sold second hand Machinery purchased on 01.01.21 for Rs. 1,55,000
31.12.22	Depreciate the Machinery at 10% per annum by WDV method

[PYQ Dec 23]

Answer

Machinery Account

		Rs.			Rs.
2021			2021		
Jan. 1	To Bank A/c	2,00,000	Dec. 31	By Depreciation A/c	43,250
Jan. 1	To Bank A/c – Repairs	50,000	Dec. 31	By Balance c/d	5,71,750
June 30	To Bank A/c	3,50,000			
June 30	To Bank A/c- Installation	15,000			
		6,15,000			6,15,000
2022			2022		
Jan. 1	To Balance b/d	5,71,750	June 30	By Depreciation on sold machine	11,250
			June 30	By Bank A/c	1,55,000
			June 30	By Profit and Loss A/c	58,750
			Dec. 31	By Depreciation A/c	34,675

				By Balance c/d	3,12,075
		5,71,750			5,71,750

Working Note:
Book Value of Machines

	Machine I Rs.	Machine II Rs.
Cost	2,50,000	3,65,000
Depreciation for 2021	(25,000)	(18,250)
Written down value	2,25,000	3,46,750
Depreciation for 2022	(11,250)	(34,675)
Written down value	2,13,750	3,12,075
Sale Proceeds	(1,55,000)	
Loss on Sale	58,750	

Question 33
The following balances appear in the books of Dheeraj Enterprises:

	Rs.
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for Rs. 2,00,000 was sold for Rs. 1,10,000 and on the same date another Machinery was purchased for Rs. 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

[PYQ June 23, MTP May 22, Aug 24]

Answer

Dr. Machinery Account (at original Cost) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Disposed Machinery A/c	2,00,000
01.10.2021	To Bank A/c	4,80,000	31.03.2022	By Balance c/d	14,80,000
		16,80,000			16,80,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.10.2021	To Disposed Machinery A/c	61,490	01.04.2021	By Balance b/d	4,65,000
31.03.2022	To Balance c/d	4,93,720	1.10.2021	By Depreciation	7,290
			31.03.2022	By Depreciation A/c	82,920
		5,55,210			5,55,210

Dr. Disposed Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.

01.10.2021	To Machinery A/c	2,00,000	01.10.2021	By Provision for Depreciation A/c By Bank A/c By Profit and Loss A/c	61,490 1,10,000 28,510
		2,00,000			2,00,000

Working Notes:

1. Calculation of Profit/Loss on Sale of Machinery

Particulars			Rs.
A.	Original Cost		2,00,000
B.	Less: Depreciation @ 10% WDV p.a. for $3\frac{1}{2}$ years Year Cost/WDV Depreciation@10%		
1	2,00,000	20,000	
2.	1,80,000	18,000	
3	1,62,000	16,200	
4	1,45,800	7,290 (6 Months)	61,490
C.	Book Value as on date of Sale (A – B)		1,38,510
D.	Less: Sale proceeds		1,10,000
E.	Loss on Sale (C – D)		28,510

2.

WDV of Remaining Machine		
Cost of Machinery on 01.04.2021		12,00,000
Less: Cost of machinery sold		2,00,000
		10,00,000
Less: Depreciation		
Provision for depreciation	4,65,000	
Less: Depn. on machinery sold	54,200	4,10,800
WDV of remaining machine		5,89,200

3. Calculation of Depreciation for Current Year on Machines

Particulars		Rs.
A.	On WDV of Old Machines of Rs. 5,89,200 for 1 year (10% WDV)	58,920
B.	On New Machine of Rs. 4,80,000 for $\frac{1}{2}$ year	24,000
		82,920
C.	Depreciation on machinery sold (Rs.1,45,800@10% for 6 months	7,290
		90,210

Question 34

A purchased a machinery for Rs. 1,30,000 on 1st April, 2019 and paid Rs. 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for Rs. 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

[PYQ Nov 22, MTP Dec 24]

Answer

In the books of A
Machinery A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount(Rs.)
01.04.2019	To Bank	1,50,000	31.03.2020	By Depreciation	30,000
	(1,30,000+20,000)		31.03.2020	By Balance c/d	1,20,000
		1,50,000			1,50,000
01.04.2020	To Balance b/d	1,20,000	31.03.2021	By Depreciation By	30,000
			31.03.2021	Balance c/d	90,000
					1,20,000
		1,20,000	01.10.2021	By Bank A/c	1,00,000
01.04.2021	To Balance b/d	90,000	01.10.2021	By Depreciation	6,750
01.10.2021	To Bank	50,000	31.03.2022	By Depreciation	1,875
01.10.2021	To Profit on Sale	16,750	31.03.2022	By Balance c/d	48,125
		1,56,750			
					1,56,750

Alternative: Calculation of Book Value of Machines

	Machine 1	Machine 2
	(in Rs.)	(in Rs.)
Date of Purchase	01.04.2019	01.10.2021
Original Cost	1,50,000	
Depreciation for (2019-20) (SLM)	(30,000)	
WDV on 31.03.2020	1,20,000	
Depreciation for (2020-21) (SLM)	(30,000)	
WDV on 31.03.2021	90,000	
Depreciation for (2021-22) (WDV)	(6,750)	
WDV (original cost of Machine 2) on 1.10.2021	83,250	50,000
Sale Proceeds	(1,00,000)	
Profit on Sale	16,750	
Depreciation for 2021-22 (WDV @ 15%) (3 months)	-	(1,875)
WDV on 31.03.2022	-	48,125

Question 35

M/s Mazars purchased a brand new machinery on 1st January 2019 for Rs. 3,20,000 and also incurred Rs. 80,000 on its installation. Another machinery was purchased on 1st July 2019 for Rs. 1,60,000. On 1st July 2021, the machinery purchased on 1st January 2019 was sold for Rs. 2,50,000. Another machinery was purchased and installed on 30th September 2021 for Rs. 60,000.

Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2022 it decided to adapt WDV method and charge the depreciation @ 15%

p.a. You are required to show the Machinery Account for the years 2021 and 2022 considering the books of accounts are closed on 31st December each year.

[MTP Nov 23]

Answer

In the books of M/s Mazars
Machinery A/c

Date	Account	(in Rs.)	Date	Account	(in Rs.)
01.01.2021	To Balance b/d	4,56,000	01.07.2021	By Bank A/c	2,50,000
				By P&L A/c – Loss on Sale	50,000
30.09.2021	To Bank A/c	60,000	31.12.2021	By Depreciation	37,500
				By Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.2022	To Balance b/d	1,78,500	31.12.2022	By Depreciation	26,775
			31.12.2022	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in Rs.)	(in Rs.)	(in Rs.)
Date of Purchase	01.01.2019	01.07.2019	30.09.2021
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2019 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2019	3,60,000	1,52,000	
Depreciation for 2020 (SLM)	(40,000)	(16,000)	
WDV on 31.12.2020	3,20,000	1,36,000	
Depreciation for 2021 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2021 (30th June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2022 (WDV @ 15%)	-	(18,000)	(8,775)
WDV on 31.12.2022	-	1,02,000	49,725

Question 36

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

[PYQ May 22]

Answer

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

		Rs.			Rs.
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		
			Rs.
	Cost on 1-4-2018		21,87,000
	Less: Depreciation @ 10% on Rs. 21,87,000		(2,18,700)
	W.D.V. on 31-03-2019		19,68,300
	Less: Depreciation @ 10% on Rs. 19,68,300		(1,96,830)
	W.D.V. on 31-03-2020		17,71,470
	Less: Depreciation @ 10% on Rs. 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 Rs. 21,85,000		(2,18,500)
	W.D.V. on 31-3-2020		19,66,500
	Less: Depreciation @ 10% on Rs.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 Rs. 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on Rs. 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

Question 37

On 1st January, 2019 Kohinoor Transport Company purchased a Bus for Rs. 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and Rs. 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for Rs. 10,00,000.

The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31 st March, 2021 and gain or loss on the destroyed Bus.

[PYQ Dec 21]

Answer

Calculation of Gain/Loss on Bus damaged by Fire

Particulars	Rs.
Original cost as on 1.1.2019	8,00,000
Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March,2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)
WDV as on 31st March,2020	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

Calculation of depreciation for the year ended 31st March,2021

	Machine I damaged on 1st July,2020 (8,00,000) .Rs.	Machine II Purchased on 1st July,2020 (10,00,000) Rs.
Book value as on 1st April,2020	6,08,000	
Purchased on 1st July,2020		10,00,000
Depreciation @20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)

Total depreciation Rs. 1,80,400

Question 38

The balance of Machinery Account of a firm on 1st April, 2020 was Rs. 28,54;000. Out of this, a plant having book value of Rs. 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for Rs. 82,000. On the same date a new plant was purchased for Rs. 4,58,000 and Rs. 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for Rs. 5,60,000. Depreciation is written off@ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

[PYQ July 21, MTP April 24, May 25]

Answer

Calculation of depreciation for the year ended 31.3.21

	Machine I (28,54,000 -	Machine II	Machine III	Depreciation on sold machine IV

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

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

Question 39

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

[PYQ Nov 19]

Answer

Machinery Account

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

Working Note:
Book Value of Machines

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

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

Question 40
A Firm purchased an old Machinery for Rs. 37,000 on 1st January, 2015 and spent Rs. 3,000 on its overhauling. On 1st July 2016, another machine was purchased for Rs. 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for Rs. 28,000 and the same day a new machinery costing Rs. 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 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, 2016 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, 2015.

[PYQ May 19, MTP Nov 21, June 24]

Answer

In the books of Firm
Machinery Account

			Rs.				Rs.
1.1.2015	To	Bank A/c	37,000	31.12.2015	By	Depreciation A/c	4,000
	To	Bank A/c (overhauling charges)	3,000	31.12.2015	By	Balance c/d	36,000
			40,000				40,000
1.1.2016	To	Balance b/d	36,000	31.12.2016	By	Depreciation A/c (Rs. 5,400 + Rs. 750)	6,150
1.7.2016	To	Bank A/c	10,000	31.12.2016	By	Balance c/d (Rs. 30,600 + Rs. 9,250)	39,850
			46,000				46,000
1.1.2017	To	Balance b/d	39,850	1.7.2017	By	Bank A/c(sale)	28,000
1.7.2017	To	Bank A/c	25,000	1.7.2017	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	305
				31.12.2017	By	Depreciation A/c (Rs. 2,295 + Rs. 1,388 + Rs. 1,875)	5,558
					By	Balance c/d (Rs. 7,862 + Rs. 23,125)	30,987
			64,850				64,850
1.1.2018	To	Balance b/d	30,987	1.7.2018	By	Bank A/c (sale)	2,000
				1.7.2018	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
				31.12.2018	By	Depreciation A/c (Rs. 590 + Rs. 3,469)	4,059
				31.12.2018	By	Balance c/d	19,656
			30,987				30,987

Working Note:

Book Value of machines

	Machine	Machine	Machine
	I	II	III
	Rs.	Rs.	Rs.
Cost of all machinery	40,000	10,000	25,000
(Machinery cost for 2015)			
Depreciation for 2015	4,000		
Written down value as on 31.12.2015	36,000		
Purchase 1.7.2016 (6 months)		10,000	
Depreciation for 2016	5,400	750	
Written down value as on 31.12.2016	30,600	9,250	
Depreciation for 6 months (2017)	2,295		
Written down value as on 1.7.2017	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2017			25,000
Depreciation for 2017 (6 months)		1,388	1,875
Written down value as on 31.12.2017		7,862	23,125
Depreciation for 6 months in 2018		590	
Written down value as on 1.7.2018		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2018			3,469
Written down value as on 31.12.2018			19,656

Question 41

A firm purchased a second-hand machinery on April 1, 2021 for Rs. 15,00,000 subsequent to which Rs. 2,00,000 were spent on its repairs and installation. On October 1, 2021 another machinery was purchased for Rs. 9,00,000 and cost of installing the machine in a new plant is Rs. 20,000. The firm also shifted the machinery purchased on April 1, 2021 to the new plant and incurred freight of Rs. 10,000. They adopted a policy of charging depreciation @ 12% per annum on diminishing balance method.

On April 1, 2023 it was decided to change the method and rate of depreciation to straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased with no scrap value.

On October 1, 2023 the first machine become outdated and sold for Rs. 2,50,000. On the same date, another machinery was purchased for Rs. 8,50,000. The estimated useful life of the machine is 10 years and residual value is Rs. 30,000.

You are required to prepare the machinery account for the year ending March 31, 2024.

[PYQ Jan 25]

Answer

Machinery Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2023			2023		
April 1	To Bal b/d-		Oct. 1	By Depreciation- on machinery 1 sold	1,31,648
	Machine 1 13,16,480		Oct. 1	By Bank – machinery 1	2,50,000

				Sold	
	Machine 2 7,61,024	20,77,504	Oct. 1	By Profit & Loss– Loss on Sale of machinery (WN. 1)	9,34,832
Oct. 1	To Bank A/c (Machine 3)	8,50,000			
			2024		
			Mar. 31	By Depreciation	
				(WN. 2)	
				Machine 2 1,52,205	
				Machine 3 41,000	1,93,205
			Mar. 31	By bal c/d	14,17,819
		29,27,504			29,27,504

Working Note 1:
Calculation of depreciation and Profit/loss on sale:

	Machine 1 purchased on April 1,2021 (Rs.)	**Machine 2 purchased on Oct 1, 2021 (Rs.)**	**Total (Rs.)**
Cost of Purchase	15,00,000	9,00,000	
	2,00,000	20,000	
Total Cost	17,00,000	9,20,000	
Less: Depreciation @ 12%			
Machine 1 (12 months) Machine 2 (6 months)	(2,04,000)	(55,200)	2,59,200
W.D.V. on 31-3-2022	14,96,000	8,64,800	
Less: Depreciation @ 12%	(1,79,520)	(1,03,776)	2,83,296
W.D.V. on 31-3-2023	13,16,480	7,61,024	
Less: Depreciation on SLM Basis (WN. 2)	(1,31,648)	(1,52,205)	2,83,853
	11,84,832	6,08,819	
Less: Sale proceeds on 1-10-2023	(2,50,000)		
Loss on sale of machinery	9,34,832		

Working Note 2:
Calculation of Depreciation on the basis of Straight-line method with effect from April 1,2023

1. Machine 1 (purchased on 1st April,2021) = 17,00,000 - 2,04,000 - 1,79,520 = 13,16,480 / 5 = 2,63,296 / 2 =Rs. 1,31,648
2. Machine 2 (purchased on 1st Oct,2021) = 9,20,000 – 55,200 – 1,03,776 = 7,61,024 / 5 = Rs. 1,52,205
3. Machine 3 (purchased on 1st Oct,2023) = (8,50,000 – 30,000)/10 = 82,000 /2 = Rs. 41,000

Note: Freight incurred on Machinery purchased on 1st April,2021 is to be excluded from the cost of machinery since this cost is incurred only for shifting the machinery to the new plant and does not increase the operating capacity of the machinery.

Chapter 6 : Bills of Exchange and Promissory Notes

Question 1

Write short notes on:

(a) Accommodation bill.

[SM, MTP April 24]

(b) Renewal of bill.

[SM, MTP April 24]

(c) Noting charges.

[SM, MTP April 24, RTP May 22, May 21]

Answer

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

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

(c) The charges paid to Notary public for notify the dishonour are noting charges. if there is dishonour, or fear of dishonour, the bill will be given to a public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But if the bill is dishonoured they will note the fact of dishonour, with the reasons and give the bill back to their client. For this service they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party which is responsible for dishonour.

Question 2

Write short notes on the following: Trade bill vs. Accommodation bill.

[RTP May 20, June 23, Nov 22]

Answer

Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

Question 3

What is bill of exchange? How does it differ from Promissory Note?

[SM]

Answer

A bill of exchange has been defined as "an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of certain person or to the bearer of the instrument". When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

A promissory note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.

Question 4

Write short notes on any two of the following:

(i) Bill of exchange and the various parties to it.

[MTP May 24, RTP Nov 23, Nov 19, MTP April 21]

(ii) Retirement of bills of exchange.

[MTP May 24, April 21, RTP Jan 25, Nov 22, May 22, May 21]

Answer

(i) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
- (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Question 5

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2022 for 2 months. The first bill is for 10,200 and the second bill is for Rs. 15,000. The First bill is discounted immediately with the bank for Rs. 10,000 and the second bill was endorsed in favour or Mr. Sree on 3rd January 2022. Pass the necessary journal entries in the books of Ms. Sujata.

[SM]

Answer

In the books of Sujata
Journal Entries

Date	Particulars	L.F.	DR. (Rs.)	CR. (Rs.)
01/01/2022	Bills receivables A/c Dr. To Aruna A/c (Being 2 bills receivable from Aruna)		25,200	 25,200
01/01/2022	Bank A/c Dr. Discount charges A/c Dr. To Bills receivable A/c (Being the bills receivable discounted with the bank at a charge of Rs. 200)		10,000 200	 10,200
03/01/2022	Sree A/c Dr. To Bills receivable A/c (Being bill endorsed in favour of Mr. Sree)		15,000	 15,000

Question 6

Vijay sold goods to Pritam on 1st September, 2022 for Rs.1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% p.a. was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

[SM]

Answer

Books of Vijay
Journal

2022		Rs.	Rs.
1 Sept.	Pritam Dr. To Sales Account (Sales of goods to Pritam as per Invoice No...)	1,06,000	 1,06,000
	Bills Receivable Account Dr. To Pritam (3 months acceptance received from Pritam for the amount due from him)	 1,06,000	 1,06,000
Dec. 4	Pritam Dr. To Bills Receivable Account (Pritam acceptance cancelled because of renewal)	1,06,000	 1,06,000
	Pritam Dr. To interest (Interest @ 9% on Rs.1,06,000 due from Pritam for 2 months because of renewal)	1,590	 1,590
	Bills Receivable Account Dr. Cash Account Dr. To Pritam [New acceptance for 2 months for Rs.106,000 and Cash (for interest) received from Pritam]	1,06,000 1,590	 1,07,590

2023 Feb. 7	Cash Account Dr. To Bills Receivable Account (Cash received against Pritam's second acceptance)	1,06,000	 1,06,000

Books of Pritam
Journal

2022		Rs.	Rs.
1 Sept.	Purchase Account Dr. To Vijay A/c (Purchase of goods from Vijay as per Invoice No...)	1,06,000	 1,06,000
	Vijay A/c Dr. To Bills Payables Account (3 months acceptance given to Vijay for the amount)	1,06,000	 1,06,000
Dec. 4	Bills Payable Account Dr. To Vijay A/c (Cancellation of bill because of renewal)	1,06,000	 1,06,000
	Interest Account Dr. To Vijay (Interest @ 9% on Rs.1,06,000 due to Vijay for 2 months because of renewal)	1,590	 1,590
	Vijay Account Dr. To Cash Account To Bills Payable Account [New acceptance for 2 months for Rs.106,000 and Cash (for interest) paid to Vijay]	1,07,590	 1,590 1,06,000
2023 Feb. 7	Bills Payable Account Dr. To Cash Account (Cash paid against second bill)	1,06,000	 1,06,000

Question 7

On 1st January, 2022, Ankita sells goods for Rs.5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 1st March, 2022, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

[SM]

Answer

Journal Entries in the books of Ankita

Date 2022	Particulars		Rs.	Rs.
Jan. 1	Bhavika's account To Sales account (Being the goods sold to Bhavika on credit)	Dr.	5,00,000	 5,00,000
	Bills receivable account To Bhavika's account (Being the acceptance of bill received)	Dr.	5,00,000	 5,00,000
Mar.1	Bank account Rebate on bills account To Bills receivable account	Dr. Dr.	4,95,000 5,000	 5,00,000

	(Being retirement of bill by Bhavika one month before maturity, the rebate being given to her at 12% p.a.)		

Journal Entries in the books of Bhavika

Date 2022	Particulars	Rs.	Rs.
Jan. 1	Purchases account Dr. To Ankita Account (Being the goods purchased from Ankita on credit)	5,00,000	 5,00,000
	Ankita Account Dr. To Bills Payable Account (Being the acceptance of bill)	5,00,000	 5,00,000
Mar .1	Bills Payable Account Dr. To Rebate Income Account To Bank Account (Beingretirement of bill one month before maturity, the rebate being received at 12% p.a.)	5,00,000	 5,000 4,95,000

Question 8

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 Rs.10 discount.

(iv) Katrak's acceptance to Patel for Rs. 5,000 and Mody's acceptance to Katrak for a similar amount were duly discharged.

[SM, RTP Nov 21, May 21]

Answer

Books of K. Katrak
Journal Entries

		Rs.	Rs.
(i)	Bills Payable Account Dr. Interest Account Dr. To Cash A/c To Bills Payable Account (Bills Payable to Basu discharged by cash payment of Rs.1,000 and a new bill for Rs.1,550 including Rs.50 as interest)	2,500 50	 1,000 1,550
(ii)	(a) G. Gupta Dr. To M. Mehta (G. Gupta's acceptance for Rs.4,000 endorsed to M. Mehta dishonoured,Rs.20 paid by M. Mehta as noting charges)	4,020	 4,020
	(b) M. Mehta Dr. To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)	4,020	 4,020
(iii)	Bank Account Dr. Discount Account Dr. To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs.2,000. Allowed	1,990 10	 2,000

	him a discount of Rs.10)		
(iv)	Bills Payable Account Dr. To Bills Receivable Account (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)	5,000	5,000

Question 9

On 1st January, 2022, Vilas draws a bill of exchange for Rs.10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2022 Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath.

[SM]

Answer

Journal entries in the books of Eknath

Date 2022	Particulars	Debit Rs.	Credit Rs.
Jan. 1	Vilas A/c Dr. To Bills Payable A/c (Being the bill draws by him accepted)	10,000	10,000
Mar. 4	Bills Payable A/c To Bank A/c Dr. To Interest A/c (Discount A/c) (Being retirement of acceptance 1 month before maturity, interest allowed at 12% p.a.)	10,000	9,900 100

Question 10

On 1st January, 2022, Vilas draws a Bill of Exchange for Rs.10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2022. Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Vilas.

[SM]

Answer

Journal entries in the books of Vilas

Date 2022	Particulars	Debit Rs.	Credit Rs.
Jan. 1	Bills Receivable A/c................ Dr. To Eknath A/c (Being bill of exchange drawn on Eknath due for payment on 4th April 2022)	10,000	10,000
Mar. 4	Bank A/c ....Dr.	9,900	
	Interest A/c (Discount) A/c .... Dr. To Bills Receivable A/c (Being retirement of bill of exchange due for maturity on 4th April, 2022 by Eknath 1 month before maturity, the rebate being given to him at12% p.a.)	100	
			10,000

Question 11

Mr. David draws two bills of exchange on 1.1.2022 for Rs.6,000 and Rs.10,000. The bills of exchange for Rs.6,000

is for two months while the bill of exchange for Rs.10,000 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 Rs.10,000, the interest rebate i.e. discount being Rs.100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.
You are to give the journal entries in the books of Mr. David.

[SM, RTP May 22, 20, PYQ May 19, MTP Nov 23]

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 Interest A/c	Dr.	6,180	
	To Mr. Thomas's A/c			180
	(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)			6,000
20-Mar	Bank A/c	Dr.	9,900	
	Discount A/c	Dr.	100	
	To Bills receivable (No. 2) A/c			10,000
	(Being the amount received on retirement of bills No.2 before the due date)			
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 12

Rita owed Rs.1,00,000 to Siriman. On 1st October, 2021, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for Rs.99,000 on 3rd October, 2021. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that Rs.50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

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

[SM, RTP Sep 24,June 24,23, Nov 20, MTP June 24]

Answer

In the books of Siriman
Journal Entries

Particulars		Rs.	Rs.
Bills Receivable A/c	Dr.	1,00,000	
To Rita			1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)			
Bank A/c	Dr.	99,000	
Discount A/c	Dr.	1,000	
To Bills Receivable A/c			1,00,000
(Being the bill discounted)			
Rita	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)			
Rita	Dr.	1,500	
To Interest A/c			1,500
(Being the interest due on Rs. 50,000 @ 12% for 3 months)			
Bank A/c	Dr.	51,500	
To Rita			51,500
(Being the receipt of a portion of the amount due on the bill together with interest)			
Bills Receivable A/c	Dr.	50,000	
To Rita			50,000
(Being the new bill drawn for the balance)			
Rita	Dr.	50,000	
To Bills Receivable A/c			50,000
(Being the dishonour of the bill due to Rita's insolvency)			
Bank A/c	Dr.	20,000	
Bad Debts A/c	Dr.	30,000	
To Rita			50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)			

Question 13

On 1st July, 2022 Gorge drew a bill for Rs.1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth Rs.1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2022, Jack purchased goods worth Rs.1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid Rs. 9,000 in full settlement of the amount due to Harry. On 1st October, 2022, Harry purchased goods worth Rs.2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry , Gorge and Jack.

[SM]

Answer

In the books of Harry
Journal Entries

Date	Particulars		Rs.	Rs.
1.7.2022	Gorge's account	Dr.	1,80,000	
	To Bills payable account (Acceptance of bill drawn by Gorge)			1,80,000
1.9.2022	Jack's account	Dr.	1,90,000	
	To Sales account (Sales made to Jack)			1,90,000
1.9.2022	Bills receivable account Bank account	Dr.	1,80,000	
	Discount account	Dr.	9,000	
	To Jack's account	Dr.	1,000	
	(Acceptance received from Jack's endorsement of bill received from Gorge for Rs. 1,80,000 and Rs. 9,000 received in full settlement of the amount due)			1,90,000
1.9.2022	Bills payable account	Dr.	1,80,000	
	To Bills receivable account			1,80,000
	(Own acceptance received from Jack's endorsement, cancelled)			
1.10.2022	Purchase account	Dr.	2,00,000	
	To Gorge's account (Purchases made from Gorge)			2,00,000
	Gorge's account Dr.		20,000	
	To Bank account			20,000
	(Amount paid to Gorge after adjusting Rs.180,000 for accommodation extended to him)			

In the books of Gorge
Journal Entries

Date	Particulars		Rs.	Rs.
1.7.2022	Purchases Account To Jack Account	Dr.	1,81,000	
	(Purchase of goods from Jack)			1,81,000
1.7.2022	Bills Receivable Account To Harry Account	Dr.	1,80,000	
	(Acceptance by Harry of bill drawn on him)			1,80,000
1.7.2022	Jack's account	Dr.	1,81,000	
	To Rebate Account			1,000
	To Bills Receivable Account			1,80,000
	(Harry's bill endorsed to Jack)			
1.10.2022	Harry Account	Dr.	2,00,000	
	To Sales account (Sales to Harry)			2,00,000
1.10.2022	Bank Account	Dr.	20,000	
	To Harry account			20,000
	(Amount received from Gorge after adjusting Rs.180,000 for accommodation extended by him)			

In the books of Jack
Journal Entries

Date	Particulars	Rs.	Rs.
1.7.2022	Gorge Account Dr.	1,81,000	

	To Sales Account (Sold goods to Gorge)		1,81,000
1.7.2022	Bills Receivable Account Dr. Rebate Account Dr. To Gorge Account (Being Harry's acceptance received from Gorge)	1,80,000 1000	 1 ,81,000
1.9.2022	Purchase Account Dr. To Harry Account (Purchase of goods from Harry)	1,90,000	 1,90,000
1.9.2022	Harry Account Dr. To Bills Receivable Account To Bank Account To Discount Account (Endorsement of bill received from Gorge for Rs. 1,80,000 to Harry and Rs. 9,000 paid in full settlement of the amount due)	1,90,000	 1,80,000 9,000 1000

Question 14

X draws on Y a bill of exchange for Rs. 30,000 on 1st April, 2022 for 3 months. Y accepts the bill and sends it to X who gets it discounted for Rs. 28,800. X immediately remits Rs. 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for Rs. 42,000 for three months which is discounted by Y for Rs. 40,110. Y sends 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

[PYQ Nov 20, PYQ Nov 22, Dec 23, MTP May 22, Dec 24 (Similar)]

Answer

In the books of X
Journal Entries

Date	Particulars	DR. (in Rs.)	CR. (in Rs.)
1/4/2022	Bills receivables A/c Dr. To Y A/c (Being bill of exchange drawn on Mr. Y)	30,000	 30,000
1/4/2022	Bank A/c Dr. Discount charges A/c Dr. To Bills receivable A/c (Being the bills receivable discounted with the bank at a charge of Rs. 1,200)	28,800 1,200	 30,000
1/4/2022	Y A/c Dr. To Bank A/c To Discount charges (Being the amount remitted to Y along with his share of the bank charges)	10,000	 9,600 400
4/7/2022	Y A/c Dr. To Bills payable A/c (Being the bills drawn by Y, due to non-payment of earlier bill)	42,000	 42,000
4/7/2021	Bank A/ c Dr. Discount charges A/c (20,000 + 6,740) × 1,890 / 40,110 Dr. To Y A/c	6,740 1,260	 8,000

	(Being the amount discounted and sent it by Y to X)		
	Bills payable A/c To Y's A/c Dr. (Being the bill due dishonoured due to bankruptcy)		42,000
	Y A/c Dr. To Bank A/c To Deficiency account (Being the amount due to Y discharged by payment of 50 paise in a rupee)	28,000	14,000 14,000

In the books of Y
Journal Entries

Date	Particulars	DR. (in Rs.)	CR. (in Rs.)
1/4/2022	X A/c Dr. To Bills payable A/c (Being bill of exchange accepted and sent to Mr. X)	30,000	30,000
1/4/2022	Bank A/c Dr. Discount charges A/c Dr. To X A/c (Being the amount received from account X on of the bills receivable)	9,600 400	10,000
4/7/2022	Bills receivable A/c Dr. To X A/c (Being the bills accepted by X)	42,000	42,000
4/7/2022	Bank A/c Dr. Discount charges A/c Dr. To Bills receivable A/c (Being X acceptance discounted with bank)	40,110 1,890	42,000
	Bills payable A/c Dr. To Bank A/c (Being the amount met on the due date)	30,000	30,000
	X A/c Dr. To Bank A/c To Discount account (Being the amount received and the discount debited to X)	8,000	6,740 1,260
	X A/c Dr. To Bank A/c (Being X's acceptance discounted which was dishonoured due to X's bankruptcy)	42,000	42,000
	Bank A/c Dr. Bad debts A/c Dr. To X A/c (The amount received from X and the balance being written off as debt)	14,000 14,000	28,000

Question 15
On 1st January, 2022, A sells goods for Rs.10,000 to B and a at three months for the amount. B accepts it and returns it to A. On 1st March, 2022, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

[SM]

Answer

Journal Entries in the books of B

Date	Particulars		Debit	Credit
2022			Rs.	Rs.
Jan. 1	Purchases account To A's account (Being the goods purchased from A on credit)	Dr.	10,000	 10,000
	A's account To Bills payable account (Being the acceptance of bill given to A)	Dr.	10,000	 10,000
1-Mar	Bills payable account To Bank account To Rebate on bills account (Being the bill discharged under rebate @ 12% p.a.)	Dr.	10,000	 9,900 100

Working Note : Calculation of rebate:
Rs. 10,000 x 12/100 x 1/12 = Rs. 100

Question 16
A draws upon B three Bills of Exchange of Rs. 3,000, Rs. 2,000 and Rs. 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest Rs.100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for Rs. 1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (nothing charge being Rs.30). The third bill was retained till maturity when it was duly met.
Give the necessary journal entries recording the above transactions in the books of A.

[SM]

Answer

Journal of A

		Rs.	Rs.
Bills Receivable A/c To B (Three bills for Rs.3,000, Rs.2,000 and Rs.1,000 drawn on B and duly accepted by him received)	Dr.	6,000	 6,000
B To Bills Receivable A/c (Bill received from B cancelled for renewal)	Dr.	3,000	 3,000
Cash Account Bill Receivable Account To B To Interest Account (Amount received on cancellation of the first bill,50% along with a new bill for 50% of the amount plus interest Rs.100)	Dr. Dr.	1,500 1,600	 3,000 100
C To Bills Receivable A/c (A's acceptance endorsed in favour of C)	Dr.	1,600	 1,600

Bank A/c Discount A/c Dr. To Bills Receivable A/c Dr. (Second Bill for Rs. 2,000 discounted with the bank @ 5%)	1,900 100	 2,000
B Dr. To Bank A/c (Second Bill for Rs.2,000 discounted with the Bank dishonoured, noting charges Rs.30 paid by the Bank)	2,030	 2,030
Bank A/c Dr. To Bills Receivable A/c (Amount received on maturity of the third bill)	1,000	 1,000

Note: It is assumed that the bill for Rs. 1,600 has not yet fallen due for payment.

Question 17

Journalize the following in the books of Don:

(i) Bob informs Don that Ray's acceptance for Rs. 3,000 has been dishonoured and noting charges are Rs. 40. Bob accepts Rs. 1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.

(ii) James owes Don Rs. 3,200; he sends Don's own acceptance in favour of Ralph for Rs. 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for Rs. 4,500 by endorsing John's acceptance for Rs. 4,450 in full settlement.

(iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

[SM]

Answer

Books of Don

		Rs.	Rs.
(i)(a)	Ray Dr. To Bob (Ray's acceptance endorsed to Bob dishonoured on due date nothing charges paid by Bob Rs. 40)	3,040	 3,040
(b)	Bob Dr. Interest Dr. To Cash To Bills Payable A/c (Amount payable to Bob Rs. 3,040 settled by cash payment Rs. 1,000 and issue of new bill for Rs. 2,091 including interest Rs. 51 for three months on Rs. 2,040 @ 10% p.a.)	3,040 51	 1,000 2,091
(c)	Bills Receivable A/c Dr. To Ray To Interest (Bill received from Ray for Rs. 3,040 due against earlier acceptance dishonoured plus Rs. 60.80 interest for two months @ 12% p.a.)	3,100.80	 3,040.00 60.8
(ii)	Bills Payable A/c Dr. Discount A/c Dr.	3,160 40	

	To James (Cancellation of bills payable to Ralph for Rs. 3,160 in settlement of Rs. 3,200 due from James)		3,200
(iii)	Bills payable A/c Dr. To Bills Receivable A/c To Discount A/c (Settlement of acceptance issued to Mr. Singh by endorsement of John's Acceptance for Rs. 4,450)	4,500	 4,450 50
(iv)	Bank A/c Dr. Discount A/c Dr. Total Bills Receivable A/c (Amount received from Ray in settlement of Bills Payable, retired one month before due date)	3,085.30 15.5	 3,100.80

Question 18

On 1st April,2024, X sells goods to Y for Rs25,000 plus IGST@ 18% and draws two bills of exchange on him; the first bill for Rs15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on 1st April,2024. In due course, X receives the information from the bank on the due date of the respective bill that the bill for Rs15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonour of second bill are Rs500. Pass the journal entries along with narrations in the books of X.

[RTP Jan 25]

Answer

Date 2024	Particulars	L.F	Dr. Rs	Cr. Rs
Apr.1	Y Dr. To Sales A/c To Output IGST A/c (Being the inter-state sale of goods to Y, charged to IGST@ 18%)		29,500	 25,000 4,500
Apr 1	Bills Receivable (No. 1) A/c Dr. Bills Receivable (No. 2) A/c Dr. To Y (Being the two bills acceptance-one for Rs 15,000 and the other for Rs 14,500 received)		15,000 14,500	 29,500
Apr.1	Bills sent for collection A/c Dr. To Bills Receivable (No. 1) A/c To Bills Receivable (No.2) A/c (Beingthe Bills sent to bank for collection)		29,500	 15,000 14,500
July.4	Bank A/c Dr. To Bills sent for collection A/c (Being the amount duly collected by bank on first bill)		15,000	 15,000
Aug.4	Y Dr. To Bills sent for collection A/c To Bank A/c (Being the second bill dishonored and bank paid Rs 500 as		15,000	 14,500 500

	noting charges)			

Question 19

Mr. Y accepted a bill for Rs 40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. A got the bill discounted at his bank for Rs 39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that Rs 8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. X

[RTP Nov 23, 19, 22, MTP March 21, Oct 21, Nov 22, May 23]

Answer

Journal Entries in the Books of Mr. X

Date		Particulars L.F.	Dr. Amount Rs	Cr. Amount Rs
2022 August	1	Bills Receivable A/c Dr. To Y (Being the acceptance received from Y to settle his account)	40,000	 40,000
August	1	Bank A/c Dr. Discount A/c Dr. To Bills Receivable (Being the bill discounted for Rs 39,200 from bank)	39,200 800	 40,000
November	4	Y Dr. To Bank Account (Being the Y's acceptance is to be renewed)	40,000	 40,000
November	4	Y Dr. To Interest Account (Being the interest due from Y for 3 months i.e., 32,000x3/12 12% = 960)	960	 960
November	4	Cash A/c Dr. Bills Receivable A/c Dr. To Y (Being amount and acceptance of new bill received from Y)	8,960 32,000	 40,960
December	31	Y A/c Dr. To Bills Receivable A/c (Being Y became insolvent)	32,000	 32,000
December	31	Cash A/c Dr. Bad debts A/c Dr. To Y (Being the amount received and written off on Y's insolvency)	12,800 19,200	 32,000

Question 20

Harry draws a bill on Sejal for Rs 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for Rs 56,000.

Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of Rs 80,000 for a period of 3 months. This bill was discounted by Sejal for Rs 74,600. Sejal after making the payment of first bill sent 3/4thof the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.

Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer.

[PYQ Sep 24]

Answer

In the books of Sejal

Journal Entries

Date	Particulars	DR. (in Rs)	CR. (in Rs)
1/1/2023	Harry Dr. To Bills payable A/c (Beingbill of exchange accepted and sent to Mr. Harry)	60,000	 60,000
1/1/2023	Bank A/c Dr. Discount charges A/c Dr. To Harry (Being the amount received from Harry on account of the bills receivable)		14,000 1,000 15,000
4/4/2023	Bills receivable A/c Dr. To Harry (Being the bills accepted by Harry)		80,000 80,000
4/4/2023	Bank A/c Dr. Discount charges A/c Dr. To Bills receivable A/c (BeingHarry acceptance discounted with bank)		74,600 5,400 80,000
4/4/2023	Bills payable A/c Dr. To Bank A/c (Being the amount met on the due date)		60,000 60,000
4/4/2023	Harry Dr. To Bank A/c To Discount A/c {(5,400/80,000) x 60,000} (Being the amount paid and the discount debited to Harry)		15,000 10,950 4,050
7/7/2023	Harry Dr. To Bank A/c (Being Harry's acceptance discounted with bank dishonoured due to Harry's bankruptcy)		80,000 80,000
7/7/2023	Bank A/c Dr. Bad debts A/c Dr. To Harry (The amount received from Harry and the balance being written off as debt)	24,000 36,000	 60,000

Harry 's A/c

Particulars	Rs	Particulars	Rs

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

Question 21

Following information relates to Mr. Prem who maintains his books under single entry system. He is not able to ascertain the amount of bad debts incurred by him and seeks your help.
Debtors as on 01.04.2023 Rs 6,50,000
Debtors as on 31.03.2024 Rs 8,50,000
Sale for Financial Year 2023-2024 is 16,00,000 out of which 80% is on credit.
Payment received during the year is Rs 7,50,000 out of which cheques of Rs 18,000 were dishonored. Bills of exchange accepted by customers Rs 2,90,000
Discount allowed is 1% of the credit sale.

[PYQ Sep 24]

Answer

Debtors Account

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

Question 22

On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for Rs 16,470 at one month and the other for Rs 20,000 at three months. B accepted both the bills.
On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay Rs 20 as noting charges.
However, on 16th August, 2020 it was agreed between A and B that B would immediately pay Rs 8,020 in cash and accept a new bill at 3 months for Rs 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering Rs 12,240 for retirement of his acceptance A accepted the request.
You are required to pass journal entries of all the above transactions in the books of A.

[PYQ Dec 21]

Answer

Journal Entries
In the books of Mr. A

2020			(Rs)	(Rs)
May,12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May,12	Bills receivable (No. 1) A/c	Dr.	16,470	

	Bills receivable (No. 2) A/c Dr.	20,000	
	To B's A/c		36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)		
	OR		
	Bills receivable A/c Dr.	36,470	
	To B's A/c		36,470
	(Being acceptances received from B, one for Rs 16,470 at one month and other for Rs 20,000 at 3 months)		
June,5	Bills for Collection A/c Dr.	36,470	
	To Bills receivable (No.1) A/c To Bills receivable		16,470
	(No.2) A/c		20,000
	(Being both the bills sent to bank for collection)		
	OR		
	Bills for Collection A/c Dr.	36,470	
	To Bills receivables A/c		36,470
	(Being B's acceptances sent for collection on due dates)		
June,15	Bank A/c Dr.	16,470	
	To Bills for Collection A/c		16,470
	(Being amount received on retirement of Bills receivable No. 1)		
Aug, 15	B's A/c Dr.	20,020	
	To Bills for Collection A/c		20,000
	To Noting Charges or Bank Charges		20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)		
Aug, 16	B's A/c Dr.	480	
	To Interest A/c		480
	(Being Interest due)		
Aug, 16	Bank/Cash A/c	8,020	
	To B's A/c		8,020
	(Being Cash received)		
Aug, 16	Bills Receivable (No. 3) a/c	12,480	
	To B's A/c		12,480
	(Being Bills receivable (No. 3) drawn accepted by B)		
	OR		
	Alternatively combined entry may be given for the above two entries:		
	Bank/Cash A/c Dr.	8,020	
	Bills Receivable A/c Dr.	12,480	
	To B's A/c		20,500
	(Being cash and new acceptance at 3 months received from B)		
Aug, 16	Bills for Collection A/c	12,480	
	To Bills Receivable (No. 3) A/c		12,480
	(Being Bills receivable (No. 3) sent to Bank for collection)		
	Or		
	Bills for Collection A/c Dr.	12,480	
	To Bills Receivable A/c		12,480
	(Being new acceptance sent to Bank for collection on due date)		
Oct, 1	Bank A/c Dr.	12,240	

	Rebate A/c Dr. To Bills for Collection (Being Amount received on retirement of Bills receivable (No. 3))	240	 12,480

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c Dr. Bills Receivable (No. 3) A/c Dr. To B's A/c To interest A/c (Being the Rs 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)	8,020 12,480	 20,020 480

Question 23

Amar accepted the following bills drawn by Pawan.
On 8th March, 2021 Rs. 16,000 for 4 months.
On 16th March,2021 Rs. 20,000 for 3 months.
On 7th April, 2021 Rs. 24,000 for 5 months.
On 17th May, 2021 Rs. 20,000 for 3 months.
He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Amar wants to save Rs. 628 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 628.

(MTP Nov 21)

Answer

Taking 19.6.2021 as a Base date

Transaction Date	Due Date	Amount	No of days	Amount
8.3.2021	11.7.2021	16,000	22	3,52,000
16.3.2021	19.6.2021	20,000	0	0
7.4.2021	10.9.2018	24,000	83	19,92,000
17.5.2021	20.8.2018	20,000	62	12,40,000
		80,000		35,84,000

Average Due Date = Base date × (Total of Product/Total of Amount
= 19.6.2021 + Rs. 35,84,000/Rs.80,000
= 19.6.2021 + 44.8 days (or 45 days approximately)
= 3.8.2021
Amar wants to save interest of Rs. 628. The yearly interest is Rs. 80,000 × 18% = Rs. 14,400.
Assume that days corresponding to interest of Rs. 628 are Y.
Then, 14,400 × Y/365 = Rs. 628
or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)
Hence, if Amar wants to save Rs. 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2021 (3.8.2021 – 16 days).

Question 24

Mr. A accepts two bills of exchange on June 1, 2024 for ` 1,50,000 and ` 60,000 drawn on him by Mr. B. The bill of exchange for ` 1,50,000 is for two months while the bill of exchange for ` 60,000 is for three months. Mr. B got the first bill discounted with the bank for ` 1,49,000 on June 3, 2024. On August 2, 2024 Mr. A requested Mr. B to cancel both the bills and drew a new bill on him with the combined amount of both the bills along with

interest @ 12% per annum for a period of two months. Before the due date of the renewed bill on September 3, 2024, Mr. A becomes insolvent and only 40 paise in a rupee could be recovered from his estate.
You are required to give the journal entries in the books of Mr. B.

[PYQ Jan 25]

Answer

Journal Entries in the books of Mr. B

Date 2024	Particulars		Amount (`)	Amount (`)
1st June	Bills receivable (No. 1) A/c	Dr.	1,50,000	
	Bills receivable (No. 2) A/c	Dr.	60,000	
	To Mr. A's A/c			2,10,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.8.2024 and bills receivable No. 2 due for maturity on 4.9.2024)			
3rd June	Bank A/c	Dr.	1,49,000	
	Discount A/c	Dr.	1,000	
	To Bills receivable (No.1) A/c			1,50,000
	(Being 1st bill discounted from bank)			
2nd August	Mr. A's A/c	Dr.	2,10,000	
	To Bank A/c			1,50,000
	To Bills receivable (No.2) A/c			60,000
	(Being the reversal entry for cancellation of both the bills)			
2nd August	Bills receivable (No. 3) A/c	Dr.	2,14,200	
	To Interest A/c			4,200
	To Mr. A's A/c			2,10,000
	(Being the bill of exchange no. 3 drawn together with interest at 12 %p.a. in lieu of the original acceptance of Mr. A)			
3rd Sep*	Bank A/c	Dr.	85,680	
	Bad Debts A/c	Dr.	1,28,520	
	To Bills Receivable (No. 3) A/c			2,14,200
	(Being the amount received from official assignee of Mr. A at 40 paise per rupee against dishonoured bill)			

Alternatively, two separate entries can also be passed in place of entry pertaining to 3rd September.

3rd Sep.	Mr. A's A/c	Dr.	2,14,200	
	To Bills receivable (No. 3) A/c			2,14,200
	(Being the amount due from Mr. A on dishonour of his acceptance on presentation on the due date)			
3rd Sep.	Bank A/c	Dr.	85,680	
	Bad Debts A/c	Dr.	1,28,520	
	To Mr. A's A/c			2,14,200
	(Being the amount received from official assignee of Mr. A at 40 paise per rupee against dishonoured bill)			

Chapter 7 : Preparation of Final Accounts of Sole Proprietors

Question 1

Trial Balance for the financial year (FY) ended 31st March 2022 of M/s Deepakshi shows following details:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchase & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	4,00,000
Opening Stock	2,00,000	
Closing Stock	3,00,000	
Other Expenses & Incomes	7,00,000	9,00,000
Fixed Assets & Long Term Liabilities	25,00,000	6,00,000
Capital		21,00,000
	52,00,000	52,00,000

Additional Information: Creditors balance as on 1st April, 2021 is Rs. 3,00,000.
You are required to calculate cost of goods sold and amount paid to creditors during the year.

[SM]

Answer

i) Calculation of Cost of Goods sold:

Particulars	Rs.
Opening Stock	2,00,000
Add: Purchases (Closing stock already adjusted)*	10,00,000
Cost of Goods Sold	12,00,000

*Since, closing stock appears in Trial Balance, it means following entry has already been passed in books:

Closing Stock A/c Dr. 3,00,000
To Purchases A/c 3,00,000

So, we can see purchases have already been reduced by the amount of unsold stock, therefore no more adjustment needs to be made on account of closing stock for computing Cost of goods sold (COGS).

ii) Calculation of amount paid to creditors:

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.22	To Bank A/c (Balancing Figure)	12,00,000	1.4.21	By Balance b/d	3,00,000
31.3.22	To Balance c/d	4,00,000		By Purchases A/c (Note:1)	13,00,000
		16,00,000			16,00,000

Note: 1) Purchases made during the year can be computed as:

Particulars	Rs.
Purchases as per Trial Balance	10,00,000

Add: Closing Stock already adjusted	3,00,000
Purchases made during the year	13,00,000

Question 2

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

Required: From the above information, prepare a Trading Account of M/s. ABC Traders for the year ended 31st March, 2022 and Pass necessary closing entries in the journal proper of M/s. ABC Traders

(SM, MTP Oct 19, Oct 21, (Same Concept, Different Figures))

Answer

In the books of M/s. ABC Traders
Trading Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount
	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		1,00,000	By Sales	11,00,000	
To Purchases	6,72,000		*Less* :Returns Inward	(1,00,000)	10,00,000
Less: Returns outward	(72,000)	6,00,000	By Closing Inventory		2,00,000
To Carriage Inwards		30,000			
To Wages		50,000			
To Gross profit (Bal. Fig.)		4,20,000			
		12,00,000			12,00,000

Journal Proper in the Books of M/s. ABC Traders (Closing entries)

Date 2022	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	72,000	72,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	1,00,000	1,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	10,00,000	10,00,000
	Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c	Dr.	7,80,000	1,00,000 6,00,000 50,000

	(Being the transfer of balances of opening Inventory, purchases and wages accounts)			30,000
	Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	2,00,000	2,00,000
	Trading A/c To Gross Profit (Being the amount of gross profit)	Dr.	4,20,000	4,20,000
	Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	4,20,000	4,20,000

Question 3

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2022 were as follows:

Gross Profit Rs. 4,20,000, Salaries Rs. 1,10,000, Discount (Cr.), Rs. 18,000, Discount (Dr.) Rs. 19,000, Bad Debts Rs. 17,000, Depreciation Rs. 65,000, Legal Charges Rs. 25,000, Consultancy Fees Rs. 32,000, Audit Fees Rs. 1,000, Electricity Charges Rs.17,000, Telephone, Postage and Telegrams Rs. 12,000, Stationery Rs. 27,000, Interest paid on Loans Rs. 70,000.

Required

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2022. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

[SM]

Answer

In the Books of M/s. ABC Traders

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

Particulars	Amount Rs.	Particulars	Amount Rs.
To Salaries	1,10,000	By Gross Profit	4,20,000
To Legal Charges	25,000	By Discount received	18,000
To Consultancy Fees	32,000		
To Audit Fees	1,000		
To Electricity Charges	17,000		
To Telephone, Postage &Telegrams	12,000		
To Stationery	27,000		
To Depreciation	65,000		
To Discount Allowed	19,000		
To Bad Debts	17,000		
To Interest	70,000		
To Net Profit (b/f)	43,000		
	4,38,000		4,38,000

Journal Proper in the Books of M/s. ABC Traders (Closing Entries)

Date 2022	Particulars		Amount Rs.	Amount Rs.
March 31	Profit & Loss Account	Dr.	3,95,000	
	To Salaries A/c			1,10,000
	To Legal Charges A/c			25,000
	To Consultancy Fees A/c			32,000

	To Audit Fees A/c To Electricity Charges A/c To Telephone, Postage & Telegrams A/c To Stationery A/c To Depreciation A/c To Discount Allowed A/c To Bad Debts A/c To Interest A/c (Being the transfer of balances of various expenses accounts)			1,000 17,000 12,000 27,000 65,000 19,000 17,000 70,000
	Discount Received A/c To Profit & Loss A/c (Being the transfer of discount received account balance)	Dr.	18,000	 18,000
	Gross Profit A/c To Profit & Loss A/c (Being the transfer of gross profit from Trading Account)	Dr.	4,20,000	 4,20,000
	Profit & Loss A/c To Net Profit A/c (Being the ascertainment of net profit)	Dr.	43,000	 43,000
	Net Profit A/c To Capital A/c (Being the transfer of net profit to Capital A/c)	Dr.	43,000	 43,000

Question 4

On 1st April 2021 provision for Doubtful Debts existed at Rs. 40,000. Trade receivables on 31.03.2021 were Rs. 15,00,000; bad debts totaled Rs. 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Show how you would compute the amount debited to the Profit and Loss Account.

[SM]

Answer

PARTICULARS	Rs.
Opening Provision (Cr.)	40,000
Bad Debts written off (Dr.)	1,00,000
Short Provision	60,000
Provision required (Dr.) (5% of Rs.14,00,000)	70,000
Additional amount required for debit to the Profit and Loss Account (Dr.)	1,30,000

The account will appear as follows:

Provision for Doubtful Debts Account

		Rs.			Rs.
March 31, 2022	To Bad Debts	1,00,000	April 1, 2021	By Balance b/d	40,000
	To Balance c/d (required)	70,000	March 31, 2022	By Profit and Loss A/c (Balancing Figure)	1,30,000
		1,70,000			1,70,000
			April 1, 2022	By Balance b/d	70,000

Question 5

The following is the Trial Balance of C. Wanchoo on 31st March, 2022.

Trial Balance on 31st March , 2022

Particulars	Rs.	Rs.
Capital Account		10,00,000
Inventories as on 1st April,2021	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st March, 2022 was Rs. 2,70,000

Prepare closing entries for the above items and Prepare Trading and Profit and Loss Account.

[SM]

Answer

Date	Particulars		Rs.	Rs.
2022				
March 31	Trading Account	Dr.	30,20,000	
	To Inventory Account			2,00,000
	To Purchase A/c			18,20,000
	To Wages A/c			10,00,000
	(Being the accounts in the Trial Balance which have to be transferred to the Trading Account debit side)			
March 31	Sales Account	Dr.	50,00,000	
	To Trading A/c			50,00,000
	(Being the amount of Sales transferred to the credit of Trading Account)			
March 31	Inventory (Closing) A/c	Dr.	2,70,000	
	To Trading A/c			2,70,000
	(Being the value of Inventory on hand on 31st March,2022)			
March 31	Trading A/c	Dr.	22,50,000	
	To Profit and Loss A/c			22,50,000
	(Being the transfer of gross profit.)			
March 31	Profit and Loss A/c	Dr.	16,50,000	
	To Discount Allowed Account			50,000
	To Salaries A/c			10,00,000
	To Sundry Office Expenses A/c			6,00,000
	(Being the various expense accounts transferred			

	to the P & L Account)		
March 31	Discount Received A/c Dr.	30,000	
	To P & L Account		30,000
	(Being the credit balance of discount received transferred to Profit and Loss A/c)		
March 31	Profit and Loss A/c Dr.	6,30,000	
	To Capital A/c		6,30,000
	(Being the transfer to Net Profit to the Capital Account)	1,28,50,000	1,28,50,000

C. WANCHOO

Trading Account of the year ended March 31, 2022

Particulars	Rs.	Particulars	Rs.
To Inventory A/c	2,00,000	By Sales A/c	50,00,000
To Purchases	18,20,000	By Inventory (Closing)	2,70,000
To Wages	10,00,000		
To Gross profit transfered to P & L A/c	22,50,000		
	52,70,000		52,70,000

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

Particulars	Rs.	Particulars	Rs.
To Salaries	10,00,000	By Gross profit transfered from the Trading Account	22,50,000
To Discount Allowed	50,000	By Discount Received	30,000
To Sundry Office Expenses	6,00,000		
To Net Profit transferred to Capital A/c	6,30,000		
	22,80,000		22,80,000

Question 6

Given below Trial Balance of M/s Dayal Bros. as on 31st March, 2022 :

Particulars	Debit Balances	Credit Balances
	Rs.	Rs.
Capital A/c		7,00,000
Land and Building	3,00,000	
14% Term Loan		4,00,000
Loan from M/s. D & Co.		4,60,000
Trade receivables	4,20,000	
Cash in hand	20,000	
Inventories in Trade	6,00,000	
Furniture	2,00,000	
Trade payables		40,000
Advances to Suppliers	1,00,000	
Net Profit		1,00,000
Drawings	60,000	
	17,00,000	17,00,000

Required

Prepare Balance Sheet as on 31st March, 2022.

[SM]

Answer

In the Books of M/s Dayal Bros.
Balance Sheet as at 31st March, 2022

Liabilities		Amount	Assets	Amount
	Rs.	Rs.		Rs.
Capital: Balances	7,00,000		Land & Building	3,00,000
Add: Net Profit	1,00,000		Furniture Inventories in	2,00,000
	8,00,000		Trade	6,00,000
Less: Drawings	(60,000)		Trade receivables	4,20,000
		7,40,000	Advances to Suppliers	1,00,000
14% Term Loan *(loan taken at*		4,00,000		
year end)			Cash in Hand	20,000
Loan from M/s D & Co.		4,60,000		
Trade payables		40,000		
		16,40,000		16,40,000

Question 7

The balance sheet of Thapar on 1st April, 2021 was as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,000
	66,50,000		66,50,000

During 2021-22, his Profit and Loss Account revealed a net profit of Rs. 18,30,000. This was after allowing for the following :

(a) Rent received from property let out Rs. 3,00,000.

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2022.

But while preparing the Profit and Loss Account he had forgotten to provide for
(1) outstanding expenses totaling Rs. 1,80,000 and
(2) prepaid insurance to the extent of Rs. 20,000.

His current assets and liabilities on 31st March, 2022 were: Inventories Rs. 14,50,000; Trade receivables Rs. 20,00,000; Cash at Bank Rs. 10,35,000 and Trade payables Rs. 11,40,000.
During the year he withdrew Rs. 6,00,000 for domestic use.
Required
Draw up his Balance Sheet at the end of the year.

[SM]

Answer

Profit and Loss Account (Revised)

Particulars	Rs.	Particulars	Rs.
To Outstanding expenses	1,80,000	By Balance b/d	18,30,000
To Net profit	16,70,000	By Prepaid insurance	20,000

	18,50,000		18,50,000

Balance Sheet of Thapar as at 31st March, 2022

Liabilities		Rs.	Assets	Rs.	Rs.
Capital	50,00,000		Cash at Bank		10,35,000
Add: Net Profit	16,70,000		Trade receivables	20,00,000	
	66,70,000		*Less:* Provision for doubtful debts	(1,00,000)	19,00,000
Less : Drawings	(6,00,000)	60,70,000	Plant and Machinery	30,00,000	
Outstanding expenses		1,80,000	*Less:* Depreciation	(3,00,000)	27,00,000
Trade payables		11,40,000	Furniture & Fixtures	3,00,000	
			Less: Depreciation	(15,000)	2,85,000
			Inventories		14,50,000
			Prepaid insurance		20,000
		73,90 000			73,90,000

Question 8

Balance Sheet as at 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Mahendra & Sons	5,60,000	Cash in hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery and Equipment	6,00,000
	25,60,000		25,60,000

From the above given balance sheet prepare the relevant opening entry.

[SM]

Answer

The Opening Entry :01-04-2022

		Dr. Rs.	Cr. Rs.
Cash A/c	Dr.	43,000	
Bank A/c	Dr.	2,67,500	
Trade receivables	Dr.	7,49,500	
Inventory A/c	Dr.	9,00,000	
Machinery and Equipment A/c	Dr.	6,00,000	
To Mahendra & Sons A/c			5,60,000
To Capital A/c			20,00,000
(Being the balances brought forward)		25,60,000	25,60,000

Question 9

Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2022

Particulars	Dr. Rs.	Cr. Rs.

Capital		8,70,000
Purchases and Sales	6,05,000	12,10,000
Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	2,000	
Input CGST	9,000	
Input SGST	9,000	
Output IGST		15,000
	26,07, 000	26,07,000

Closing Inventory on 31st March, 2022 was valued at Rs. 1,00,000.
Required
Prepare final accounts of Shri Mittal for the year ended 31st March, 2022.

[SM]

Answer

In the books of Shri Mittal
Trading Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount
		Rs.			Rs.
To Opening inventory		72,000	By Sales	12,10,000	
To Purchases	6,05,000		*Less:* Returns	(40,000)	11,70,000
Less: Returns	(30,000)	5,75,000	By Closing inventory		1,00,000
To Gross Profit		6,23,000			
		12,70,000			12,70,000

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salaries	2,70,000	By Gross profit	6,23,000
To Advertisement	1,10,000		
To Other expenses	60,000		
To Net profit	1,83,000		
	6,23,000		6,23,000

Balance Sheet as at 31st March, 2022

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capital	8,70,000		Building	8,90,000
Add: Net profit	1,83,000	10,53,000	Furniture	4,50,000
14% Bank Loan		2,00,000	Trade receivables	90,000

Trade payables		1,70,000	Closing inventory	1,00,000
Overdrafts		1,12,000	Cash in hand	2,000
			Input SGST (W.N.)	3,000
		15,35,000		15,35,000

Note: As loan and overdraft taken at year end so no interest shown.

Working Note:

Output IGST liability is paid by utilizing Input CGST of Rs. 9,000 and Input SGST of Rs. 6,000. Thereafter, closing balance of Input SGST of Rs. 3,000 is reported in Balance Sheet.

Question 10

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

Trial Balance as on 31st March, 2022

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

Other Information:

(i) Closing Inventory was Rs. 1,80,000;

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

Required

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2022 and Balance Sheet of Mr. Mohan as on that date.

[SM]

Answer

In the books of Mr. Mohan

Trading Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount

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

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

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

Balance Sheet as at 31st March, 2022

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

Working Note:

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

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

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

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

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

Question 11

The Balance Sheet of Mr. Popatlal, a merchant on 31st March, 2022 stood as below:

Liabilities	Amount	Assets		Amount
	Rs.			Rs.
Capital Trade payables	2,40,000 1,64,000	Fixed Assets Inventories		1,25,600 2,06,400
Bank Overdraft	1,46,000	Trade receivables	1,88,000	
		Less: Provision	(6,200)	1,81,800
		Cash		36,200
	5,50,000			5,50,000

Required

Show opening journal entry on 1st April, 2022 in the books of Mr. Popatlal.

[SM]

Answer

Opening entry

			(Dr.) Rs.	(Cr.) Rs.
1.4.2022	Fixed Assets A/c	Dr.	1,25,600	
	Inventories A/c	Dr.	2,06,400	
	Trade receivables A/c	Dr.	1,88,000	
	Cash A/c	Dr.	36,200	
	To Trade payables A/c			1,64,000
	To Bank Overdraft A/c			1,46,000
	To Provision for Doubtful Debts A/c			6,200
	To Capital A/c			2,40,000

Question 12

The following is the schedule of balances as on 31.3.22 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Mumbai:

Particulars	Dr.	Cr.
	Rs.	Rs.
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2021	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000

Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2022 and the Balance Sheet as at that date after making provision for the following:

1. Depreciate:
   (a) Building used for business by 5 percent;
   (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for Rs. 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account;
   (c) Office equipment by 15 percent; Purchase of a typewriter during the year for Rs. 40,000 has been wrongly debited to purchase; and
   (d) Motor car by 20%.
2. Value of stock at the close of the year was Rs. 4,40,000.
3. Two month's rent for godown is outstanding.
4. Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2021.
5. Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.
6. Insurance premium includes Rs. 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2021 to 30.6.2022.

[SM]

Answer

M/s Gavaskar Viswanath & Co.
Trading for the year ended 31st March, 2022

Particulars	Details	Amount Rs.	Particulars	Details	Amount Rs.
To opening Stock		6,20,000	By Sales	23,00,000	
To Purchases	14,00,000		*Less*: Sale of furniture included in sale	14,000	
Less: Typewriter included in purchases	40,000		*Less*: Sales Returns	42,000	22,44,000
Less: Purchase Returns	26,000	13,34,000	By Closing Stock		4,40,000
To Freight on purchase		12,000			

To Gross Profit c/d		7,18,000			
		26,84,000			26,84,000

M/s Gavaskar Viswanath & Co.
Profit/Loss Account for the year ended 31st March, 2022

Particular	Details	Amount Rs.	Particular	Details	Amount Rs.
To Salaries		1,10,000	By Gross profit b/d		7,18,000
To Rent for Godown	55,000				
Add: Outstanding	11,000	66,000	By Discount received		16,000
To provision for doubtful debts(4)		33,000			
To Rent and Taxes		21,000			
To Discount Allowed		24,000			
To Carriage outwards		20,000			
To printing and stationery		18,000			
To Electricity charges		22,000			
To Insurance premium (1)		12,000			
To Depreciation (2)		1,20,000			
To general office expenses		30,000			
To Bank Charges		16,000			
To interest on loan	27,000				
Add: Outstanding (3)	6,000	33,000			
To Motor car expenses		36,000			
To Net Profittransferred to Capital a/c		1,73,000			
		7,34,000			7,34,000

Balance Sheet of M/s Gavaskar Vishwanath & Co. as at 31st March, 2022

Liabilities	Details	Amount Rs.	Assets	Details	Amount Rs.
Capital *Add*: Net Profit *Less*: Drawings *Less*: Insurance Premium	16,20,000 1,73,000 (1,20,000) (40,000)	16,33,000	Building *Less*: Dep.	6,00,000 (30,000)	5,70,000
			Motor Car *Less*: Dep.	2,00,000 (40,000)	1,60,000
Loan from Vishwanath *Add*: Outstanding	3,00,000 6,000	3,06,000	Office equipment *Less*: Dep.	2,00,000 (30,000)	1,70,000
Sundry Creditors Outstanding rent		4,30,000 11,000	Furniture & Fixture	2,00,000	
			Less: Dep.	(20,000)	1,80,000
			Stock in Trade		4,40,000
			Sundry Debtors	8,60,000	
			Less: Provision for doubtful debts	(43,000)	8,17,000
			Cash at hand		26,000
			Cash in bank		14,000

			Prepaid insurance (1)		3,000
		23,80,000			23,80,000

Working Notes :

(1) Insurance premium

	Rs.
Insurance premium as given in trial balance	55,000
Less: Personal premium	(40,000)
Less: Prepaid for 3 months (15000 * 3/15)	(3,000)
Transfer to Profit & Loss a/c	12,000

(2) Depreciation

Building @ 5% on 6,00,000	30,000
Motor Car @ 20% on 2,00,000	40,000
Furniture & Fittings @ 10% on 2,00,000 (2,14,000-14,000)	20,000
Office Equipment @ 15% on 2,00,000 (1,60,000 + 40,000)	30,000
Total	1,20,000

(3) Interest on Loan

Interest on Loan (3,00,000 x 12% x 11/12)	33,000
Less : Interest as per Trial Balance	(27,000)
Profit &Loss account (Outstanding)	6,000

(4) Provision for bad debts a/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To bad debts a/c	20,000	By balance b/d	30,000
To balance c/d	43,000	By P&L a/c	33,000
	63,000		63,000

(5) Purchase of a typewriter during the year for Rs. 40,000 which was wrongly debited to purchase added to office equipment.

Question 13

Crimpson traders profit and loss account for the year ended 31st March, 2022 includes the following information:

		Rs.
(i)	Depreciation	57,500
(ii)	Bad debts written off	21,000
(iii)	Increase in provision for doubtful debts	18,000
(iv)	Retained profit for the year	20,000
(v)	Liability for tax	4,000

Required

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

[SM]

Answer

(a) Transfer to provisions - (i), (iii) (v)

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

Question 14

1. Write shorts notes on:
(a) Balance sheet.
(b) Trading account
(c) Closing entries

[Sm]

Answer

(a) The balance sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date." Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at."

(b) At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss with the helps to Trading A/c. Gross Profit is the difference between the selling price and the cost of the goods sold.

(c) Closing entries: The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries.

Question 15

Distinguish between Provision and reserve fund.

[SM]

Answer

Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy".

Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Question 16

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2022 after making the necessary adjustments:

	Rs.		Rs.
Ganguli's capital account (Cr.) as on 1.4.2021	5,40,500	Interest received	7,250
Stock on 1.4.2021	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2021	25,000
Purchases	12,15,500	Furniture as on 1-4-2021	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500

Salaries	46,500	Fire insurance premium	3,000
Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2021 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

(1) Value of stock as on 31st March, 2022 is Rs. 3,93,000. This includes goods returned by customers on 31st March, 2022 to the value of Rs. 15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2022 for Rs.10,000.

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

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

		Rs.			Rs.
31.3.2022	To Balance c/d	1,00,000	1.4.2021 31.3.2022	By Balance b/d By Bank	50,000 50,000
		1,00,000			1,00,000

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

(6) Interest paid include Rs. 3,000 paid to Dena bank.

(7) Interest received represents Rs. 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.

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

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

[SM]

Answer

In the books of Ganguli

Trading and Profit & Loss Account for the year ended 31st March,2022

	Rs.	Rs.		Rs.	Rs.
To Opening stock		2,34,000	By Sales	14,48,000	
To Purchases	12,15,500		*Less:* Returns	(58,000)	13,90,000
Less: Transfer to furniture A/c	(10,000)		By Closing stock		3,93,000
	12,05,500				
Less: Returns	(29,000)	11,76,500			
To Carriage inwards		93,000			
To Gross profit c/d		2,79,500			
		17,83,000			17,83,000
To Salaries		46,500	By Gross profit b/d		2,79,500
To Rent		28,500	By Interest		17,250
To Advertisement		56,000	By Discount received		14,950
To Printing & stationery		17,000			
To Interest		7,500			
To Discount allowed		37,700			
To General expenses		19,600			

To Travelling expenses		11,650			
To Fire insurance premium		3,000			
To Postage & telegrams		4,350			
To Provision for doubtful debts (W.N.I)		4,750			
To Depreciation on furniture		1,150			
To Audit fees		3,500			
To Capital A/c (Net profit transferred)		70,500			
		3,11,700			3,11,700

Balance Sheet as at 31st March,2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital account:			Furniture	9,000	
Balance on 1st April,2021	5,40,500		Additions during the year	10,000	
Add: Net profit	70,500			19,000	
	6,11,000		*Less:* Depreciation	(1,150)	
Less: Drawings	(50,000)				17,850
		5,61,000	Investments Deposits		25,000
Loan from Dena Bank Ltd.		1,00,000	Interest accrued on investment & deposits (W.N.3)		1,50,000
Insurance accrued on bank loan (W.N.2)		3,000			10,000
Sundry creditors			Stock in trade		3,93,000
		64,000			
			Sundry debtors	95,000	
			Less: Provision	(4,750)	
					90,250
			Cash with Traders Bank Ltd.		40,000
			Cash in hand		1,900
		7,28,000			7,28,000

Working Notes:

1.	Calculation of provision for doubtful debts:	Rs.
	Sundry debtors as per trial balance	1,20,000
	Less: Sales returns not recorded	(15,000)
		1,05,000
	Less: Cancellation against sundry creditors	(10,000)
	Adjusted balance of sundry debtors	95,000
	Provision for doubtful debts @ 5%	4,750
2.	Accrued interest on bank loan:	
	Annual interest @12%	6,000
	Less: Interest paid to Dena bank	(3,000)
	Accrued interest	3,000

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

Question 17

Sengupta & Co. employs a team of eight workers who were paid Rs.30,000 per month each in the year ending 31st March, 2021. At the start of financial year 2021-2022, the company raised salaries by 10% to Rs.33,000 per month each.

On October 1, 2021 the company hired two trainees at salary of Rs.21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2022.

(ii) Amount actually paid as salaries during 2021-22

(iii) Outstanding Salaries as on 31st March, 2022.

[SM]

Answer

		Rs. ₹
(i)	Salaries to be charged to profit and loss account for the year	
	ended 31st March, 2022: Salaries of 8 employees for full year @ Rs. 33,000 per month each	31,68,000
	Salaries of 2 trainees for 6 months @ Rs. 21,000 p.m.	2,52,000
		34,20,000
(ii)	Salaries actually paid in 2021-22 March, 2021 salaries paid in April, 2021 (8 x 30,000) Salaries of 8 employees for April 2021 to March, 2022 paid in May 2021 to March 2022 @ Rs. 33,000 for 11 months	2,40,000 29,04,000
	Salaries of 2 trainees for October 2021 to February 2022 paid in November 2021 to March 2022 @ Rs. 21,000 for 5 months	2,10,000
		33,54,000
(iii)	Outstanding salaries as at 31st March, 2022 8 employees @ Rs. 33,000 each for 1 month	2,64,000
	2 trainees @ Rs. 21,000 each for 1 month	42,000
		3,06,000

Question 18

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2022 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	Rs.	Particulars	Rs.
Debit Balance:			
Trade receivables	3,50,000	Salaries	2,20,000
Inventory 1st April, 2021	5,00,000	Purchases	12,50,00
Cash in Hand	5,60,000	Plant and Machinery	15,70,000
Wages	3,00,000	Credit Balance:	

Bad Debts	50,000	Capital	25,00,000
Furniture and Fixtures	1,50,000	Trade payables	9,00,000
Depreciation	1,50,000	Sales	17,00,000

[SM]

Answer

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

Particulars	Rs.	Particulars	Rs.
To Opening Inventory	5,00,000	By Sales	17,00,000
To Purchases	12,50,000	By Closing Inventory	10,00,000
To Wages	3,00,000		
To Gross Profit	6,50,000		
	27,00,000		27,00,000
To Bad Debts	50,000	By Gross Profit	6,50,000
To Depreciation	1,50,000		
To Salaries	2,20,000		
To Net Profit transferred. to Capital A/c	2,30,000		
	6,50,000		6,50,000

Balance Sheet as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		9,00,000	Cash in Hand	5,60,000	
Capital:			Trade receivables	3,50,000	
Previous Balance	25,00,000		Closing Inventory	10,00,000	19,10,000
Add : Net Profit	2,30,000	27,30,000			
			Furniture & Fixtures	1,50,000	
			Plant & Machinery	15,70,000	17,20,000
		36,30,000			36,30,000

Question 19

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2022 has been given below:

On 1.4.2021 he had a balance of Rs. 2,00,000 advance from customers of which Rs. 1,50,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of Rs. 5,00,000.

You are required to compute:

(i) Total income for the year 2021-22.

(ii) Total money received during the year if the closing balance in advance from customers account is Rs. 1,70,000.

[SM]

Answer

(i) Computation of Income for the year 2021-22:

	Rs.
Money received during the year related to 2021-22	5,00,000
Add: Money received in advance during previous years	1,50,000

Total income of the year 2021-22	6,50,000

(ii) Advance from Customers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2021	By Balance b/d	2,00,000
				By Bank A/c (Balancing Figure)	1,20,000
31.3.22	To Balance c/d	1,70,000			
		3,20,000			3,20,000

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	6,20,000

Question 20

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2022

Particulars	Rs.	Particulars	Rs.
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Profit c/d	D		
	F		F
To Rent A/c	26,00,000	By Gross Profit b/d	D
To Office Expenses	13,00,000	By Miscellaneous Income	E
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales. You are required to compute the missing figures.

[SM, PYQ Nov 18]

Answer

A) Computation of Net Profit:

Commission Manager = Rate of Commission X Net Profit before charging such commission

So, Commission to manager = 10/100 X Net Profit before charging such commission

= Rs. 2,00,000 = 10/100 X Net Profit before charging such commission

= Net Profit before charging such commission = Rs. 20,00,000

=> Net Profit (A) = Rs. (20,00,000 - 2,00,000) = Rs.18,00,000

B) Computation of Selling Expenses:

Total income appearing in P&L A/c = Rs. 60,00,000

Total expenses other than selling expenses = Rs.(26,00,000 + 13,00,000 + 2,00,000)= Rs. 41,00,000

So, Selling Expenses + Remaining Expenses + Net Profit = Total Income
= Selling Expenses = Rs. 60,00,000 -Rs. 41,00,000 - Rs. 18,00,000
= Selling Expenses = Rs. 1,00,000

C) Computation of Sales:
We have been given selling expenses amount to 1% of Sales
So, Sales = Selling Expenses/1 × 100 = 1,00,000/1 × 100 = Rs. 100,00,000.

D) Computation of Gross Profit:

In Trading A/c

Particulars	Rs.	Particulars	Rs.
To COGS	45,00,000	By Sales (from C above)	100,00,000
To Gross Profit (Balancing Figure)	55,00,000		
Total (F)	100,00,000	Total (F)	100,00,000

So, Gross Profit (D) = Rs. 55,00,000

E) Miscellaneous Income = Total Income in P&L - Gross Profit
= Rs. (60,00,000 - 55,00,000) = Rs. 5,00,000

F) = Rs. 100,00,000 (As computed in D above)

G) = Rs. 60,00,000 (Total of both sides of P&L is equal after balancing has been done)

Question 21

The following is the Trial Balance of Mr. Shekhar on 31st March, 2024 :

	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2024)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2024)	17,000	-
Investments 12% (01.8.2023)	2,50,000	-
Bank Balance	1,69,000	-

	31,19,000	31,19,000

Stock on 31st March, 2024 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2024, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2024.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2024.

[RTP Sep 24, Nov 20,22, May 19]

Answer

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings A/c			12,000
	(Being entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors A/c			16,000
	(Beingentry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns A/c			1,000
	To Sales Returns A/c			1,000
	(Being rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses A/c			6,000
	(Being prepaid expenses adjusted)			

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

Dr. Cr.

		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Return Sales		
Add: Amount not recorded	16,000		(99,000-1,000)		21,02,000
	16,16,000		By Closing Stock	98,000	1,00,000
Less: Purchases Returns (69,000+1,000)	70,000	15,46,000			
To Gross Profit c/d		5,96,000			

		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation Add: Further Depreciation $\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	14,000 10,000	24,000	By Interest on Investments $\left(2,50,000 \times \frac{12}{100} \times \frac{8}{12}\right)$		20,000
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2024

Liabilities		₹	Assets		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000– 12,000)	58,000	10,86,000	Less: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors Investments		2,50,000 2,50,000
Overdraft		8,000	Interest accrued on Investment		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

Question 22

1,00,000 units were produced in a factory. Per unit material cost was Rs. 10 and per unit labour cost was Rs. 5. That apart it was agreed to pay royalty @ Rs. 3 per unit to the Japanese collaborator who supplied technology.

Required

Calculate Manufacturing Cost.

[SM]

Answer

In this case Manufacturing Cost comprises of –

Raw Material consumed	(1,00,000 × Rs. 10)	Rs. 10,00,000
Direct Wages	(1,00,000 × Rs. 5)	Rs. 5,00,000
Direct Expenses	(1,00,000 × Rs. 3)	Rs. 3,00,000
		Rs. 18,00,000

Question 23

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2022:

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

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2022.

[SM, PYQ Nov 19, MTP April 21, May 23, April 24]

Answer

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 31.3.2022

Particulars		Units	Amount	Particulars	Units	Amount
			Rs.			Rs.
To Opening Work- in-Process		10,000	16,000	By Closing Work-in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,70,000					
Add: Purchases	8,20,000					
	9,90,000					
Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages – W.N. (1)			4,04,800			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,00,000			
To Indirect expenses: Hire charges of Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			19,20,800

Working Notes:

(1) Direct Wages – 5,00,000 units @ Rs. 0.80 = Rs. 4,00,000
12,000 units @ Rs. 0.40 = Rs. 4,800
Rs. 4,04,800

(2) Hire charges on Machinery (5,00,000 units @ Rs. 0.60) Rs. 3,00,000

Question 24

On 31st March, 2022 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2022

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Stock on 1st April 2021			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

(a) Stocks on 31st March, 2022 were:
Raw Materials Rs. 16,200 Finished goods Rs. 18,100 Semi-finished goods Rs. 7,800

(b) Salaries and wages unpaid for March 2022 were respectively, Rs. 900 and Rs. 2,000 Machinery is to be depreciated by 10% and office furniture by 71/2 %

(c) Provision for doubtful debts is to be maintained @ 1% of sales Office premises occupy 1/4 of total area.

(d) Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2022.

[SM, Similar RTP Jan 25, PYQ Dec 21]

Answer

In the books of Mr. White

Manufacturing Account for the year ended 31st March, 2022

Particulars		Rs.	Particulars	Rs.
Raw material consumed:			By Closing Stock of Work in Progress	7,800
To Opening Stock of Raw Materials	21,000		By Sale of Scrap	2,500
Add: Purchases	85,000		By Cost of goods Manufactured (Transferred to Trading Account)	1,19,000
Less: Closing Stock	16,200	89,800		
To Opening Stock of WIP		9,500		
To Wages	13,000			
Add: Outstanding Wages	2,000	15,000		
To Carriage on Purchases		1,500		

To Repairs to Plant		1,100		
To Rent *(3/4)*		4,500		
To Lighting (2/3)		900		
To Depreciation of Plant		7,000		
		1,29,300		1,29,300

Trading Account for the year ended 31st March, 2022

Particulars	Rs.	Particulars	Rs.
To Opening Stock of finished goods	15,500	By Sales	1,67,200
To Cost of goods transferred from Manufacturing A/c	1,19,000	By Closing Stock of finished goods	18,100
To Gross Profit c/d	50,800		
	1,85,300		1,85,300

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

Particulars		Rs.	Particulars	Rs.
To Salaries	10,000		By Gross Profit b/d	50,800
Add: Outstanding	900	10,900	By Commission	450
To Telephone & Postage		1,000		
To Repairs to Furniture		350		
To Depreciation of furniture		750		
To Rent (1/4)		1,500		
To Lighting (1/3)		450		
To General Expenses		1,500		
To Provision for doubtful Debts: Required (1 % of Rs. 1,67,200)	1,672			
Less: Existing Provision	1,650	22		
To Net Profit		34,778		
		51,250		51,250

Balance Sheet as at 31st March, 2022

Capital and Liabilities		Rs.	Assets		Rs.
Capital Account	1,00,000		Plant & Machinery	70,000	
Add: Net Profit	34,778	1,34,778	*Less*: Depreciation	7,000	63,000
Bank Loan		8,500	Office Furniture	10,000	
Sundry Creditors		15,000	*Less*: Depreciation	750	9,250
Bills Payable		7,500	Closing Stock		
Salary Payable		900	Raw Materials		16,200
Wages Payable		2,000	Work in Progress		7,800
			Finished Goods		18,100
			Sundry Debtors	24,000	
			Less: Provision for Bad & Doubtful Debts	1,672	22,328
			Bills Receivable		15,000
			Cash at Bank		17,000
		1,68,678			1,68,678

Question 25

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

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

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

[PYQ June 24]

Answer

In the Books of Mr. Prakash

Manufacturing Account for the year ended on March 31,2024

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

Question 26

1. By-products valued at cost or net realisable value whichever is lower.
2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced.
3. If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.
4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.
5. The Trading Account will show the quantities of finished goods, raw materials and work- in-progress.
6. Overhead is defined as total cost of direct material, direct wages and direct expenses.
7. Manufacturing A/c is prepared by an enterprise engaged in trading activities.

[SM]

Answer

1. False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.
2. False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.
3. True: Manufacturing account deals with the raw material and work in progress.
4. True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.
5. False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.
6. False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.
7. False: Manufacturing A/c is prepared by the entities engaged in manufacturing activities.

Question 27

Write short note on by-products.

[SM]

Answer

By-products generally have insignificant value as compared to the value of main product. They are generally valued at net realisable value, if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

Question 28

Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses.

[SM]

Answer

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.
Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

Question 29

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.

[SM]

Answer

In the Books of Mr. Pankaj
Manufacturing Account for the year ended on March 31,2022

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

Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

Question 30

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2021-22. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	....
	To Creditors A/c	....		By Closing Stock A/c	....

Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Raw Material Consumed	....	By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1) Purchase of machinery worth Rs. 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
2) Wages include the following
   Paid to Factory Workers - Rs. 3,00,000 Paid to labour at office - Rs. 50,000
3) Direct Expenses include following:
   - Electricity charges of Rs. 80,000 of which 30% pertained to office.
   - Fuel Charges of Rs. 20,000
   - Freight Inwards of Rs. 35,000
   - Delivery charges to customers - Rs. 20,000.

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

[SM, PYQ Nov 20, MTP May 24]

Answer

Manufacturing A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Raw Material Consumed (Balancing Figure)	10,00,000	By Trading A/c (W.N. 4)	18,00,000
To Wages (W.N. 2)	3,00,000		
To Depreciation (W.N. 1)	3,00,000		
To Direct Expenses (W.N. 3)	2,00,000		

	18,00,000		18,00,000

Raw Material A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Opening Stock A/c	1,00,000		By Raw Material Consumed (from Trading A/c above)	10,00,000
	To Creditors A/c (W.N. 5)	13,00,000		By Closing Stock A/c (Balancing Figure)	4,00,000
		14,00,000			14,00,000

Working Notes:

1) Since purchase of Machinery worth Rs. 10,00,000 has been omitted. So, depreciation omitted from being charged = Rs. 10,00,000 X 10% = Rs.1,00,000
Correct total depreciation expense = Rs. (2,00,000 + 1,00,000) = Rs. 3,00,000

2) Wages worth Rs. 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 30%)	24,000
Delivery Charges to Customers	20,000
Total expenses not part of Direct Expenses	44,000
=> Revised Direct Expenses	= Rs. (2,44,000 - 44,000) = Rs. 2,00,000

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

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

Particulars	Amount Rs.
Current Balance transferred	17,94,000
Add: Depreciation charges not recorded earlier	1,00,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(44,000)
Revised balance to be transferred	18,00,000

5) Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c To Balance c/d	22,00,000 6,00,000		By Balance b/d By Raw Materials A/c (Bal. figure)	15,00,000 13,00,000
		28,00,000			28,00,000

Question 31

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:

Trial Balance as on 31st March 2022

Particulars	Dr. Rs.	Particulars	Cr.Rs.
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000

Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information

(a) Stock of finished goods at the end of the year Rs.1,00,000.

(b) A provision for doubtful debts is to be created. at 5% on Sundry Debtors. Depreciation on building Rs. 1,000 and Rs. 3,000 on Plant & Machinery to be provided.

(c) Accrued commission of Rs. 12,500 is to be received for the year. Interest has accrued on investment Rs. 15,000.

(d) Salary Outstanding Rs. 2,000 and Prepaid Interest Rs. 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022.

[SM, PYQ May 22]

Answer

In the books of Mr. Pandit

Manufacturing Account for the year ended 31st March, 2022

Particulars		Rs.	Particulars	Rs.
To Opening Stock of Raw Materials		1,50,000	By Cost of Manufactured goods transferred to Trading A/c	8,08,000
To Purchase	5,00,000			
Less: Purchase Return	5,000	4,95,000		
To Carriage Inwards		15,000		
To Direct Wages		80,000		

To Power		30,000		
To Coal and fuel		15,000		
To Factory Rent and Rates		20,000		
To Depreciation on Machinery		3,000		
		8,08,000		8,08,000

Trading Account for the year ended 31st March, 2022

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

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

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

Balance Sheet as at 31st March, 2022

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

			Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at Bank		5,000
		4,03,000			4,03,000

Question 32

The following is the trial balance of Mr. Samuel for the year ended 31st March,2024:

Trial Balance as on 31st March,2024

Particulars	Dr.	Cr.
Capital		9,50,000
Sundry Creditors		3,25,000
Purchase Returns		50,000
Loan from Mr. Sahil		4,00,000
Provision for Bad and Doubtful Debts		25,000
Sales		44,20,000
Bank overdraft		6,00,000
Opening Stock:		
Raw Materials	2,50,000	
Finished goods	4,25,000	
Purchase of Raw Materials	34,00,000	
Land	50,000	
Building	6,00,000	
Loose tools	1,50,000	
Plant & Machinery	3,00,000	
Investments	2,50,000	
Cash in Hand	15,500	
Cash in Bank	43,500	
Furniture & Fixtures	1,25,000	
Sundry Debtors	3,75,000	
Drawings	60,000	
Salaries	90,000	
Coal and Fuel	1,05,000	
Factory rent	77,000	
General Expenses	39,000	
Sales Return	55,000	
Bad Debts	15,000	
Direct Wages (Factory)	1,20,000	
Power	80,000	
Interest Paid on Bank overdraft	90,000	
Carriage Inwards	30,000	
Carriage Outwards	25,000	
	67,70,000	67,70,000

Additional Information:

(i) Stock of Raw materials and finished goods at the end of the year was ₹ 5,00,000 and ₹ 4,37,500 respectively.

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

(iii) Depreciate building by 10%, Plant and machinery by 15% and Furniture and fixtures by 10%,
(iv) One month Factory rent is outstanding.
(v) Interest has accrued on investment and rate of interest is 10% p.a.
(vi) Interest on loan from Mr. Sahil is payable @ 12% per annum. The loan was taken on 01.10.2023.

You are required to prepare Manufacturing Account, Trading Account, Profit and Loss Account and Balance sheet for the year ended 31 March,2024.

[RTP June 24]

Answer

In the books of Mr. Samuel
Manufacturing Account
for the year ended 31st March,2024

Particulars		₹	Particulars	₹
To Opening Stock of Raw Material		2,50,000	By Closing stock	5,00,000
To Purchase	34,00,000		By Cost of Manufactured goods Transferred to Trading A/c	35,64,000
Less: Purchase Return	50,000	33,50,000		
To Carriage Inwards		30,000		
To Direct Wages		1,20,000		
To Power		80,000		
To Coal and fuel		1,05,000		
To Factory Rent		84,000		
To Depreciation on Machinery		45,000		
		40,64,000		40,64,000

Trading Account
for the year ended 31st March,2024

Particulars	₹	Particulars	₹	₹
To Opening Stock of Finished goods	4,25,000	By Sales	44,20,000	
		Less: Sales Return	55,000	43,65,000
To Cost of goods transferred from Manufacturing A/c	35,64,000	By Closing Stock		4,37,500
To Gross Profit c/d	8,13,500			
	48,02,500			48,02,500

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

Particulars		₹	₹ Particulars	₹
To Carriage Outward		25,000	By Gross Profit b/d	8,13,500
To General expenses		39,000	By Accrued Interest	25,000
To Salaries		90,000		
To Interest Paid to bank		90,000		
To Interest to Mr. Sahil		24,000		
To Provision for Bad & Doubtful Debts	18,750			

Add: Bad Debts	15,000			
Less: Old Provision for Doubtful Debts	25,000	8,750		
To Depreciation (60,000+12500)		72,500		
To Net Profit c/d		4,89,250		
		8,38,500		8,38,500

Balance Sheet
as on 31st March,2024

Capital and Liabilities		₹	₹ Assets		₹
Capital	9,50,000		Land		50,000
Add: Net Profit	4,89,250		Plant & Machinery	3,00,000	
Less: Drawing	(60,000)	13,79,250	Less: Depreciation	45,000	2,55,000
Sundry Creditors		3,25,000	Building	6,00,000	
Factory rent Outstanding		7,000	Less: Depreciation	60,000	5,40,000
			Furniture & Fixtures	1,25,000	
Loan from Mr. Sahil	4,00,000		Less: Depreciation	12,500	1,12,500
Interest due	24,000	4,24,000	Investments		2,50,000
Bank Overdraft		6,00,000	Accrued Interest		25,000
			Closing Stock		
			Raw materials	5,00,000	
			Finished goods	4,37,500	9,37,500
			Loose Tools		1,50,000
			Sundry Debtors	3,75,000	
			Less: Provision for Bad & Doubtful Debts	18,750	3,56,250
			Cash in Hand		15,500
			Cash at Bank		43,500
		27,35,250			27,35,250

Question 33

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 (₹)	Credit (₹)
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 ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

[RTP Nov 23, May 20, PYQ May 18]

Answer

M/s Shrinivas & Associates
Trading Account
for the year ended 31st March 2023

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
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		3,22,000			
		18,86,000			18,86,000

M/s Shrinivas & Associates
Profit and Loss Account
for the year ended 31st March 2023

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

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

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

					1,200 14,85,200
		14,85,200			

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 /15)	(1,200)
Transfer to Profit and Loss A/c	4,800
(2) Depreciation	
Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000
(3) Interest on Loan	
Interest on Loan ₹ 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 (₹)		Amount (₹)
To bad debts A/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

Question 34

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

	Dr.	Cr.
	₹	₹
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 ₹ 15,000 due from Ravi and included among the creditors ₹ 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 ₹ 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 ₹ 2,000 had been omitted from the books.

(8) Stock on 31.12.2022 was ₹ 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.

[RTP June 23, Nov 18, May 21, MTP Oct 18, March 22, Dec 23, July 24 (Same Concept, different figures)]

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		1,72,515		
		4,09,700		4,09,700

Balance Sheet of Prakash
as at 31st December, 2022

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

Working Notes:

(1) Sundry debtors Balance as per trial balance	1,20,000
Less: Due to Ravi	5,000
	1,15,000
(2) Provision for bad & doubtful debts: @ 5% on ₹ 1,15,000	5,750
Provision for discount: 2% on ₹ 1,09,250 (1,15,000 -5,750)	2,185
(3) Sundry creditors Balance as per trial balance	74,000
Less: Set off in respect of Ravi	5,000
	69,000
Add: Purchase invoice omitted	2,000

	71,000

Question 35

Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	
	46,505	68,665

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.
3. Depreciation to be provided on furniture at 10% per annum.

[RTP May 22]

Answer

Redrafted Trial Balance of Mr. Bansal as on 31st March,2021

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-
Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840
Carriage outward	725	-
Rent paid	800	-

Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	48,190

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

Dr.					Cr.
Particulars	₹	₹	Particulars	₹	₹
To Opening stock		17,500	By Sales	29,000	
To Purchases	13,000		Less: Returns inward	(550)	28,450
Less: Returns outward	(840)	12,160	By Stock destroyed by fire		2,000
To Wages		850	By Closing stock		18,790
To Carriage inward		1,240			
To Gross profit		17,490			
		49,240			49,240
To Carriage outward		725	By Gross profit		17,490
To Rent		800			
To Advertisement		950			
To Bad debts		600			
To Provision for doubtful debts (5% of ₹ 4,400)		220			
To Loss of stock by fire		500			
To Depreciation on furniture (10% of ₹1,500)		150			
To Net profit		13,545			
		17,490			17,490

Balance Sheet of Mr. Bansal
as at 31st March,2021

Liabilities		₹	Assets		₹
Capital	16,000				
Add: Net profit	13,545		Furniture	1,500	
	29,545		Less: Depreciation	150	1,350
Less: Drawings	3,305	26,240	Deposit with X		1,400
Sundry creditors		2,200	Closing Stock		18,790
Outstanding rent		150	Sundry debtors	5,000	
			Less: Bad debts	600	
				4,400	

		Less: Provision for Doubtful Debts	220	4,180
		Insurance claim receivable		1,500
		Cash		1,370
	28,590			28,590

Question 36

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

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

Additional Information:

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

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

[RTP Nov 21, 19, May 18, MTP Oct 20, March 21, Nov 21, April 23, Nov 23, June 24]

Answer

Rectification Entries

	Particulars		Dr. Amount	Cr. Amount
			₹	₹
(i)	Returns inward account	Dr.	10,300	
	Sales account	Dr.	6,900	
	To Purchases account			10,300
	To Returns outward account			6,900

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

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

Dr. Cr

			Amount				Amount
		₹	₹			₹	₹
To	Opening stock		1,29,000	By	Sales	8,54,300	
To	Purchases	6,12,400			Less: Sales return	10,300	8,44,000
	Less: Purchases return	6,900	6,05,500	By	Closing stock		
To To To	Carriage inward Wages Gross profit c/d		4,500 46,860 5,58,140		₹ $3,20,000 \times \frac{100}{80} \times \frac{100}{80}$		5,00,000
			13,44,000				13,44,000
To	Salaries		90,200	By	Gross profit b/d		5,58,140
To	Rent		17,200	By	Bad debts recovered		1800
To	Advertisement expenses		16,700				
To	Printing and stationery		5,000				
To	Bad debts		4,400				
To	Carriage outward		5,400				
To	Provision for doubtful debts						
	5% of ₹ 4,80,000	24,000					
	Less: Existing provision	12,800	11,200				
To	Provision for discount on debtors						
	2.5% of ₹ 4,56,000	11,400					
	Less: Existing provision	5,500	5,900				
To	Depreciation:						

	Plant and machinery 16,000						
	Furniture and fittings 4,100		20,100				
To	Office expenses		40,640				
To	Interest on loan		12,000				
To	Net profit						
(Transferred to capital account)			3,31,200				
			5,59,940				5,59,940

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

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

Question 37

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

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

Factory Rent	8,000		
Insurance	63,000		
General Expenses	10,000		
Bad debts	25,000		
Discount allowed	65,000		
	58,93,000		58,93,000

Additional Information to be considered:

(i) Closing Stock on March 31st 2024 is ₹ 5,20,000.

(ii) During the year, Plant and Machinery was purchased for ₹ 3,00,000 but it was debited to Purchase Account.

(iii) 3 months factory rent is due but not paid ₹ 3,000.

(iv) Provide depreciation at 5% per annum on furniture and 10% on plant and machinery and motor van.

(v) Further bad debts ₹ 7,000.

(vi) Provision for doubtful debts to be increased to ₹ 30,000 at year- end.

(vii) Provision for discount on Debtors to be made at 2%.

[PYQ Sep 24]

Answer

Trading Account
for the year ended 31st March, 2024

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

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

Particular	Amount ₹	Particular	Amount ₹
To Salaries	1,40,000	By Gross profit b/d	14,56,000
To Advertisements	60,000	By Discount Received	
To Insurance	63,000		37,000
To General expenses	10,000		
To Discount Allowed	65,000		
To provision for doubtful debts	37,000		

(W.N.1) To Provision for discount on debtors (W.N.2)	8,400		
To Depreciation (W.N. 3)	93,300		
To Net Profit transferred to Capital a/c	10,16,300		
	14,93,000		14,93,000

Balance Sheet
as at 31st March, 2024

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

Working Notes :

(1) Provision for Bad and Doubtful Debts Account

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

(2) Provision for discount on debtors

Debtors as per Trial Balance	₹4,57,000

Less: Further bad-debts	(7,000)
Less: New provision for Doubtful Debts	(30,000)
Debtors before provision for discount	4,20,000
Provision for discount on debtors @2%	₹ 8,400

(2) Depreciation

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

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

Question 38

Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2020.

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		
	35,000		35,000

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) Provision 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

(MTP May 20, Nov 21, Nov 22 (different figures), PYQ May 19)

Answer

Trading & Profit and Loss Account of Mr. Sandeep
for the year ended 31st December, 2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		1,400	By Sales	9,000	

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

Balance Sheet of Mr. Sandeep
as on 31.3.2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable Outstanding expenses:		2,500	Less: Provision on bad debts	(1,000)	4,000
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

Question 39

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

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

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

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

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

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

Other Information:

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

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

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

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

[PYQ July 21]

Answer

In the books of M/s Designer wear

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

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

Balance Sheet

as on 31st March, 2021

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000
			Security deposit-		7,000
Bank Loan	3,00,000		Telephone		
Less: repayment	60,000	2,40,000	Bank		89,700

outstanding electricity exp		20,000 12,25,700	Closing stock		5,50,000 12,25,700

Working note:

Bank Account

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

Question 40

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

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

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

(i) Interest on capital @ 6% p.a.

(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

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

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

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

[PYQ Nov 19]

Answer

Profit and Loss Account (Revised)

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

Balance Sheet of Mittal
as on 31st December, 2018

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000
Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		Less: Provision for doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		Less: Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	Less: Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

Question 41

The balance sheet of S on 1st April, 2021 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2021-22, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

(i) Commission paid to selling agent ₹ 65,000
(ii) Discount received from creditors ₹ 75,000
(iii) Purchased a vehicle of ₹ 50,000 on 31st March, 2022
(iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
(v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022 But while preparing the Profit and Loss Account he had forgotten to provide for
(1) prepaid expenses ₹ 15,000 and
(2) outstanding commission₹ 35,000.

His current assets and liabilities on 31st March, 2022 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000.
During the year he introduced further capital of ₹ 3,00,000 into the business.
You are required to prepare the balance sheet as at March 31, 2022.

[PYQ Nov 22]

Answer

Balance Sheet of S
as on 31st March, 2022

Liabilities		₹	Assets	₹
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Tradereceivables (WN. 2)	12,61,000
	28,50,000		Vehicles (WN. 3)	2,70,000
Add: Introduction of capital	3,00,000		Furniture & Fixtures (WN. 4)	5,85,000
		31,50,000	Inventories	6,50,000
Outstanding commission		35,000	Prepaid expenses	15,000
Trade payables		1,46,000		
		33,31,000		33,31,000

Working Note 1
Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		6,85,000

Working Note 2
Trade Receivables

Particulars	₹	Particulars	₹
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
		By Balance c/d (b/f)	12,61,000
	13,00,000		13,00,000

Working Note 3
Vehicles A/c

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		3,25,000

Working Note 4
Furniture & Fixtures A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	6,50,000		6,50,000

Question 42

The following is the schedule of balances as on 31.03.23 extracted from the books of M/s RM & Co.

Particulars	Dr.₹	Cr. ₹
Bank charges	24,000	
Buildings	9,00,000	
Capital A/c		19,48,000
Carriage Outwards	30,000	

Cash at bank	39,000	
Cash at hand	21,000	
Discount allowed	36,000	
Discount received		24,000
Drawings	1,80,000	
Electricity Charges	33,000	
Freight on purchases	18,000	
Furniture & fixtures	3,21,000	
General office expenses	45,000	
Insurance Premium	82,500	
Interest on loan	35,000	
Loan		6,00,000
Printing and Stationery	27,000	
Purchase Returns		39,000
Purchases	21,30,000	
Rent for Godown	82,500	
Salaries	1,65,000	
Sales		35,50,000
Sales Returns	63,000	
Stock on 1.4.2022	9,30,000	
Sundry Creditors		6,45,000
Sundry Debtors	12,90,000	
Vehicles	3,00,000	
Vehicles running expenses	54,000	
TOTAL	68,06,000	68,06,000

Prepare Trading and Profit & Loss Account for the year ended 31 st March 2023 and the Balance sheet as at that date after making provision for the following:

(i) Value of stock as on 31.03.2023 is ₹ 4,10,000. This includes goods returned by customers on 31st March,2023 to the value of ₹ 22,000 for which no entry has been passed in the books.

(ii) Purchases include furniture purchased on 01.10.2022 for ₹ 30,000.

(iii) Depreciate:

(1) Building by 5%

(2) Furniture and Fixtures by 10%

(3) Vehicles by 20%

(iv) Sundry debtors include ₹ 35,000 due from Goku and Sundry creditors include ₹ 25,000 due to him.

(v) Provision for bad debts is to be maintained at 4% of Sundry Debtors.

(vi) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period form 1.05.2022 to 30.4.2023.

[PYQ Dec 23]

Answer

M/s RM & Co.
Trading Account
for the year ended 31st March, 2023

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To opening Stock		9,30,000	By Sales	35,50,000	
To Purchases	21,30,000		Less: Sales Returns	85,000	34,65,000

Less: Furniture included in purchases	30,000		By Closing Stock		4,10,000
Less: Purchase Returns	39,000	20,61,000			
To Freight on purchases		18,000			
To Gross Profit c/d		8,66,000			
		38,75,000			38,75,000

M/s RM & Co.
Profit and Loss Account
for the year ended 31st March, 2023

Particular	Amount ₹	Particular	Amount ₹
To Salaries	1,65,000	By Gross profit b/d	8,66,000
To Rent for Godown	82,500	By Discount received	24,000
To Provision for doubtful debts (WN 3)	49,720		
To Discount Allowed	36,000		
To Carriage outwards	30,000		
To Printing and stationery	27,000		
To Electricity charges	33,000		
To Insurance premium (WN 1)	37,125		
To Depreciation (WN 2)	1,38,600		
To General office expenses	45,000		
To Bank Charges	24,000		
To Interest on loan	35,000		
To Vehicle running expenses	54,000		
To Net Profit transferred to Capital a/c	1,33,055		
	8,90,000		8,90,000

Balance Sheet of M/s RM & Co.
as at 31st March, 2023

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	19,48,000		Building	9,00,000	
Add: Net Profit	1,33,055		Less: Dep.	(45,000)	8,55,000
Less: Drawings	(1,80,000)				
Less: Insurance Premium	(42,000)	18,59,055	Vehicle	3,00,000	
			Less: Dep.	(60,000)	2,40,000
Loan		6,00,000			
Sundry Creditors	6,45,000		Furniture & Fixture	3,21,000	
			Add: Addition	30,000	
Less: Due to Goku	(25,000)	6,20,000	Less: Dep.	(33,600)	3,17,400
			Stock in Trade		4,10,000
			Sundry Debtors (WN 3)	12,43,000	
			Less: Provision for	(49,720)	11,93,280

			doubtful debts		
			Cash at hand		21,000
			Cash in bank		39,000
			Prepaid insurance (1)		3,375
		30,79,055			30,79,055

Working Notes

(1) Insurance premium

	₹
Insurance premium as given in trial balance	82,500
Less: Personal premium	(42,000)
Less: Prepaid for 1 month **40,500 × 1)** _____ (**12**	(3,375)
Transfer to Profit & Loss a/c	37,125

(2) Depreciation

Building @ 5% on 9,00,000	45,000
Vehicle @ 20% on 3,00,000	60,000
Furniture & Fixturs @ (10% on 3,21,000) + (10 %x1/2 on 30,000)	33,600
Total	1,38,600

(3) Calculation of provision for doubtful debts

Sundry debtors as per trial balance	12,90,000
Less: Sales returns not recorded	(22,000)
	12,68,000
Less: Cancellation against sundry creditors	(25,000)
Adjusted balance of sundry debtors	12,43,000
Provision for doubtful debts @ 4%	49,720

Question 43

From the following information provided by Mr. Shivam for the year ended 31st March,2022. Find the unknown figures for the certain items:

Particulars	Amount (₹)
Machinery	10,00,000
Trade Payables	70,000
Inventory	56,000
Total Liabilities including Capital	12,25,000
Cash at bank	75,000
Cash in hand	?
Trade Receivables	?
Opening Capital	7,50,000
Profit during the Year	45,000
Capital introduced during the Year	1,00,000
Closing Capital	?
Loans	?

Additional information: During the year sales of ₹ 13,75,000 was made of which ₹13,15,000 have been received.

[MTP Nov 22]

Answer

Trade receivables= Sales- Amount received during the Year
= ₹ (13,75,000-13,15,000)
= ₹ 60,000
Since, we know Assets= Capital+ Liabilities
Therefore, balance of assets is also ₹ 12,25,000 and Cash balance will be computed as under:

Particulars	Amount (₹)
Total Assets	12,25,000
Less: Machinery	(10,00,000)
Less: Inventory	(56,000)
Less: Cash at bank	(75,000)
Less: Trade receivables	(60,000)
Cash in hand	34,000

Computation of Closing Capital:

Particulars	Amount (₹)
Opening Capital	7,50,000
Add: Introduced during the year	1,00,000
Add: Profit during the year	45,000
Closing Capital	8,95,000

Computation of Amount of Loans:
Loans= Total Liabilities and capital - Closing capital - Trade payables
= ₹ (12,25,000 - 8,95,000 - 70,000)
= ₹ 2,60,000

Question 44

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

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

Details of his bank transactions were as follows:

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

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

[MTP April 24]

Answer

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

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

Balance Sheet
as on 31st December, 2023

		Amount		Amount
Liabilities		₹	Assets	₹
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	14,000		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	(25,000)	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

Working Notes:

1. Fixed assets account

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

2. Bank account

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

		By Balance c/d	50,000
	4,09,250		4,09,250

3. Debtors account

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales ▯ 125 (₹ 2,60,000 100)	3,25,000	By Balance c/d (balancing figure)	87,500
	4,27,500		4,27,500

4. Creditors account

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

5. Balance Sheet as on 1st January, 2023

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

Question 45

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

Following information is given to you:

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

Analysis of his bank pass book reveals the following information:

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

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

Prepare:

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

[MTP May 24]

Answer

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

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

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

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

Balance Sheet
as at 31st March, 2024

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	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 from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

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

2. Sundry Creditors Account

	₹		₹

To	Bank A/c	7,00,000	By	Balance b/d	40,000
To	Cash A/c	20,000	By	Purchases (Bal. fig.)	7,70,000
To	Balance c/d	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 Laxman's 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

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

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

Question 46

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

(i) Receipts and Payments during 2023-24:

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

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

	1st April, 2023	31st March, 2024
	(₹)	(₹)

Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Inventory	38,600	55,700
12% Investment	85,000	85,000
Outstanding Salaries	12,000	14,000

(iii) Additional information:

(1) 20% of total sales and 20% of total purchases are in cash.

(2) Of the debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.

(3) Provide depreciation @10% p.a. on machinery and furniture

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

[MTP Aug 24]

Answer

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

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

Balance Sheet
as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Prakash's Capital			Machinery	85,000	
on 1st April, 2023	3,32,150		*Less:* Depreciation	(8,500)	76,500
Add: Fresh Capital	50,000		Furniture	24,500	
Add: Profit for the	1,31,100		*Less:* Depreciation	(2,450)	22,050

year					
	5,13,250				
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,50,000	
Sundry creditors		2,08,200	*Less:* Provision for		
Outstanding expenses		14,000	Doubtful debts	(7,000)	3,43,000
			Investment (including accrued interest ₹ 450)		85,450
			Cash at bank		36,600
			Cash in hand		20,150
		6,39,450			6,39,450

Working Notes:

1. Balance sheet as on 1-4-2023

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

2. Total Debtors Account

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

3. Total Creditors Account

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

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

Question 1

The receipts and payments for the Swaraj Club for the year ended March 31, 2022 were: Entrance fees Rs. 300; Membership Fees Rs. 3,000; Donation for Club Pavilion Rs. 10,000, Foodstuff sales Rs. 1,200; Salaries and Wages Rs. 1,200 Purchase of Foodstuff Rs. 800; Construction of Club Pavilion Rs.11,000; General Expenses Rs. 600; Rent and Taxes Rs. 400; Bank Charges Rs. 160. Cash in hand–April. 1st Rs. 200, March. 31st Rs. 350
Cash in Bank–April. 1st Rs. 400; March. 31st Rs. 590
You are required to prepare Receipts and Payment Account.

[SM]

Answer

Swaraj Club
Receipts and Payments Accounts
for the year ended 31st March, 2022

Receipts	Rs.	Payments	Rs.
To Balance b/d(opening bal.) Cash in hand	200	By Salaries and Wages	1,200
To Cash with bank	400	By Purchase of foodstuff	800
To Entrance Fees	300	By club Pavilion (Expenditure on its construction)	11,000
To Membership Fees	3,000	BY general Expenses	600
To Donation of Account of Club Pavilion	10,000	By Rent and Taxes	400
To Sales of foodstuff	1,200	By Bank Charges	160
		By Balance c/d (closing bal) Cash in Hand	350
		Cash in Bank	590
	15,100		15,100

Question 2

During 2022, subscription received in cash is Rs. 42,000. It includes Rs. 1,600 for 2021 and Rs. 600 for 2023. Also Rs. 3,000 has still to be received for 2022.
Required: Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

[SM]

Answer

		Rs.
Amount received		42,000
Add : Outstanding on 31st Dec., 2022		3,000
		45,000
Less : Received on account of 2021	1,600	
2023	600	(2,200)
		42,800

The various accounts will appear as under:

Subscription Outstanding Account

2022		Rs.	2022		Rs.
Jan. 1	To Balance b/d (transfer)	1,600	Dec. 31	By Subscription A/c	1,600
Dec. 31	To Subscription A/c	3,000	Dec. 31	By Balance c/d	3,000
		4,600			4,600
2023					
Jan. 1	To Balance b/d	3,000			

Subscription Account

2022		Rs.	2022		Rs.
Dec. 31	To Subscription Outstanding A/c (transfer)	1,600	Dec. 31	By Cash A/c	42,000
Dec. 31	To Subscription received in advance A/c	600	Dec. 31	By Subscription Outstanding A/c	3,000
Dec. 31	To Income and Expenditure A/c	42,800			
		45,000			45,000

Subscription received in Advance Account

2022		Rs.	2022		Rs.
Dec. 31	To Balance c/d	600	Dec. 31	By Subscription A/c	600
			2023		
			Jan. 1	By Balance b/d	600

Subscription outstanding Rs. 3,000 and Subscription received in advance Rs. 600 will be shown in the balance sheet on the assets and liabilities side respectively.

Question 3

Suppose salaries paid during 2022 were Rs. 23,000. The following further information is available:

					Rs.
Salaries	Un-paid on	31st	March	2021	1,400
"	pre-paid on	"	"	2021	400
"	un-paid on	"	"	2022	1,800
"	pre-paid	"	"	2022	600

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

[SM]

Answer

Salaries Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
April, 1, 2021	To Prepaid Salaries A/c	400	April, 1, 2021	By Salaries Outstanding A/c	1,400
March, 31, 2022	To Cash	23,000	March, 31, 2022	By Salaries Prepaid A/c	600
	To Salaries Outstanding A/c	1,800		By Transfer to Income & Expenditure A/c	23,200
		25,200			25,200

Salaries Outstanding Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
April, 1, 2021	To Salaries A/c	1,400	April,1, 2021	By Balance b/d	1,400
March, 31, 2022	To Balance c/d	1,800	March, 31, 2022	By Salaries A/c	1,800
		3,200			3,200
			April, 1,2022	By Balance b/d	1,800

Salaries Prepaid Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
April, 2021	To Balance b/d	400	April, 1, 2021	By Salaries A/c (transfer)	400
March 31, 2022	To Salaries A/c	600	March 31,2022	By Balance c/d	600
		1,000			1,000
April, 1, 2022	To Balance b/d	600			

Question 4

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2022:

Dr Receipts and payments A/c for the year ended on 31st March 2022 Cr

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To balance b/d	2,50,000	By Salaries and wages	1,65,000
To Subscription-		By Office expenses	35,000
2020-2021	65,000	By Sports equipment	3,42,000
2021-2022	3,55,000	By Telephone Charges	28,000
To Donations	55,000	By Electricity charges	32,000
To Entrance fees	85,000	By Travelling and conveyance	65,000
		By balance c/d	1,43,000
	8,10,000		8,10,000

Additional information :

(a) Outstanding subscriptions for the year ended 31st March, 2022 – Rs. 55,000.

(b) Outstanding salaries and wages – Rs. 40,000 for the year ended on 31st March 2022.

(c) Depreciate sports equipment by 25% for the year ended on 31st March 2022.

(d) Capitalize 50% of the entrance fees.

Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2022.

[SM]

Answer

In the books of New bird forty Club

Dr Income and expenditure Account for the year ended on 31st March 2022 Cr

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
Salaries and wages 1,65,000 Add: Outstanding Salaries for 2022 40,000	2,05,000	By Subscriptions 4,20,000 Add: Outstanding Subscriptions for 2022 55,000 Less: Outstanding Subscriptionsfor 2021 65,000	
To Office expenses	35,000		
To Depreciation (25% × 3,42,000)	85,500		
To Telephone Charges	28,000		4,10,000
To Electricity charges	32,000	By Donations	55,000
To Travelling and conveyance	65,000	By Entrance fees	42,500
Excess of income over expenditure	57,000	(50% × 85,000)	
	5,07,500		5,07,500

Question 5

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2022:

Details	Amount (Rs.)
Match expenses paid during the year ended 31st March 2022	1,10,000
Match fund as on 01.04.2021	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

[SM]

Answer

Balance sheet as at March 31st 2022 (extract)

Liabilities	Amt. (Rs.)	Assets	Amt (Rs.)
Match fund	30,000		
Add: Donation for match fund	55,000		
Add: Proceeds from sale of tickets	20,000		
Less: Match expenses (Note)	(1,05,000)		
	NIL		

Note: Since the expenses incurred are more than the Match fund available Rs. 1,05,000 we are limiting the expenses to Rs. 1,05,000. The remaining expenses of Rs. 5000 (1,10,000-1,05,000) will be debited to the Income and expenditure account.

Question 6

During the year ended 31st March, 2022, the subscriptions received by the Jaipur Literary Society were Rs. 4,50,000. These subscriptions include Rs. 20,000 received for the year ended 31st March, 2021. On 31st March, 2022, subscriptions due but not received were Rs. 15,000. Advance subscription received for the year ending 31st March 2022 but pertaining to year 2023 amounted to Rs. 26,000. The Subscriptions received in advance for the year ending 31st March, 2021 includes

Rs. 18,000 pertaining to year 2021-22. Show the subscription account in book of the society?

[SM]

Answer

In the books of Jaipur literary society

Dr Subscription A/c (for the year ended on 31st March 2022) Cr

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To outstanding subscriptions (2021)	20,000	By Advance subscriptions (2021)	18,000
To Income from Subscriptions A/c	4,37,000	By Bank A/c	4,50,000
To Advance subscriptions (2023)	26,000		
		By Outstanding subscriptions (2022)	15,000
	4,83,000		4,83,000

Question 7

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2022.

A club has 350 members each paying an annual subscription of Rs. 1,050. The Receipts and Payments Account for the year showed a sum of Rs. 4,10,000 received as subscriptions. The following additional information is provided: Subscriptions Outstanding on 31st March, 2021 – Rs. 45,000 Subscriptions Received in Advance on 31st March, 2022 – Rs. 62,000 Subscriptions Received in Advance on 31st March, 2021 – Rs. 30,000

[SM]

Answer

Subscription Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Outstanding subscriptions (2021)	45,000	By Advance subscriptions (2021)	30,000
To Income from subscriptions A/c (350*1050)	3,67,500	By Bank A/c	4,10,000
To Advance subscriptions (2023)	62,000	By Outstanding subscriptions (2021)	34,500
	4,74,500		4,74,500

Question 8

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2022

All the figures in thousands

Receipts	Rs.	Payments	Rs.
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	

Sale of Equipment	80	Treasurer of 2021	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2021	March, 31, 2022
	Rs.	Rs.
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman outstanding		300

For the year ended March 31, 2022, the honorarium to the Secretary and Treasurer are to be increased by a total of Rs. 200. Prepare the Income and Expenditure Account and Balance Sheet for period ending 31st March, 2022 .

[SM, PYQ May 22]

Answer

Income and Expenditure Account of Exe Club
for the year ending 31st March, 2022

(all figures in thousand)

Expenditure		Rs.	Income	Rs.
To Groundsman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Fares' Expenses	400		(Fares) less expenses	
Less : Contribution	(100)	300	(Rs. 300 - Rs. 250)	
To Printing & Office Expenses		260	By Proceeds of Variety Entertainment	780
To Repairs		460	By Interest (Rs. 30 + Rs. 20)	50
To Depreciation on Machinery				
Opening balance and Purchases	2,300			
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)			
		470		
To Honorarium to Sect. & Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over Expenditure		40		
		3,430		3,430

Balance Sheet of Exe Club
as on 31st March, 2022

Liabilities		Rs.	Assets	Rs.
Outstanding Expenses:				
Groundsman Bonus		300	Cash in Hand	250
Printing		80	Cash in deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (Rs.260 – Rs.150)		110	Interest Due	20
Capital Fund: Opening Add: Surplus for the year	3,080 40	3,120	Machinery and Equipments	1,750
Tournament Fund (Donation)		1,000		
		5,210		5,210

Balance Sheet
as on 1st April, 2021

Liabilities	Rs.	Assets	Rs.
Outstanding Expenses and		Cash in hand	100
Honorarium (Rs.100 + Rs.400)	500	Cash in Deposit A/c	2,230
Capital Fund (Balancing Figure)	3,080	Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

Question 9

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2022:

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	Rs.	Rs.
	2021	2022
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000

Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2022 was Rs. 5,250.

Required
From the above information you are required to prepare:
(a) The Club's Balance Sheet as at March 31, 2021;
(b) The Club's Income and Expenditure Account for the year ended March 31, 2022.
(c) The Club's Closing Balance Sheet as at March 31, 2022.

[SM]

Answer

(a) Sportswriters Club
Balance Sheet as on 31st March, 2021

Liabilities	Rs.	Rs.	Assets	Rs.
Outstanding expenses:			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		48,800

(b) Income and Expenditure Account
for the year ending 31st March, 2022

Expenditure		Rs.	Income	Rs.
To Salaries		11,460	By Subscription	28,912
To Rent & Electricity		7,329	By Interest on Fixed Deposit	2,000
To Magazines & Newspapers		2,286	By Misc. Income	700
To Sundry Expenses		10,075	By Excess of expenditure over income	2,888
To Depreciation:				
Furniture	960			
Sports Equipment	1,640			
Library Books	750	3,350		
		34,500		34,500

(c) Balance Sheet of Sports Writers Club
as on 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	
Rent & Electricity	973		Less : Depreciation	(960)	8,640
Newspapers	340	1,483			
Capital Fund:			Magazines & Sport Equipment:		
Opening balance	47,000		Opening balance Addition	7,200	
				1,000	
Less : Excess of exp. over income	(2,888)			8,200	
		44,112	Less : Depreciation	(1,640)	6,560
			Library Books :		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less : Depreciation	(750)	5,250
			Fixed Deposit		20,000
			Cash in hand & at bank		2,450
			Prepaid Expenses		620
			Subscription Receivable		1,575
			Interest accrued		500
		45,595			45,595

Working Notes:

(i)	Expenses	Salaries Rs.	Rent & Electricity Rs.	Magazines & News-Papers Rs.	Sundry Expenses Rs.
	Paid during the year	12,000	7,220	2,172	10,278
	Add : Outstanding on 31.3.2022	170	973	340	-
	Add : Prepaid on 31.3.2021	-	-	-	417
		12,170	8,193	2,512	10,695
	Less : Outstanding on 31.3.2021	(710)	(864)	(226)	- (620)
	Less : Prepaid on 31.3.2022 Expenditure for	-	-	-	
	the year	11,460	7,329	2,286	10,075

			Rs.
(ii)	Depreciation		
	Furniture @10% on Rs. 9,600		960
	Sports Equipment @ 20% on Rs. 8,200		1,640
	Library books - book value Revalued at		
	Subscription	6,000	
		(5,250)	750
(iii)	Received in cash		28,600
	Add : Receivable on 31.3.2022		1,575
			30,175
	Less: Receivable on 31.3.2021		(1,263)
			28,912

Question 10

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

Receipts and Payments Account

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

Details of other assets and liabilities are furnished as follows:

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

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

You are required to prepare:

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

(ii) Balance Sheet as on 31st March, 2024

[PYQ June 24]

Answer

In the books of Vandana Sports club.
Income and Expenditure Account
for the year ending 31st March, 2024

Expenditure		Amount (Rs.)	Income	Amount (Rs.)
To Salaries (W.N.2)		1,57,200	By Subscription (WN. 2)	2,95,500

To Rent & Electricity (W.N.2)		70,850	By Interest on Investments	8,000
To Magazines & Newspapers		16,600	By Misc. Income	19,850
To Sundry Expenses		71,050	By Entrance Fees	20,000
To Depreciation:				
Furniture	6,550			
Sports Equipment	10,500			
Library Books	2,500	19,550		
To Excess of income over expenditure		8,100		
		3,43,350		3,43,350

Balance Sheet
as on 31st March, 2024

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
			Furniture Cost	65,500	
			Less: Depreciation	(6,550)	58,950
			Sports Equipment:		
			Opening balance	41,500	
Capital Fund:			Addition	28,500	
Opening balance (W.N.1)	2,66,700			70,000	
Add: Excess of Income over exp	8,100		*Less*: Depreciation	(10,500)	59,500
Entrance fees (60%)	30,000	3,04,800	Library Books: Opening Balance	22,000	
			Addition	10,500	
Subscription received in advance		8,400		32,500	
Outstanding Expenses:			*Less*: Depreciation	(2,500)	30,000
Salaries	12,400		Investments (8% Bonds)		1,00,000
Rent & Electricity	7,600		Cash in hand		8,750
		20,000	Cash at Bank		53,400
			Subscription Receivable		20,600
			Interest accrued on Bonds		2,000
		3,33,200			3,33,200

Alternatively, the capitalised portion of entrance fee of Rs. 30,000 may be shown separately in the liability side.
Working Notes:

1. Balance Sheet
as on 31st March, 2023

Liabilities	Rs.	Rs.	Assets	Rs.
Outstanding expenses:			Furniture	65,500
Salaries	10,200		Library Books	22,000
Rent & Electricity	6,500	16,700	Sports Equipment	41,500
Subscription received in advance		7,000	Investments	1,00,000

Capital Fund (Balancing figure)		2,66,700	Cash in hand Cash at Bank Subscription receivable Interest accrued	5,200 35,500 18,700 2,000
		2,90,400		2,90,400

2.

(i)	Expenses	Salaries (Rs.)	Rent & Electricity (Rs.)
	Paid during the year	1,55,000	69,750
	Add: Outstanding on 31.3.2024	12,400	7,600
		1,67,400	77,350
	Less: Outstanding on 31.3.2023	(10,200)	(6,500)
	Expenditure for the year	1,57,200	70,850
(ii)	Depreciation:		
	(a) Furniture @10% on Rs. 65,500		6,550
	(b) Sports Equipment @ 15% on Rs. 70,000		10,500
	(c) Library books	32,500	
	Revalued at	(30,000)	2,500
			19,550
(iii)	Subscription:		
	Received as per receipt and payment A/c		2,95,000
	Add: Receivable on 31.3.2024		20,600
	Add: Prepaid as on 31.3.2023		7,000
			3,22,600
	Less: Receivable on 31.3.2023		(18,700)
	Less: Prepaid as on 31.3.2024		(8,400)
			2,95,500
iv	Entrance Fees:		
	Received as per receipt and payment A/c		50,000
	Less: Capitalized		(30,000)
	Charged to Income & Expenditure		20,000

Question 11

ABC sports club had the following income and expenditure account for the year ended 31st Dec 2022.

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

Particulars	Amount Rs.	Particulars	Amount Rs.
To Salaries	2,35,000	By Subscriptions	2,50,000
To Stationary Expenses	30,000	By Interest	90,000
To Rent and Taxes	5,000	By Donations	40,000
To Insurance	2,000	By Misc. Receipts	3,000
To Office Expenses	8,000		
To Depreciation			
Building	37,500		
Furniture	1,200		

Sports Equipment	1,000		
To Excess of Income over Expenses	63,300		
	3,83,000		3,83,000

Additional information:

	31-12-2021 Rs.	31-12-2022 Rs.
Govt. Securities	18,00,000	18,00,000
Subscription outstanding	70,000	1,00,000
Subscription received in advance	2,000	6,000
Salaries unpaid	10,000	15,000
Furniture	20,000	19,800
Land and Building	20,00,000	19,62,500
Sports Equipment	35,000	39,000
Stock of stationary	3,000	5,500

Cash in hand and Cash at bank as on 31-12-2021 is Rs. 1,08,000.
You are required to prepare Receipts and Payments Account for the period ending 31.12.2022 and Balance Sheet as on 31.12.2022.

[PYQ Dec 23]

Answer

The ABC sports club
Receipts and Payments Account
for the year ended 31st December, 2022

Receipts	Rs.	Payments	Rs.	Rs.
To Balance b/d \	1,08,000	By Salaries (W.N. 7)		2,30,000
To Subscriptions (W.N. 3)	2,24,000	By Stationery (W.N 2)		32,500
To Interest	90,000	By Rent & taxes		5,000
To Donation	40,000	By Insurances		2,000
To Misc. receipts	3,000	By Office expenses		8,000
		By Furniture (W.N 5)		1,000
		By Sports Equipment (W.N 6)		5,000
		By Balance c/d (balancing figure)		1,81,500
	4,65,000			4,65,000

Balance Sheet
as on December 31, 2022

Liabilities	Rs.	Assets	Rs.
Opening capital (W.N.1) 40,24,000		Govt. securities	18,00,000
Add: Surplus for 2022 63,300	40,87,300	Subscription Outstanding	1,00,000
Advance subscription	6,000	furniture	19,800
Salaries Outstanding	15,000	Land & building (WN.4)	19,62,500
		Sports Equipment	39,000
		Stationary stock	5,500
		Cash/ Bank	1,81,500

	41,08,300		41,08,300

Working Notes:

1. Balance Sheet
as on 31st December, 2021

Liabilities	Rs.	Assets	Rs.
Opening capital (bal. fig.)	40,24,000	Govt. securities	18,00,000
Advance subscription	2,000	Subscription Outstanding	70,000
Salaries Outstanding	10,000	Furniture	20,000
		Land & building	20,00,000
		Sports Equipment	35,000
		Stationary stock	3,000
		Cash/ Bank	1,08,000
	40,36,000		40,36,000

2.

Dr. Stationery Account Cr.

	Rs.		Rs.
To Balance b/d	3,000	By Income & exp	30,000
To Receipt & payment	32,500	By Balance c/d	5,500
	35,500		35,500

3.

Dr. Subscription Account Cr.

	Rs.		Rs.
To Outstanding as on 31-12-21	70,000	By Advance as on 31-12-21	2,000
To Income & exp	2,50,000	By Receipt & payment (bal. fig)	2,24,000
To Advance as on 31-12-22	6,000	By Outstanding as on 31-12-22	1,00,000
	3,26,000		3,26,000

4.

Dr. Land and Building Account Cr.

	Rs.		Rs.
To Balance b/d	20,00,000	By Depreciation	37,500
		By Balance c/d	19,62,500
	20,00,000		20,00,000

5.

Dr. Furniture Account Cr.

	Rs.		Rs.
To Balance b/d	20,000	By Depreciation	1,200
To Bank (bal.fig.)	1,000	By Balance c/d	19,800
	21,000		21,000

6.

Dr. Sports Equipment Account Cr.

	Rs.		Rs.
To Balance b/d	35,000	By Depreciation	1,000
To Bank (bal.fig.)	5,000	By Balance c/d	39,000
	40,000		40,000

7.

Dr. Salary Account Cr.

	Rs.		Rs.
To Receipts & payment A/c	2,30,000	By Outstanding for 2021	10,000
To Outstanding for 2022	15,000	By Income and expenditure A/c	2,35,000
	2,45,000		2,45,000

Question 12

The Income and Expenditure Account of the Youth Club for the Year 2022 is as follows:

Expenditure	Rs.	Income	Rs.
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1,000
To Secretary's Honorarium	1,000	By Annual Sport meet receipts	750
To Stationery & Printing	450		
To Annual Dinner Expenses	1,500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9,500		9,500

This account had been prepared after the following adjustments:

	Rs.
Subscription outstanding at the end of 2021	600
Subscription received in advance on 31st December, 2021	450
Subscription received in advance on 31st December, 2022	270
Subscription outstanding on 31st December, 2022	750

Salaries Outstanding at the beginning and the end of 2022 were respectively Rs. 400 and Rs. 450. General Expenses include insurance prepaid to the extent of Rs. 60. Audit fee for 2022 is as yet unpaid. During 2022 audit fee for 2021 was paid amounting to Rs. 200.

The Club owned a freehold lease of ground valued at Rs. 10,000. The club had sports equipment on 1st January, 2022 valued at Rs. 2,600. At the end of the year, after depreciation, this equipment amounted to Rs. 2,700. In 2021, the Club has raised a bank loan of Rs. 2,000. This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to Rs. 1,600.

Required

Prepare the Receipts and Payments Account for 2022 and Balance Sheet as at the end of the year.

[SM, PYQ Dec 21, Nov 22]

Answer

The Youth Club
Receipts and Payments Account
for the year ended 31st December, 2022

Receipts	Rs.	Rs.	Payments	Rs.	Rs.
To Balance b/d (balancing		1,390	By Salaries	4,750	
figure)	7500		Add: Paid for 2021	400	
To Subscriptions as per				5,150	
Income	600		Less: Unpaid for 2022	(450)	4,700
& Expenditure Account	270		By General Expenses	500	
Add: 2021's Received 2023's	8,370		Add : Paid for 2023	60	560
Received	(450)		By Audit fee (2022)		200
			By Secy. Honorarium		1,000
Less: 2022's Received in 2021	7,920		By Stationery & Printing		450
Less: 2022's Outstanding	(750)	7,170	By Annual Dinner Expenses		1,500
To Entrance Fees		250	By Interest & Bank Charges		
To Contribution for annual dinner		1,000			150
			By Sports Equipments [2700 - (2600 - 300)]		400
To Annual sport meet receipt		750	By Balance c/d		1,600
		10,560			10,560
To Balance b/d		1,600			

Balance Sheet of Youth Club
as on December 31, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Subscription received in			Freehold Ground Sport		10,000
advance		270			
Audit Fee Outstanding		250	Equipment:		
Salaries Outstanding Bank		450	As per last Balance Sheet		
Loan		2,000	Additions	2,600	
Capital Fund :			Less : Depreciation	400	
Balance as per previous Balance			Subscription Outstanding	3,000	
Sheet	11,540		Insurance Prepaid	(300)	2,700
Add : Surplus for 2022	600	12,140	Cash in hand		750
					60
					1,600
		15,110			15,110

Balance Sheet of Youth Club
as on 31st December, 2021

Liabilities	Rs.	Assets	Rs.
Subscriptions received in advance	450	Freehold Ground	10,000
Salaries outstanding	400	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	600
Bank Loan	2,000	Cash in hand	1,390
Capital Fund (balancing figure)	11,540		
	14,590		14,590

Question 13

Smith Library Society showed the following position on 31st March, 2021:

Balance Sheet as on 31st March, 2021

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

The receipts and payment account for the year ended on 31st March, 2022 is given below:

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

You are required to prepare income and expenditure account for the year ended 31st March, 2022 and a balance sheet as at 31s, March, 2022 after making the following adjustments:

(a) Membership subscription included Rs. 10,000 received in advance and 75% of the entrance fees is to be capitalized.

(b) Rent for Rs. 4,000 and salaries for Rs. 3,000 are outstanding.

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

(d) Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2021 for Rs. 40,000.

[SM, RTP May 18, MTP Nov 18, Apr 19, May 20, May 22, April 23]

Answer

Smith Library Society Income and Expenditure Account
for the year ended 31st March, 2022

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000				

Add: Outstanding	4,000	92,000	*Less*: Received in advance	10,000	1,90,000
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000	By Hire of lecture hall		20,000
To Depreciation (W.N.1)			By Interest on securities(W.N.2)	8,000	
Electrical fittings	15,000		*Add*: Receivable	500	8,500
Furniture	5,000		By Deficit- excess of expenditure over income		16,700
Books	46,000	66,000			
		2,44,200			2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2022

Liabilities	Rs.	Rs.	Asset	Rs.	Rs.
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		Less: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	(16,700)	7,98,800	Less: Depreciation	(5,000)	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		Less: Depreciation	(46,000)	4,14,000
Salaries	3,000	7,000	Investment:		
			Securities	1,90,000	
			Accrued Interest	500	1,90,500
			Cash at Bank		20,000
Membership Subscription in advance		10,000	Cash in Hand		11,300
		8,15,800			8,15,800

Working Notes:

1. Depreciation		*Rs.*
Electrical fittings 10% of Rs. 1,50,000		15,000
Furniture 10% of Rs. 50,000		5,000
Books 10% of Rs. 4,60,000		46,000
2. Interest on Securities		
Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

Question 14

From the following balances and particulars of Republic College, prepare Income & Expenditure Account for the year ended March, 2022 and a Balance Sheet as on the date :

	Rs.	Rs.
Seminars & Conference Receipts		4,80,000

Consultancy Receipts		1,28,000
Security Deposit - Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation:		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

Adjustments:

	Rs.
(1) Materials & Supplies consumed: (From college stores)	
Teaching	50,000
Research	1,50,000
Students Welfare	75,000
Games or Sports	25,000

(2) Tuition fee receivable from Government for backward class Scholars	80,000
(3) Stores selling prices are fixed to give a net profit of 10% on selling price	
(4) Depreciation is provided on straight line basis at the following rates:	
(1) Building	5%
(2) Plant & Equipment	10%
(3) Furniture & Fixtures	10%
(4) Motor Vehicle	20%

[SM, PYQ Nov 20]

Answer

Republic College
Income and Expenditure Account
for the year ending 31st March, 2022

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries:			By Tuitions & other fee		8,00,000
Teaching Research		8,50,000	By Govt. Grants		5,00,000
To Material & Supplies Consumed:		1,20,000	By Income from Hostel room Rent		1,85,000
Teaching		50,000	By Investments		1,75,000
Research		1,50,000	By Mess Receipts		
To Repairs & Maintenance		1,12,000	By Profit-Stores Sales		2,00,000
					75,000
			By Seminar and Conferences: Income	4,80,000	
To Sports & Games Expenses:	50,000		By Less : Expenses	(4,50,000)	30,000
Cash Materials	25,000	75,000			
To Students Welfare Expenses:			By Consultancy charges: Income	1,28,000	
			Less : Expenses	(28,000)	1,00,000
	38,000				
Cash Materials	75,000	1,13,000			
To Misc. Expenses		65,000	By Donations		50,000
To Scholarships		80,000			
		80,000			
To Depreciation:					
Building					
Plant & Equipment Furniture		85,000			
Motor Vehicle		60,000			
To Excess of Income over Expenditure		36,000			
		3,19,000			
		21,95,000			21,95,000

Republic College
Balance Sheet as on 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Fixed Assets:		
Capital Fund			Land		1,00,000

Opening balance	16,06,000		Building Cost	16,00,000	
Add: Excess of Income over Expenditure	3,19,000		Less: Depreciation	(5,60,000)	10,40,000
		19,25,000	Equipment Cost	8,50,000	
			Less: Depreciation	(5,95,000)	2,55,000
Other Funds					
Research Fund		8,00,000	Furniture & Fittings:		
Building Fund		25,00,000	Cost	6,00,000	
			Less: Depreciation	(3,96,000)	2,04,000
Current Liabilities :			Motor Vehicles		
Outstanding Expenses		2,25,000	Cost	1,80,000	
			Less: Depreciation	(36,000)	1,44,000
Provident Fund		5,10,000	Library		3,60,000
Security Deposit		1,50,000	Investments:		
			Capital Fund Investments		18,50,000
			Research Fund Investment		8,00,000
			P.F. Investment		5,10,000
			Stock (stores) Material & Supplies		1,25,000
			Tuition fees receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes:

			Rs.	Rs.
(1)	Material & Supplies - Closing Stock			
	Opening Stock			3,00,000
	Purchases			8,00,000
				11,00,000
	Less : Cost of Material & Supplies [7,50,000*90% (100-10)]		6,75,000	
	Consumed Balance		3,00,000	(9,75,000)
				1,25,000
(2)	Provisions for Depreciation	Building	Plant & Equipment	Furniture & Fitting
		Rs.	Rs.	Rs.
	Opening Balance Addition	4,80,000	5,10,000	3,36,000
	Closing Balance	80,000	85,000	60,000
		5,60,000	5,95,000	3,96,000
	Note: Expense related to income earned like consultancy charges, conference expenses are shown as net of income.			

Question 15

Distinguish between Receipt and Payment and Income and Expenditure Account.

[SM]

Answer

Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period.

Receipt and Payment Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period. The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book. All the receipts and payments whether of revenue or capital nature are included in this account. The receipts and payments pertaining to the current, previous or future periods are also considered here. The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.

Income and expenditure account resembles and is drawn in the same form of a Profit and loss account in case of profit-making organisations. Expenditure of revenue nature is shown on the debit side, income and gains of revenue nature are shown on the credit side. Income and Expenditure Account contains all the items of income and expenditure relevant to the current accounting period only, whether received or paid as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded. It does not start with any opening balance. The balancing figure represents the amount by which the income exceeds the expenditure or vice versa.

Question 16

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2022.

Receipts	Rs.	Payments	Rs.
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2021 were as follows:

	Rs.
Fixed assets (net)	5,00,000
Stock	3,80,000

Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

(i) Subscription received in advance as on 31st March, 2022 was Rs. 18,000.

(ii) Outstanding subscription as on 31st March, 2022 was Rs. 7,000.

(iii) Outstanding expenses are salaries Rs. 8,000 and electricity Rs. 15,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2022.

(v) The cost of assets sold net as on 1.4.2021 was Rs. 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of Rs. 20,000 received in October 2021 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2022.

(viii) Purchases made during the year amounted Rs. 15,00,000.

(ix) The value of closing stock was Rs. 2,10,000.

(x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2022 and the Balance Sheet as on 31st March, 2022 along with necessary workings.

[SM]

Answer

Income and Expenditure Account of Lion Club
for the year ended 31st March, 2022

Expenditure	Rs.	Income	Rs.
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations	92,000
To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	(deficit) transferred to capital fund	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

Balance Sheet of Lion Club
as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.

Capital fund Gratuity fund Sundry creditors Subscription received in advance Entrance donation refundable Outstanding expenses	10,89,600 1,50,000 92,000 18,000 20,000 23,000	Fixed assets Stock Investments Subscription outstanding Interest accrued Bank Cash	4,41,000 2,10,000 5,00,000 7,000 2,000 2,24,600 8,000
	13,92,600		13,92,600

Working Notes:

1. Opening Balance Sheet

Balance Sheet of Lion Club as on 1st April, 2021

Liabilities	Rs.	Assets	Rs.
Sundry creditors Subscription received in advance Entrance donation received in advance Gratuity fund Capital fund (balance figure)	1,12,000 15,000 1,00,000 1,50,000 10,29,850	Fixed assets Stock Investments Subscription outstanding Prepaid expenses Cash Bank	5,00,000 3,80,000 5,00,000 12,000 1,000 10,000 3,850
	14,06,850		14,06,850

2. Subscription

	Rs.
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2022	7,000
	2,09,750
Add: Received in advance as on 1.4.2021	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2021	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2022	(18,000)
	1,94,750

3. Entrance donation

	Rs.
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2021	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
Taken to income and expenditure account	90,000

4. Loss on sale of asset

	Rs.
Cost of asset sold	10,000
Less: Sale proceeds	(8,000)

Loss on sale of asset	2,000

5. Depreciation

	Rs.
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on Rs. 4,90,000 @ 10%	49,000

6. Salaries

	Rs.
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2022	8,000
	1,28,000

7. Electricity charges

	Rs.
Electricity charges paid during the year	28,000
Add: Outstanding as on 31.3.2022	15,000
	43,000

8. Interest

	Rs.
Interest on 12% Government securities investment (Rs. 5,00,000 @ 12% p.a.)	60,000
Less: Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to Income and Expenditure Account	60,000

9. Profit from operations

	Rs.
Cost of goods sold:	
Opening stock	3,80,000
Add: Purchases	15,00,000
	18,80,000
Less: Closing stock	(2,10,000)
Cost of goods sold (A)	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from soft drinks	5,10,000
Receipts from swimming pool	80,000
Receipts from tennis court	1,02,000
Total receipts (B)	17,62,000
Profits from operations (B-A)	92,000

10. Insurance

	Rs.
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2021	1,000
	6,000

11. Sundry creditors

	Rs.
Opening balance as on 1.4.2021	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payments made during the year	(15,20,000)
Closing balance as on 31.3.2022	92,000

12. Outstanding expenses

	Rs.
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	23,000

13. Fixed assets

	Rs.
Fixed assets as on 1.4.2021	5,00,000
Less: Cost of assets sold	(10,000)
	4,90,000
Less: Depreciation	(49,000)
Fixed assets as on 31.3.2022	4,41,000

14. Capital fund

	Rs.
Capital fund as on 1.4.2021	10,29,850
Add: Entrance donation capitalised	90,000
	11,19,850
Less: Excess of expenditure over income	(30,250)
Balance as on 31.3.2022	10,89,600

Question 17

During the year ended 31st March, 2022, Sachin Cricket Club received subscriptions as follows:

	Rs.
For year ending 31st March, 2021	12,000
For year ending 31st March, 2022	6,15,000
For year ending 31st March, 2023	18,000
Total	6,45,000

There are 500 members and annual subscription is Rs. 1,500 per member.
On 31st March, 2022, a sum of Rs. 15,000 was still in arrears for subscriptions for the year ended 31st March, 2021.
Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2022. Also show how the items would appear in the Balance Sheet as on 31st March, 2021 and the Balance Sheet as on 31st March, 2022.

[SM]

Answer

Income & Expenditure Account (An extract) of Sachin Cricket Club
for the year ended 31st March, 2022

	Rs.		Rs.
		By Subscription (500 members × Rs. 1,500 per member)	7,50,000

Balance Sheet of Sachin Cricket Club
as on 31st March, 2021 (An extract)

Liabilities	Rs.	Assets	Rs.
		Subscription Receivable (Rs.15,000 + Rs.12,000)	27,000

Balance Sheet of Sachin Cricket Club
as on 31st March, 2022 (An extract)

Liabilities	Rs.	Assets	Rs.	Rs.
Unearned Subscription	18,000	Outstanding Subscription of 2020-21	15,000	
		of 2021-22 Rs. (7,50,000 – 6,15,000)	1,35,000	1,50,000

Question 18

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2022 are as follows: Opening cash balance in hand Rs. 8,000, subscription Rs. 50,000, donation Rs. 15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. Rs. 9000, payments for medicine supply Rs. 30,000 Honorarium to doctor Rs. 10,000, salaries Rs. 28,000, sundry expenses Rs. 1,000, equipment purchase Rs. 15,000, charity show expenses Rs. 1,500, charity show collections Rs. 12,500.

Additional information:

	1.1.2022	31.12.2022
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2022 and balance sheet as on 31.12.2022.

[SM, PYQ July 21, June 23]

Answer

Receipts and Payments Account of Bombay Medical Aid Society
for the year ended 31st December, 2022

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	8,000	By Medicine supply	30,000

To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000	By Salaries	28,000
To Interest on investment	9,000	By Sundry expenses	1,000
To Charity show collections	12,500	By Purchase of equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	9,000
	94,500		94,500

Income and Expenditure Account of Bombay Medical Aid Society
for the year ended 31st December, 2022

Expenditure		Rs.	Income		Rs.
To Medicine consumed		29,000	By Subscription		51,200
To Honorarium to doctors		10,000	By Donation By Interest on		15,000
To Salaries		28,000	investments		9,000
To Sundry expenses		1,000	By Profit on charity show:		
			Show collections		
To Depreciation on			*Less*: Show expenses	12,500	
Equipment	6,000			(1,500)	11,000
Building	2,000	8,000			
To Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society
as on 31st December, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital fund:			Building	50,000	
Opening balance	1,80,300		*Less*: Depreciation	(2,000)	48,000
Add: Surplus	10,200	1,90,500	Equipment	21,000	
Subscription received in advance		700	*Add*: Purchase	15,000	
Amount due for medicine supply		13,000		36,000	
			Less: Depreciation	(6,000)	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		9,000
		2,04,200			2,04,200

Working Notes:

Subscription for the year ended 31st December, 2022:		Rs.
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2022	1,500	
Less: Subscription received in advance on 31.12.2022	700	(2,200)
		47,800

Add: Subscription receivable on 31.12.2022	2,200	
Add: Subscription received in advance on 1.1.2022	1,200	3,400
		51,200
Purchase of medicine:		
Payment for medicine supply		30,000
Less: Amounts due for medicine supply on 1.1.2022		(9,000)
		21,000
Add: Amounts due for medicine supply on 31.12.2022		13,000
		34,000
Medicine consumed:		
Stock of medicine on 1.1.2022		10,000
Add: Purchase of medicine during the year		34,000
		44,000
Less: Stock of medicine on 31.12.2022		(15,000)
		29,000
Depreciation on equipment:		
Value of equipment on 1.1.2022		21,000
Add: Purchase of equipment during the year		15,000
		36,000
Less: Value of equipment on 31.12.2022		(30,000)
Depreciation on equipment for the year		6,000

Balance Sheet of Medical Aid Society
as on 1st January, 2022

Liabilities	Rs.	Assets	Rs.
Capital fund (balancing figure)	1,80,300	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (Rs. 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500

Question 19

The following is the Receipts and payments account of Masters Club for the year ended on 31st March, 2024

Receipts and payments A/c for the year ended on 31st march 2024

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2023:
   Assets- Sports equipment- Rs. 32,000; Subscription in arrears- Rs. 7,600; furniture- Rs. 12,480
   Liabilities- Outstanding Electricity charges- Rs. 5,400; Subscription in advance- Rs. 6,250
2. Following are the assets and liabilities on 31st March, 2024-
   Assets- Sports equipment- Rs. 50,500; Subscription in arrears- Rs. 5,200; furniture- Rs. 11,180
   Liabilities- Outstanding Electricity charges- Rs. 3,800; Subscription in advance- Rs. 4,850
3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2022

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2024 in the books of Masters Club.

[RTP Jan 25, May 21]

Answer

In the books of Masters Club
Income and expenditure Account
for the year ended on 31st March, 2024

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Opening capital 1,13,880		Sports Equipment	50,500
Less: Deficit (2,550)	1,11,330	Furniture	11,180
Entrance fees	13,000	7% Investments	65,000
Outstanding electricity charges	3,800	Subscription in arrears	5,200
Subscription in advance	4,850	Cash	1,100
	1,32,980		1,32,980

Working notes

1. Investments made = Income earned during the year / Rate of interest = 4,550/7% = 65,000
2. Balance sheet as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	1,25,530		1,25,530

3. Calculation of depreciation of Sports equipment

Particulars	Amount (Rs.)
Sports equipment as on 31st, March 2023	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2024	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2024	9,000

Calculation of depreciation of Furniture

Particulars	Amount (Rs.)
Furniture as on 31st, March 2023	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2024	(11,180)
Depreciation on furniture for the year ended 31st, March 2024	1,300

Total Depreciation = Rs. 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2024

Dr. Subscription A/c (year ended on 31st March, 2024) Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Outstanding at the beginning (2023)	7,600	By Advance at the beginning (2023)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2025)	4,850	By Outstanding at the end (2024)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2024	15,600
Add: Outstanding charges for year 2024	3,800
Less: Outstanding charges for year 2023	(5,400)
Electricity charges to be debited to Income and Expenditure A/c	14,000

Question 20

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

(1)

Balances	As on 01-04-2023 (Rs.)	As on 31-3-2024 (Rs.)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

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

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

You are required to:

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

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

[RTP Sep 24, Nov 20, MTP Oct18, Nov 21, March 22, Dec 23, April 24, July 24]

Answer

Subscription for the year ended 31.3.2024

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2023	11,250	
Less: Subscription received in advance on 31.3.2024	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2024	16,500	
Add: Subscription received in advance on 1.4.2023	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2024

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2023	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2024	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2023	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2024	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

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

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

Question 21

Hilfiger Sports club gives the following Receipts and Payments account for the year ended March 31,2023:

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
To Opening cash and bank balances	1,04,000	By Salaries	3,00,000
To Subscription	6,96,000	By Rent and taxes	1,08,000
To Donations	2,00,000	By Electricity charges	12,000

To Interest on investments	24,000	By Sports goods	40,000
To Sundry receipts	6,000	By Library books	2,00,000
		By Newspapers and periodicals	21,600
		By Miscellaneous expenses	1,08,000
		By Closing cash and bank balances	2,40,400
	10,30,000		10,30,000

Liabilities	As on 31.3.2022 (Rs.)	As on 31.3.2023 (Rs.)
Outstanding expense:		
Salaries	20,000	40,000
Newspapers and periodicals	8,000	10,000
Rent and taxes	12,000	12,000
Electricity charges	16,000	20,000
Library Books	2,00,000	-
Sports goods	1,60,000	-
Furniture and fixtures	2,00,000	-
Subscription receivable	1,00,000	2,40,000
Investment government securities	10,00,000	-
Accrued interest	12,000	12,000

Provide depreciation as follows:
Furniture and fixtures @ 10% Sports goods @ 20%
Library books @ 10%
Provide full depreciation on additions. Donations are to be capitalised.
You are required to prepare Club's opening Balance Sheet as on 1.4.2022, Income and expenditure Account for the year ended on 31.3.2023 and Balance sheet as on that date.

[RTP June 24, MTP Nov 22]

Answer

Balance Sheet of Hilfiger Sports Club
as on 1st April,2022

Liabilities	Rs.	Rs.		Rs.
Capital fund (bal. fig)		17,20,000	Library books	2,00,000
Outstanding expenses:			Sports goods	1,60,000
Salaries	20,000		Furniture and Fixtures	2,00,000
Newspapers and Periodicals	8,000		Subscriptions Receivable	1,00,000
Electricity charges	16,000			
Rent and taxes	12,000	56,000	Investment Govt Securities	10,00,000
			Accrued interest	12,000
			Cash in Bank balances	1,04,000
		17,76,000		17,76,000

Income and Expenditure Account
for the year ended on 31st March,2023

Expenditure	Rs.	Income	Rs.
To Salaries	3,20,000	By Subscription (W.N.1)	8,36,000
To Electricity charges	16,000	By Interest on Investments (W.N.2)	24,000
To Rent and taxes	1,08,000	By Sundry receipts	6,000
To Newspapers and Periodicals	23,600		
To Misc expenses	1,08,000		
To Depreciation on fixed Assets (W N 4)	1,00,000		
To Excess of income over Expenditure (Transferred to Capital fund)	1,90,400		
	8,66,000		8,66,000

Balance Sheet of Hilfiger Sports Club
as on 31st March,2023

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital fund			Fixed assets (W.N.4)		
Opening balance	17,20,000		Furniture and Fixtures	1,80,000	
Add: Surplus	1,90,400		Sports goods	1,60,000	
Add: Donations	2,00,000	21,10,400	Library books	3,60,000	7,00,000
Outstanding Expenses: (W.N.3)			Investment Govt Securities		10,00,000
Salaries	40,000		Accrued interest		12,000
Newspapers and Periodicals	10,000		Subscriptions Receivable		2,40,000
Electricity charges	20,000		Cash and bank Balance		2,40,400
Rent and taxes	12,000	82,000			
		21,92,400			21,92,400

Working Notes:

(1) Subscriptions for the year ended 31st March,2023:

	Rs.
Subscription received during the year	6,96,000
Add: Subscriptions receivable on 31.3.2023	2,40,000
	9,36,000
Less: Subscriptions receivable on 31.3.2022	(1,00,000)
	8,36,000

(2) Interest on investments for the year ended 31st March,2023:

	Rs.
Interest received during the year	24,000
Add: Accrued interest on 31.3.2023	12,000

	36,000
Less: Accrued interest on 31.3.2022	(12,000)
	24,000

(3) Expenses for the year ended 31st March,2023:

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	Rs.	Rs.	Rs.	Rs.
Paid during the year	3,00,000	12,000	1,08,000	21,600
Add: Outstanding (as on 31.3.2023)	40,000	20,000	12,000	10,000
	3,40,000	32,000	1,20,000	31,600
Less: Outstanding (as on 31.3.2022)	(20,000)	(16,000)	(12,000)	(8,000)
	3,20,000	16,000	1,08,000	23,600

(4) Depreciation on Fixed assets

Assets	Book value (31.3.2022	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V.as on 31.3.2023
Furniture and fixtures	2,00,000		2,00,000	10%	20,000	1,80,000
Sports Goods	1,60,000	40,000	2,00,000	20%	40,000	1,60,000
Library Books	2,00,000	2,00,000	4,00,000	10%	40,000	3,60,000
Total					1,00,000	7,00,000

Question 22

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.
To Balance b/d			By Salaries:		
Cash	2,400		(Rs. 21,600 for 2021)		93,600
Bank	15,600	18,000	By Hospital Equipment		51,000
To Subscriptions:			By Furniture purchased		18,000
For 2021		15,300	By Additions to Building		150,000
For 2022		73,500	By Printing and Stationery		7,200
For 2023		7200			
To Government Grant:			By Diet expenses		46,800
For building		2,40,000	By Rent and rates		
For maintenance		60,000	(Rs. 900 for 2023)		6,000
Fees from sundry			By Electricity and water		

	Patients		14,400		charges		7,200
To	Donations (not to be capitalized)		24,000	By	office expenses		6,000
				By	Investments		60,000
To	Net collections from benefit shows		18,000	By	Balances:		
					Cash	4,200	
					Bank	20,400	24,600
			4,70,400				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.	

[RTP Nov 23, Nov 19, MTP Mar 18, March 21, Oct 21, Nov 23 (Different figures, Same Concept)]

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	48,000			
		1,92,300			1,92,300

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	1,50,000	4,20,000
Over Expenditure	48,000		Hospital Equipment :		
Building Fund :		1,95,900	Opening balance	1,02,000	
Opening balance	2,40,000		Addition	51,000	1,53,000
Add : Govt. Grant	2,40,000	4,80,000	Furniture		18,000
Subscriptions			Investments -		
received in advance		7,200	8% Govt. Securities		60,000
			Subscriptions receivable		4,200
			Accrued interest		2,400
			Prepaid expenses		900

			(Rent)		
			Cash at Bank		20,400
			Cash in hand		4,300
		6,83,100			6,83,100

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	21,600	Cash in hand	2,400
	4,09,500		4,09,500
(2) Value of Building			Rs.
Balance on 31st Dec. 2022			4,20,000
Paid during the year			1,50,000
Balance on 31st Dec. 2021			2,70,000
(3) Value of Equipment			
Balance on 31st Dec. 2022			1,53,000
Paid during the year			(51,000)
Balance on 31st Dec. 2021			1,02,000
(4) Subscription due for 2021			
Receivable on 31st Dec. 2021			19,500
Received in 2022			15,300
Still Receivable for 2021			4,200

Question 23

A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with Rs. 1,50,000 of his own and Rs. 2,25,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	Rs.	Payments	Rs.
Own capital	1,50,000	Medicines purchased	1,83,750
Loan	2,25,000	Surgical equipments	1,87,500
Prescription fees	4,95,000	Motor car	2,40,000
Visiting fees	1,87,500	Motor car expenses	90,000
Fees from lectures	18,000	Wages and salaries	78,750
Pension received	2,25,000	Rent of clinic	45,000
		General charges	36,750
		Household expenses	1,35,000
		Household Furniture	18,750
		Expenses on daughter's marriage	1,61,250
		Interest on loan	27,000
		Balance at bank	82,500
		Cash in hand	14,250

One-third of the motor car expense may be treated as applicable to the private use of car and Rs. 22,500 of

salaries are in respect of domestic servants.
The stock of medicines in hand on 31st March, 2022 was valued at Rs. 71,250.
You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

[RTP June 23, May 20, MTP Mar 19, June 24, PYQ Jan 21 (Same concept , different figures)]

Answer

Income and Expenditure Account
for the year ended 31st March, 2022

	Rs.		Rs.
To Medicines consumed		By Prescription fees	4,95,000
Purchases 1,83,750		By Visiting fees	1,87,500
Less: Closing Stock (71,250)	1,12,500	By Fees from lectures	18,000
To Motor car expense (90,000 x 2/3)	60,000		
To Salaries (Rs. 78,750 – Rs. 22,500)	56,250		
To Rent for clinic	45,000		
To General charges	36,750		
To Interest on loan	27,000		
To Excess of Income over expenditure	3,63,000		
	7,00,500		7,00,500

Capital Account
for the year ended 31st March, 2022

	Rs.		Rs.
To Drawings:		By Cash/bank	1,50,000
Motor car expenses	30,000	By Cash/bank (pension)	2,25,000
Household expenses	1,35,000	By Net income from practice	3,63,000
Marriage expenses	1,61,250	(derived from income	
To Salary of domestic servants	22,500	and expenditure a/c)	
To Household furniture	18,750		
To Balance c/d	3,70,500		
	7,38,000		7,38,000

Balance Sheet
as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Capital	3,70,500	Motor car	2,40,000
Loan	2,25,000	Surgical equipment	1,87,500
		Stock of medicines	71,250
		Cash at bank	82,500
		Cash in hand	14,250
	5,95,500		5,95,500

Question 24
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

[RTP Nov 22, PYQ May 19, MTP April 21, May 23, May 24]

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	Rs. (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	Rs. (1,20,000-60,000)	
To Sale of furniture	48,000	By Sports expenses By Rent paid	3,00,000
		Rs. (1,44,000-12,000)	1,32,000
		By Miscellaneous expenses By	30,000
		Balance c/d	17,40,000
		Cash and bank	
	26,82,000		26,82,000

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	1,08,000		By Interest on		
	4,68,000		Investment		

			Received	84,000	
Less: Outstanding for 2022	(90,000)	3,78,000	Accrued (W.N.5)	21,000	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	13,500	30,900			
To Surplus		9,86,100			
		19,05,000			19,05,000

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	(1,50,000)
	14,70,000

2. Calculation of Sale price and profit on sale of investment Face value of investment sold: Rs. 10,50,000 × 50% = Rs. 5,25,000 Sales price: Rs. 5,25,000 × 80% = Rs. 4,20,000
Cost price of investment sold: Rs. 8,40,000 × 50% = Rs.4,20,000 Profit/loss on sale of investment: Rs. 4,20,000 - Rs. 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	(48,000)
Loss on sale of furniture	36,000

4. Depreciation

Furniture - Rs. 84,000 × 10% = 8,400
Machinery - Rs. 60,000 × 15% = 9,000
Sports goods – Rs. 90,000 × 15% = 13500

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	(84,000)
Interest accrued during the year	21,000

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

Question 25

From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 Rs.900 and subscriptions in advance for 2021-22 Rs. 350.
2. Insurance premium outstanding Rs. 40 and Misc. expenses prepaid Rs.90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing Rs. 30,000 was purchased on 31st March,2020 and Rs.22,000 were paid for it.

[RTP May 22, MTP Oct 19 PYQ Sep 24]

Answer

Income and Expenditure Account of Pune Club
for the year ended 31st March,2021

Dr. Cr.

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment [8/100x6,000x5/12]		200
Add: Outstanding	40	240	By Interest received from bank		500
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of income over expenditure		14,150			
		17,950			17,950

Balance Sheet of Pune Club

as on 31st March,2021

Liabilities	Rs.	Rs.	Assets	Rs.
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid Misc. expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		53,040

Working Note:

1. Balance Sheet of Pune Club as on 31st March,2020

Liabilities	Rs.	Assets	Rs.
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
		Cash at bank	10,000
	44,000		44,000

2. Subscriptions Rs.

Subscription as per Receipt and Payment A/c 12,000
Add: Outstanding for year 2020-21 900
12,900
Less: Advance for year 2021-22 (350)
12,550

Question 26

The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	Rs.	Amount Rs.	Payments	AmountRs.
To Balance b/d		900	By Expenses (including Payment for sports material Rs. 5,400)	12,600
Annual Income from Subscription	9,180			
To Add: Outstanding of last year received this year	360		By Loss on Sale of Furniture (cost price Rs. 900)	360
	9,540		By Balance c/d	1,80,900
Less: Prepaid of last year	180	9,360		
To Other fees		3,600		
To Donation for Building		1,80,000		

			1,93,860		1,93,860

Additional information:
Peppapig club had balances as on 1.4.2020 : - Furniture Rs. 3,600; Investment at 5% Rs. 54,000; Sports material Rs. 13,320;
Balance as on 31.3.2021 : Subscription Receivable Rs. 540;
Subscription received in advance Rs. 180; Stock of sports material Rs. 3,600.
Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

[RTP Nov 21, May 19, MTP Nov 22, Aug 24]

Answer

Corrected Receipts and Payments Account of Peppapig Club
for the year ended 31st March, 2021

Receipts		Rs.	Amount Rs.	Payments		Amount Rs.
To	Balance b/d		900	By	Expenses (Rs. 12,600 – Rs. 5,400)	7,200
To	Subscription					
	Annual Income	9,180				
				By	Sports Material	5,400
	Less: Receivable as on 31.3.2020	540		By	Balance c/d (Cash in Hand and at Bank)	1,81,440
	Add: Advance received for the year 2020-2021	180				
	Add: Receivable as on 31.3.2020	360				
	Less: Advance received as on 31.3.2020	180	9,000			
To	Other Fees		3,600			
To	Donation for Building		1,80,000			
To	Sale of Furniture		540			
			1,94,040			1,94,040

Income and Expenditure Account of Peppapig club
for the year ended 31st March, 2021

Expenditure			Amount Rs.	Income		Amount Rs.
To	Sundry Expenses		7,200	By	Subscription	9,180
To	Sports Material			By	Other fees	3,600
	Balance as on 1.4.2020	13,320		By	Interest on investment (5% on Rs. 54,000)	2,700
	Add: Purchases	5,400				
	Less: Balance as on 31.3.2021	3,600	15,120	By	Deficit: Excess of Expenditure over Income	7,200
To	Loss on sale of Furniture		360			

			22,680			22,680

Balance Sheet of Peppapig club
as on 31st March, 2021

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital Fund	72,000		Furniture	3,600	
Less: Excess of Expenditure over Income	7,200	64,800	Less: Sold	900	2,700
			5% Investment		54,000
Building Fund		1,80,000	Interest Accrued on Investment		2,700
Subscription Received in Advance		180	Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at Bank		1,81,440
		2,44,980			2,44,980

Working Note:

Balance Sheet of Peppapig Club
as on 1st April, 2020

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Subscription Received in Advance	180	Furniture	3,600
Capital Fund (Balancing Figure)	72,000	Investment	54,000
		Sports Material	13,320
		Subscription Receivable	360
		Cash in Hand and at Bank	900
	72,180		72,180

Question 27

You are provided with the following:

Balance Sheet as on 31st March, 2017

Liabilities	(Rs.)	Assets	(Rs.)
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advance	6,000	Outstanding Subscription	3,800
Outstanding Expenses	14,000	Outstanding Locker Rent	2,400
Loan	40,000	Cash in hand	20,000
Sundry Creditors	10,000		
Total	1,76,200		1,76,200

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts	(Rs.)	Payment	(Rs.)
To Balance b/d		By Expenses:	
Cash in Hand	20,000	For 2017 12,000	
To Subscriptions:		For 2018 20,000	32,000
For 2017 2000		By Land	40,000
For 2018 21,000		By Interest	4,000
For 2019 1,000	24,000	By Miscellaneous Expenses	4,700
To Entrance Fees	38,000	By Balance c/d	
To Locker Rent	7,000	Cash in Hand	18,300
To Sale proceeds of old newspapers	1,000		
To Miscellaneous Income	9,000		
	99,000		99,000

You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer).

[PYQ Nov 18]

Answer

Income and Expenditure Account
for the year ended 31st March, 2018

Expenditure	Rs.	Income	Rs.
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	12,900	By Misc. income	9,000
	41,600		41,600

Balance Sheet
as at 31st March, 2018

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	12,900	1,57,100		
Loan		40,000	Cash in hand	18,300
Creditors		10,000		
Outstanding expenses (2017) (14,000-12,000)		2,000		
Subscription received in advance		1,000		
		2,10,100		2,10,100

Note: Entrance fees have been capitalized in the above solution.

Question 28

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

Income & Expenditure Account
for the year 2018-19

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

Balance sheet
as at 31st March 2019

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

The following adjustments have been made in the above accounts:

(i) Upkeep of ground Rs. 660 and printing Rs. 264 relating to 2017-18 were paid in 2018- 19.
(ii) One fourth of entrance fee has been capitalized by transfer to General Fund.
(iii) Subscription outstanding in 2017-18 was Rs. 880 and for 2018-19 Rs. 770.
(iv) Subscription received in advance in 2017-18 was Rs. 220 and in 2018-19 for 2019-20 was Rs. 110.
(v) Furniture was purchased during the year.

[PYQ Nov 19]

Answer

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

Receipts	Rs.	Payments	Rs.

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

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

Subscription Account

		Rs.			Rs.
2018 April	To Subscription Outstanding (2017-18)	880	2018 April 1	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052
2019 March	To Income & Expenditure A/c	19,052			
		20,042			20,042

Question 29

Max & Co. employs a team of 9 workers who were paid Rs. 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to Rs. 44,000 per month each.

On 1 July, 2019 the company hired 2 trainees at salary of Rs. 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

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

(ii) Amount actually paid as salaries during 2019.

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

[PYQ Nov 20, MTP June 24, Aug 24]

Answer

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

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

(ii) Amount actually paid as salaries during 2019

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

(iii) Outstanding salaries as on 31.12.2019

Employees = 9 x Rs. 44,000 = Rs. 3,96,000

Trainees = 2 x Rs. 21,000 = Rs. 42,000

Outstanding salaries = Rs. 4,38,000

Question 30

Zavier & Co. employs a team of 9 workers who were paid Rs. 1,20,000 per month each in the year ending 31st December, 2020. At the start of 2021, the company raised salaries by 10% to Rs. 1,32,000 per month each.

On 1 July, 2021 the company hired 2 trainees at salary of Rs. 63,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2021.

(ii) Amount actually paid as salaries during 2021.

(iii) Outstanding salaries as on 31st December, 2021.

[MTP May 22]

Answer

(i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2021

Employees = 9 x Rs. 1,32,000 x 12 = Rs. 1,42,56,000

Trainees = 2 x Rs. 63,000 x 6 = Rs. 7,56,000

Salaries charged to P & L A/c = Rs. 1,50,12,000

(ii) Amount actually paid as salaries during 2021

Employees = 9 x Rs. 1,32,000 x 11 + 9 x Rs. 1,20,000 = Rs. 1,41,48,000

Trainees = 2 x Rs. 63,000 x 5 = Rs. 6,30,000

Amount paid as salaries = Rs. 1,47,78,000

(iii) Outstanding salaries as on 31.12.2021

Employees = 9 x Rs. 1,32,000 = Rs. 11,88,000

Trainees = 2 x Rs. 63,000 = Rs. 1,26,000

Outstanding salaries = Rs. 13,14,000

Question 31

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:

On 1st April, 2019 he had a balance of Rs. 3,00,000 advance from customers of which Rs. 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of Rs. 7,50,000.

You are required to compute :

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

(b) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is Rs. 2,55,000.

[PYQ Jan 21, MTP Nov 22, May 22, May 23, June 24]

Answer

(a) Computation of Income for the year 2019-20:

	Rs.
Money received during the year related to 2019-20	7,50,000

Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

(b) Advance from Customers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000
31.3.20	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:

	Rs.
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

Question 32

From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

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

Expenditure	Rs.	Income	Rs.
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

[PYQ Jan 21]

Answer

ATK Club
Receipts and Payments Account
for the year ended 31st March, 2020

RECEIPTS	Rs.	Rs.	PAYMENTS	Rs.	Rs.
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N. 2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000			
To Misc. Income		1,44,000	By Telephone		6,000
			By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000
			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			8,68,000

Balance Sheet of ATK Club
as at March31, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Club Premises		7,60,000
Balance as per previous			Sport Equipment		2,52,000
Balance Sheet	8,82,400		Subscription Outstanding		72,000
Add: Surplus for 2020	1,20,000	10,02,400	Cash in hand		1,14,000
Bank Loan		1,20,000			
Subscription received in advance		33,600			
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		11,98,000			11,98,000

Balance Sheet of ATK Club
as at 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Subscriptions received in advance	52,000	Club Premises	7,60,000

Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		10,86,400

Working Notes

1.	Subscription received in 2019-20	
	Add: Subscription for 2019-20 on accrual basis	6,80,000
	Add: Amount received in advance on 31.03.2020	33,600
	Outstanding as on 01.04.2019 received in 2019-20	64,000
		7,77,600
	Less: Outstanding to be received on 31.03.2020	72,000
	Amount of 2019-20 received in 2018-19	52,000
		Rs 6,53,600
2.	Salary paid in 2019-20	
Salary for 2019-20 on accrual basis		4,80,000
Add: Outstanding as on 01.04.2019 paid in 2019-20		24,000
Less: Outstanding to be paid on 31.03.2020		32,000
		Rs .4,72,000
3.	Audit Fees paid in 2019-20	
Audit Fees for 2019-20 on accrual basis		10,000
Add: Outstanding as on 01.04.2019 paid in 2019-20		8,000
Less: Outstanding to be paid on 31.03.2020		10,000
		Rs. 8,000
4.	Sports Equipment purchased during 2019-20	
	WDV as on 31.03.2020	2,52,000
	Add: Depreciation	28,000
	Less: WDV as on 31.03.2019	2,08,000
		Rs 72,000

Question 33

The following information of M/s. Rose Club are related for the year ended 31st March, 2020: (1)

Balances	As on 01-04-2019 (Rs.)	As on 31-3-2020 (Rs.)
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(a) Subscription received during the year Rs. 11,25,000
(b) Payments for Sports Material during the year Rs. 6,75,000

You are required to ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020.

(MTP Oct 20)

Answer

Subscription for the year ended 31.3.2020

		Rs.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019	33,750	
Less: Subscription received in advance on 31.3.2020	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	Rs.
Payment for Sports material	6,75000
Less: Amounts due for sports material on 1.4.2019	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2020	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500